



**DONGGUANG CHEMICAL LIMITED**  
**東光化工有限公司**

(incorporated in the Cayman Islands with limited liability)  
Stock Code: 1702



**GLOBAL OFFERING**

Sole Sponsor and Sole Global Coordinator



Joint Bookrunners and Joint Lead Managers



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# IMPORTANT

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



## DONGGUANG CHEMICAL LIMITED 東光化工有限公司

*(incorporated in the Cayman Islands with limited liability)*

### GLOBAL OFFERING

<b>Number of Offer Shares under the Global Offering</b>	<b>:</b>	<b>160,000,000 Shares (subject to Over-allotment Option)</b>
<b>Number of Hong Kong Offer Shares</b>	<b>:</b>	<b>16,000,000 Shares (subject to adjustment)</b>
<b>Number of International Placing Shares</b>	<b>:</b>	<b>144,000,000 Shares (subject to adjustment and the Over-allotment Option)</b>
<b>Maximum Offer Price</b>	<b>:</b>	<b>HK\$1.20 per Offer Share (payable in full on application in Hong Kong dollars, subject to refund on final pricing, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%)</b>
<b>Nominal value</b>	<b>:</b>	<b>US\$0.0001 each</b>
<b>Stock code</b>	<b>:</b>	<b>1702</b>

### Sole Sponsor and Sole Global Coordinator



**KGI Capital Asia Limited**

### Joint Bookrunners and Joint Lead Managers



**KGI Capital Asia Limited**



**Guotai Junan Securities (Hong Kong) Limited**

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

A copy of this prospectus, having attached to it the documents specified in the section headed "Documents delivered to the Registrar of Companies in Hong Kong and Available for Inspection – Documents delivered to the Registrar of Companies in Hong Kong" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32). Neither the Securities and Futures Commission of Hong Kong nor the Registrar of Companies in Hong Kong take any responsibility as to the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Monday, 3 July 2017 and, in any event, not later than Thursday, 6 July 2017. The Offer Price will be not more than HK\$1.20 per Offer Share and is currently expected to be not less than HK\$0.92 per Offer Share unless otherwise announced. Applicants for the Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$1.20 per Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price as finally determined should be lower than HK\$1.20.

The Sole Global Coordinator (on behalf of the Underwriters), with the consent of our Company, may reduce the indicative Offer Price range stated in this prospectus and/or reduce the number of Offer Shares being offered pursuant to the Global Offering at any time on or prior to the morning of the last day for lodging of applications under the Hong Kong Public Offering. In such case, notices of the reduction of the indicative Offer Price range and/or the number of Offer Shares will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of 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. 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, 6 July 2017 (Hong Kong time), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

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

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Please refer to the section headed "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Underwriting Agreement – Grounds for Termination" in this prospectus.

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws. The Offer Shares are being offered and sold outside the United States in reliance on Regulation S under the U.S. Securities Act and the applicable laws of each jurisdiction where those offers and sales occur.

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## EXPECTED TIMETABLE <sup>(1)</sup>

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Our Company will issue an announcement in Hong Kong to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable of the Hong Kong Public Offering.

Latest time to complete electronic applications under  
the **HK eIPO White Form** service through the designated  
website [www.hkeipo.hk](http://www.hkeipo.hk) <sup>(2)</sup> . . . . . 11:30 a.m. on Monday,  
3 July 2017

Application lists of the Hong Kong Public Offering open <sup>(3)</sup> . . . . . 11:45 a.m. on Monday,  
3 July 2017

Latest time for lodging **WHITE** and **YELLOW**  
Application Forms and giving **electronic application**  
**instructions** to HKSCC <sup>(4)</sup> . . . . . 12:00 noon on Monday,  
3 July 2017

Latest time to complete payment of  
**HK eIPO White Form** applications effecting  
internet banking transfer(s) or PPS payment transfer(s) . . . . . 12:00 noon on Monday,  
3 July 2017

Application lists of the Hong Kong Public Offering close <sup>(3)</sup> . . . . . 12:00 noon on Monday,  
3 July 2017

Expected Price Determination Date <sup>(5)</sup> . . . . . Monday, 3 July 2017

Announcement of the Offer Price, the level of indication of interest  
in the International Placing, the level of applications in respect of  
the Hong Kong Public Offering and the basis of allocation under  
the Hong Kong Public Offering (with successful applicants' identification  
document numbers, where applicable) to be published in South China  
Morning Post (in English) and the Hong Kong Economic Times  
(in Chinese) and on our website at [www.dg-chemical.com](http://www.dg-chemical.com) and the website of  
the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) on or before . . . . . Monday,  
10 July 2017

Announcement of results of allocations in the Hong Kong Public Offering (with successful  
applicants' identification document numbers, where appropriate) to  
be available through a variety of channels as described in the section  
headed "How to Apply for Hong Kong Offer Shares – Publication  
of Results" in this prospectus from . . . . . Monday,  
10 July 2017

Results of allocations in the Hong Kong Public Offering will be available  
at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a "search by ID" function . . . . . Monday,  
10 July 2017

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## EXPECTED TIMETABLE <sup>(1)</sup>

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Despatch of share certificates in respect of wholly or partially  
successful applications pursuant to the Hong Kong Public  
Offering on or before<sup>(6)</sup> . . . . . Monday, 10 July 2017

Despatch of e-Auto Refund payment instructions/refund  
cheques in respect of wholly successful (if applicable) or wholly  
or partially unsuccessful applications pursuant to the Hong Kong  
Public Offering on or before<sup>(7) (8)</sup> . . . . . Monday, 10 July 2017

Dealings in Shares on the Stock Exchange to commence on . . . . . Tuesday, 11 July 2017

*Notes:*

- (1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering”.
- (2) You will not be permitted to submit your application to the **HK eIPO White Form** Service Provider through the designated website, [www.hkeipo.hk](http://www.hkeipo.hk), after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 3 July 2017, the application lists will not open and close on that day. Further information is set out in the section headed “How to apply for Hong Kong Offer Shares – (x) Effect of Bad Weather on the Opening of the Application Lists” in this prospectus. If the application lists do not open and close on Monday, 3 July 2017, the dates mentioned in this section may be affected. A press announcement will be made by our Company in such event.
- (4) Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares – (vi) Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) Please note that the Price Determination Date is expected to be on or around Monday, 3 July 2017. If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before Thursday, 6 July 2017 the Global Offering will not proceed and will lapse.
- (6) Share certificates for the Hong Kong Offer Shares are expected to be issued on Monday, 10 July 2017 but will only become valid certificates of title 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 – Hong Kong Underwriting Agreement – Grounds for Termination” in this prospectus has not been exercised and has lapsed. Investors who trade the Hong Kong Offer Shares on the basis of publicly available allocation details before the receipt of their share certificates or before the share certificates becoming valid certificates of title do so entirely at their own risk.
- (7) Applicants who have applied on **WHITE** Application Forms for 1,000,000 Hong Kong Offer Shares or more and have provided all required information may collect refund cheques (if applicable) and share certificates (if applicable) in person from the share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 10 July 2017. Identification and (where applicable) authorization documents acceptable to the share registrar must be produced at the time of collection.

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## EXPECTED TIMETABLE <sup>(1)</sup>

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Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more may collect their refund cheques (if applicable) in person but may not collect in person their share certificates which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants. Applicants who have applied through the **HK eIPO White Form** service by paying the application monies through a single bank account may have e-Auto Refund payment instructions (if any) despatched to their application payment bank account on Monday, 10 July 2017. Applicants who have applied through the **HK eIPO White Form** service by paying the application monies through multiple bank accounts may have refund cheque(s) sent to the address specified in their application instructions through the **HK eIPO White Form** service, on Monday, 10 July 2017, by ordinary post and at their own risk.

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

- (8) e-Auto 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.

For further details in relation to the Hong Kong Public Offering, please refer to the sections headed "How to Apply for Hong Kong Offer Shares" and "Structure of the Global Offering" in this prospectus.

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### **IMPORTANT NOTICE TO INVESTORS**

*This prospectus is issued 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 subscribe for or 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 subscribe for or buy, any security 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.*

*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 with what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, nor any of their respective directors, or any other persons or parties involved in the Global Offering.*

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## SUMMARY

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

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

### OVERVIEW

We are one of the major coal-based urea producers with annualised designed production capacity of approximately 1.1 million tonnes of urea in the PRC and with headquarters in Hebei Province. According to Frost & Sullivan, we ranked No. 9 among all urea production companies in the PRC in terms of both production capacity and revenue from sales of urea in 2016. In addition, we ranked No. 3 and No. 11 in terms of revenue from sale of urea for industrial use and agricultural use, respectively, among all urea production companies in the PRC in 2016. In 2016, in recognition of our high occupational and production safety standard and our strong financial performance in 2015, we were accredited as “Safety Production Standardisation Second-Class Enterprise” and “2015 National Top 20 Gross Profit Enterprise in Nitrogen Fertiliser Industry” by Safety Production Supervision and Management Bureau of Hebei Province and China Nitrogen Fertiliser Industry Association, respectively. For the detailed awards, please refer to the sub-section headed “Business – Awards and Accreditations” of this prospectus.

We have an operating history of over 40 years in Hebei Province. Our predecessor, Dongguang Huafei, was originally established in 1970 as a local state-owned enterprise and was later privatised and reorganised in July 1998. We have been operating in the urea industry since 2001. The early start in this growing industry had allowed us to develop into an experienced player in the region with long-term and established relationships with customers in the industry. Our long operating history has also allowed us to develop our production know-how and management which in turn enhances our production efficiency by maximizing the quantity and quality of our products while minimizing costs. Our management team has extensive experience and an in-depth understanding of the history and future trends of the urea industry in the PRC which is instrumental to our continued success.

Urea, our major product, accounted for approximately 90.7%, 92.5% and 89.8% of our total revenue for the years ended 31 December 2014, 2015 and 2016, respectively. For the year ended 31 December 2016, our actual annual urea production volume was approximately 1.21 million tonnes. Application of urea can be broadly categorised into agricultural and industrial uses. It is widely used as a source of nitrogen in fertilisers and it has wide industrial application, such as production of adhesives, coatings, plastics, and cosmetics. We also produce and sell by-products of urea, including methanol, liquid carbon dioxide and LNG. We commenced formal production of LNG by recycling gas emission created during the urea production process in April 2016 and we believe that the sale of LNG will supplement our Group’s business operations and source of profit in the foreseeable future.

Coal and electricity are the major cost components of our production. The aggregate costs of anthracite and bituminous coal, the two types of main raw materials we use in our production, were approximately RMB634.5 million, RMB702.6 million and RMB562.4 million, accounting for approximately 55.2%, 50.0% and 43.0%, respectively, of our total cost of sales for the years ended 31 December 2014, 2015 and 2016. The costs of electricity were approximately RMB331.2 million, RMB455.4 million and RMB465.3 million, accounting for approximately 28.7%, 32.4% and 35.6% of our total cost of sales, for the years ended 31 December 2014, 2015 and 2016, respectively.

As at the Latest Practicable Date, we had two active production plants, namely, Plant One and Plant Two, located at Dongguang County of Cangzhou City, Hebei Province. We utilise advanced production technologies and possess in-depth management skills which have enabled us to manage our costs effectively. As a result, we are able to use smaller pieces and remnants of coal



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## SUMMARY

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which are cheaper for our production process, thereby reducing our cost of production. Our production processes are also designed to ensure our compliance with PRC environmental laws and regulations and to enhance production efficiency by maximising the quantity and quality of our products and minimising costs. We have completed several technological upgrades to our production lines since 2010, which allow us to further enhance the energy saving features embedded in our production lines and production processes, including lowering our electricity consumption. As at the Latest Practicable Date, our annualised designed production capacity was approximately 1,095,000 tonnes of urea, 146,000 tonnes of methanol, 164,250 tonnes of liquid carbon dioxide and 5,414 tonnes of LNG. For the year ended 31 December 2016, we had achieved a production volume of approximately 1,209,844 tonnes of urea, 82,477 tonnes of methanol, 127,198 tonnes of liquid carbon dioxide and 3,530 tonnes of LNG. During the Track Record Period, all of our revenues had been generated by sales to customers located in the PRC.

Our production facilities are strategically located in close proximity to Beijing and Tianjin, as well as the Bohai Economic Rim (環渤海經濟圈) and we have access to major national highways, railways, and major ports of North China including Tianjin international port and Huanghua domestic port. The proximity of these transportations has enabled us to obtain the supply of coal timely, and to deliver our products to our customers based in Beijing, Tianjin, Hebei Province and the nearby regions, including Heilongjiang Province, Inner Mongolia Autonomous Region, Jilin Province and Liaoning Province in a timely and cost-efficient manner. As a result of our proximity to our customers, we believe that we enjoy an advantage on product prices as the transportation costs for our products are relatively low and are able to react swiftly to the needs of different customers across different regions of the PRC. We have established a reputable brand in Hebei Province and nearby regions where our products are sold.

Our revenue amounted to RMB1,383.9 million, RMB1,859.3 million and RMB1,457.5 million, respectively for the years ended 31 December 2014, 2015 and 2016. Our net profit amounted to RMB89.2 million, RMB108.1 million and RMB18.8 million, respective during the same periods.

### COMPETITIVE STRENGTHS

We believe we have the following competitive strengths that will enable us to enhance our leading position in the urea industry:

- We are a major and reputable coal-based urea producer focusing on production efficiency, cost management, energy saving and occupational safety;
- Early mover in the coal-based urea industry in Hebei Province and long-standing relationships with customers;
- Strategic location of our production plants and extensive market coverage in the North China and Northeast China;
- We have an experienced and dedicated management and technical team and most of our executive Directors and senior management have been with us for over 20 years; and
- We are well positioned to benefit from the continued growth in our industries and the industrial consolidation driven by the implementation of strict industrial policies by the PRC Government.

Please refer to the section headed “Business – Competitive Strengths” in this prospectus for more information.

### BUSINESS STRATEGIES

We intend to continue to strengthen and grow our current market and industry position while maximizing shareholder value and pursuing a growth strategy by pursuing the following strategies:

- Continue to expand our urea product offering;

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## SUMMARY

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- Improving the quality and efficiency of our production process;
- Expanding our value chain into downstream products;
- Strengthening our relationships with key customers and diversifying our customer base; and
- Expanding the business through targeted acquisitions, joint venture and partnerships.

Please refer to the section headed “Business – Business Strategies” in this prospectus for more information.

### **BUSINESS MODEL**

#### **Products and Customers**

During the Track Record Period, we primarily generated revenues from the production and sales of our principal product, urea, and other by-products including methanol, liquid carbon dioxide and LNG. Urea is a white crystalline solid organic compound with the chemical formula  $\text{CO}(\text{NH}_2)_2$ , which is widely used in agricultural sector as effective neutral nitrogen fertiliser and industrial sector for the manufacturing of a wide range of products, such as adhesives, coatings, plastics and cosmetics. The revenue from sales of urea accounted for more than 89% of our total revenue for each year and period during the Track Record Period. The prices of our products are agreed between our customers and us with reference to our purchase price of raw coal and the prevailing market prices of our products.

During the Track Record Period and up to the Latest Practicable Date, we sold all of our products in China. Most of our customers are based in Beijing, Tianjin, Hebei Province and the nearby regions, including Heilongjiang Province, Inner Mongolia Autonomous Region, Jilin Province and Liaoning Province. We sold our urea products to our customers whom we believe are end-users in the agricultural and manufacturing industries, and trading customers. These trading customers then sold the urea to (i) farmers who use urea as fertiliser; (ii) fertiliser trade corporations which sell urea directly to farmers; (iii) compound fertiliser enterprises which use urea in producing compound fertiliser; and (iv) chemical enterprises which use urea in the production of melamine and cyanuric acid. Apart from our urea products, we believe these trading customers also sold urea products produced by other manufacturers. We do not exercise any control over our customers in terms of inventory or pricing. During the Track Record Period, we also sold our liquid carbon dioxide to trading customers. For the years ended 31 December 2014, 2015 and 2016, sales to our largest customer accounted for 4.7%, 9.1% and 14.2%, respectively, of our total revenue. For the same periods, sale to our top five customers accounted for 19.6%, 29.1% and 27.9%, respectively, of our total revenue. While we value our relationship with each of our customers, we believe that the loss of any particular customer, including our major customers, would not materially impact our business in the long-term.

#### **Raw Materials and Suppliers**

Coal is the primary raw material used for the manufacture of our products. We utilise two types of coal, anthracite and bituminous coal. Anthracite, which constituted approximately 46.3%, 43.4% and 36.0% of our total cost of sales for the years ended 31 December 2014, 2015 and 2016, respectively, is used as raw material in the production of urea and methanol. Bituminous coal, which constituted 8.9%, 6.6% and 7.0% of our total cost of sales for the years ended 31 December 2014, 2015 and 2016, respectively, is used to generate power for the production process and steam for the gasification process.

We obtain coal from coal suppliers based in the PRC. For the years ended 31 December 2014, 2015 and 2016, purchases from our largest coal supplier accounted for approximately 11.6%, 13.3% and 9.6% of our total cost of sales, respectively. For the same periods, purchases from our five largest suppliers accounted for approximately 44.2%, 40.6% and 31.7% of our total cost of sales, respectively. Purchases from our top five suppliers accounted for less than 40% of our total revenue for the same periods. During the Track Record Period, our five largest suppliers were coal traders who will source for coal from various coal mines and arrange for delivery of coal to us.

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## SUMMARY

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### **Production**

We produce our products at our own production facilities. As at the Latest Practicable Date, we have two production plants, namely Plant One and Plant Two, located at Dongguang County, Cangzhou City, Hebei Province. Please refer to the section headed “Business – Production” in this prospectus for more information.

### **COMPETITION**

We face intense competition in the urea and methanol industry in the PRC. Our competitors include state-owned enterprises, private-owned enterprises and foreign-invested enterprises based in China. Please refer to the section headed “Industry Overview – Competitive Landscape” in this prospectus for more information.

### **NON-COMPLIANCE**

The historical non-compliances involving us during the Track Record Period comprised: (i) failure to make full contribution to the employment injury insurance for all of employees of Dongguang Chemical; (ii) failure to register with the relevant housing provident fund authorities and failure to make housing provident fund contributions for employees of Dongguang Chemical; (iii) failure to obtain construction permits for certain buildings in Dongguang County; (iv) lease and use of collectively-owned land for non-agricultural purposes; and (v) lending and borrowing of inter-company loans. As at the Latest Practicable Date, we had either rectified these non-compliances or obtained confirmations from the competent government authorities confirming that we had not and would not be penalised with respect to these non-compliances. We have also implemented a series of enhanced internal control measures to prevent reoccurrence of these non-compliances. Please refer to the section headed “Business – Legal Non-compliance and Procedures” in this prospectus for details.

### **U.S. LISTING ATTEMPT**

In 2010, Dongguang Chemical considered the possibility to seek listing in the United States so as to gain access to capital in the United States for further growth. Our Group submitted on a confidential basis, a draft Form F-1 registration statement to the U.S. Securities and Exchange Commission in December 2010 under the foreign issuer non-public submission policy. Such submission was not a formal filing, but allowed us to obtain U.S. Securities and Exchange Commission’s preliminary view in relation to a possible future formal registration of a public offering or listing of securities in the United States. Dongguang Chemical decided not to proceed with the possibility to seek listing in the United States subsequently as a result of the unfavourable market conditions at that time. No formal filing of the requisite registration statement for public offerings and listing in United States had been made by Dongguang Chemical under the U.S. Securities Act. For so long as our Directors understand, there were no disagreements between our Group and the U.S. Securities and Exchange Commission in relation to the such submission and the U.S. listing attempt, and, save for the decision for not to proceed with the possibility to seek listing in the United States, there were no disagreements between our Group and the related professional parties of the U.S. listing attempt. Please refer to the paragraph headed “History, reorganisation and corporate structure – Establishment and major changes concerning our Company and the sole operating subsidiary of our Company – Establishment and major changes concerning Dongguang Chemical, the sole operating subsidiary of our Company, which is established in the PRC – (b) U.S. listing attempt and entering into, and termination of, the contractual arrangements” in this prospectus for further details of the U.S. listing attempt.

### **SHAREHOLDER INFORMATION**

#### **Our Controlling Shareholders**

Immediately following the completion of the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, our Controlling Shareholders, namely SCH Ultimate Shareholders, SCH Corporate Shareholders, Sino-Coal Holding, Bloom Ocean and Mr. Yip, will be interested (directly or indirectly) in approximately 74.19% of the issued share capital of our Company. None of our Controlling Shareholders has any interest in a business apart from our Group’s business which competes or is likely to compete, directly or indirectly, with our Group’s business. To protect our Group from any potential competition, our Controlling Shareholders have given unconditional and irrevocable non-compete undertakings in favour of our Group under the Deed of Non-competition.

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## SUMMARY

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### Pre-IPO Investments

During the Track Record Period, there were certain pre-IPO investments. Please refer to the section headed “History, Reorganisation and Corporate Structure – Pre-IPO Investments” in this prospectus for further information.

### GLOBAL OFFERING STATISTICS<sup>(1)</sup>

Expected market capitalization:	HK\$570.4 million to HK\$744.0 million (assuming no exercise of the Over-allotment Option)
Offer size:	Initially 25.8% (excluding the Offer Shares to be offered pursuant to the exercise of the Over-allotment Option) of the enlarged issued share capital of our Company
Offer price:	HK\$0.92 to HK\$1.20 per Offer Share
Board lot:	4,000 Shares
Offering structure:	90% International Placing and 10% Hong Kong Public Offering (subject to adjustment and the Over-allotment Option)
Unaudited pro forma adjusted consolidated net tangible assets per Share <sup>(2)</sup> :	(i) HK\$1.56 (based on the Offer Price of HK\$0.92 per Share) (ii) HK\$1.63 (based on the Offer Price of HK\$1.20 per Share)

#### Notes:

- (1) All statistics in the above table are based on the assumptions that: (i) the Global Offering has been completed and 160,000,000 Shares are issued and sold in the Global Offering; (ii) the Over-allotment Option is not exercised, and (iii) a total of 620,000,000 Shares are issued and outstanding following completion of the Global Offering.
- (2) The unaudited pro forma adjusted net tangible assets per Share is calculated after making the adjustments referred to in Appendix II to this prospectus and on the basis that a total of 620,000,000 Shares are in issue following the Global Offering (before exercise of the Over-allotment Option).

### REASONS FOR LISTING

Our Directors believe that the Listing will facilitate the implementation of our business strategies to maintain our current leading position as a major coal-based urea producer in the PRC and for continued growth and further business expansion. To continue to remain competitive and take advantage on the continued growth in urea industry in China, we intend to (i) increase our urea product offering; (ii) improve the quality and efficiency of our production process; (iii) expand our value chain into downstream products; (iv) strengthen our relationships with key customers and diversify our customer base; and (v) expand through targeted acquisitions, joint ventures and partnerships. Our Directors believe that Listing is important and beneficial to our Company and our Shareholders as whole for various reasons. For further details, please see the paragraph headed “Future Plans and Use of Proceeds – Reasons for Listing” in this prospectus.

### USE OF PROCEEDS

We currently intend to apply the net proceeds of approximately HK\$149.4 million from the Global Offering after deducting the underwriting commissions (excluding any discretionary incentive fee) and other estimated expenses (please refer to the subsection headed “– Listing Expenses” in this section for more details) for the following purposes assuming the Over-allotment Option is not exercised and the Offer Price is set at HK\$1.06 per Share, being the mid-point of the Offer Price range stated in this prospectus:

- Approximately 46.9%, or approximately HK\$70.0 million will be used for the purchase of production equipment and the construction of the new production facility

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## SUMMARY

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in the PRC for the manufacturing of large granular urea products. The total investment cost of our development of large granular urea products is expected to be RMB61.0 million (equivalent to approximately HK\$70.0 million). Please refer to the subsection headed “Business – Expansion Plan – Justification of the Expansion Plan” in this prospectus for details;

- Approximately 35.7%, or approximately HK\$53.3 million will be used to purchase, construct and install new environmental protection facility. The total investment cost of new environmental protection project is expected to be RMB46.5 million (equivalent to approximately HK\$53.3 million). Please refer to the paragraph headed “Business – Business Strategies – Improving the quality and efficiency of our production process” in this prospectus for details;
- Approximately 10.0%, or approximately HK\$15.0 million will be used to repay part of our term loans; and
- Approximately 7.4% or approximately HK\$11.1 million will be used for working capital and other general corporate purpose.

Please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus for details.

### **DIVIDENDS**

During the Track Record Period, our Company declared dividends to the relevant shareholders. For the year ended 31 December 2014, 2015 and 2016, our Company paid to the then shareholders dividends in the amount of nil, RMB171.3 million and nil, respectively.

Our Company has no fixed dividend policy specifying a dividend payout ratio. The payment and the amount of any dividends, if paid, will depend on our results of operations, cash flows financial condition, future prospectus and other factors that our Board may consider relevant. Our historical dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future. For details, please see the paragraph headed “Financial Information – Dividends” in this prospectus.

### **LISTING EXPENSES**

Our Listing expenses mainly consist of the aggregate underwriting commissions and professional fees relating to the Listing and the Global Offering. Assuming an Offer Price of HK\$1.06 per Share (being the mid-point of the indicative offer price range stated in this prospectus), Listing expenses which are payable by us are estimated to amount in aggregate to be approximately RMB44.5 million. We incurred Listing expenses during the Track Record Period in the amount of RMB22.8 million, of which RMB16.9 million was charged to our consolidated statement of profit or loss and the remaining RMB5.9 million was recorded as deferred expenses and will be deducted from equity. This RMB22.8 million was already settled and will not be paid off from the gross proceeds to be raised from the Global Offering. We expect to incur additional Listing expenses of approximately RMB21.7 million and among which, to charge RMB12.8 million of the estimated Listing expenses to our consolidated statements of profit or loss for the year ending 31 December 2017 and to capitalise RMB8.9 million against equity following the Listing under the relevant accounting standards. This RMB21.7 million additional Listing expenses to be incurred will be directly paid off from the gross proceeds to be raised from the Global Offering. The Listing expenses are subject to adjustments based on the actual amount incurred or to be incurred. The Listing expenses mentioned above do not include any expenses incurred in connection with the U.S. listing attempt which we decided not to proceed in November 2011. For detailed information regarding the U.S. listing attempt, please refer to the paragraphs headed “History, Reorganisation and Corporate Structure – Establishment and Major Changes Concerning Our Company and the Sole Operating Subsidiary of Our Company – Establishment and major changes concerning Dongguang Chemical, the sole operating subsidiary of our Company, which is established in the PRC – (b) U.S. listing attempt and entering into, and termination of, the contractual arrangements” in this prospectus.

## SUMMARY

Potential investors should note that our financial results for the year ending 31 December 2017 will be negatively affected by the non-recurring expenses in relation to the Listing. Our Directors would like to emphasise that the expenses in relation to the Listing are estimated for reference only and the final amounts to be recognised in the equity and the statement of profit or loss and other comprehensive income of our Group for the year ending 31 December 2017 are subject to adjustment due to changes in estimates and assumptions.

### SUMMARY OF OPERATIONAL INFORMATION

The following table sets forth an overview of the pro-rata production capacities, production volumes, utilisation rates, average selling prices, sales volume and gross profit margin of our principal product, urea, for the periods indicated:

	For the year ended 31 December		
	2014	2015	2016
<b>Urea</b>			
Pro-rata production capacity ( <i>tonne</i> )	765,026	1,095,000	1,095,000
Production volume ( <i>tonne</i> )	817,525	1,180,876	1,209,844
Utilisation rate	107%	108%	110%
Average selling price ( <i>RMB per tonne</i> )	1,523.5	1,465.4	1,080.7
Sales volume ( <i>tonne</i> )	823,892	1,173,509	1,211,208
Gross profit margin	16.9%	25.9%	9.6%

For pro-rata production capacity, production volume and utilisation rate of our by-products, methanol, liquid carbon dioxide and LNG, please refer to the section headed “Business – Production – Production Facilities and Capacities” in this prospectus. For detailed information regarding the average selling price, sales volume and gross profit margin, please refer to the sections headed “Financial Information – Key Factors Affecting Our Results of Operations – Product pricing” and “Financial Information – Principal Components of Our Income Statement – Revenue” and “– Gross Profit” in this prospectus. The sensitivity analysis on the impact of hypothetical fluctuations in the average selling price on net profit is set forth in the section headed “Financial Information – Key Factors Affecting Our Results of Operations – Product pricing” in this prospectus.

### SUMMARY OF FINANCIAL INFORMATION

The following tables summarise our historical combined financial information and are derived from, and should be read in conjunction with, our audited consolidated financial statements, prepared in accordance with IFRS, as set out in the appendix headed “Appendix I – Accountants’ Report” to this prospectus. The basis of preparation is set forth in Note 2 of the Appendix I to this prospectus.

#### Summary of Consolidated Statements of Profit or Loss

	For the year ended 31 December					
	2014		2015		2016	
	<i>(RMB'000, except percentages)</i>					
Revenue	1,383,882	100.0%	1,859,300	100.0%	1,457,523	100%
Gross profit	233,622	16.9%	452,979	24.4%	149,754	10.3%
Profit from operations	119,135	8.6%	238,979	12.9%	29,557	2.0%
Profit before income tax	119,135	8.6%	208,462	11.2%	36,914	2.5%
Profit for the year	89,185	6.4%	108,095	5.8%	18,810	1.3%
<i>Adjusted profit for the year<sup>(1)</sup> (unaudited)</i>	<u>90,159</u>	<u>6.5%</u>	<u>170,289</u>	<u>9.2%</u>	<u>39,664</u>	<u>2.7%</u>

## SUMMARY

*Note:*

- (1) Adjusted profit for the year/period is derived by excluding (i) Listing expenses which mainly consist of the aggregate fees paid to the professional parties, printing and other expenses, (ii) change in fair value of convertible bonds, and (iii) interest expenses and foreign exchange loss in relation to non-convertible bonds and convertible bonds. Please refer to section headed “Financial Information – Non-IFRS Measures” for details.

Our revenue consists of sales of products in our principal products: (i) urea, and (ii) by-products which include methanol, liquid carbon dioxide and LNG. Our revenue increased from RMB1,383.9 million in 2014 to RMB1,859.3 million in 2015 primarily due to the increased production capacity from the completion of Plant One which commenced production in August 2014, which was partially offset by the decline in the average selling price of urea during the period. Our revenue decreased from RMB1,859.3 million in 2015 to RMB1,457.3 million in 2016, primarily due to the decrease in the average selling price of our urea during the same periods. The major source of our revenue during the Track Record Period was the sales of urea. During the Track Record Period, all of our revenue was derived from our sales in the PRC.

### Summary of Consolidated Statements of Financial Position

The following table sets forth a summary of our financial position as at the dates indicated:

	As at 31 December		
	2014	2015	2016
		<i>(RMB'000)</i>	
Current assets	419,348	339,146	369,957
Current liabilities	(752,248)	(836,904)	(666,989)
Net current liabilities	(332,900)	(497,758)	(297,032)
Non-current assets	1,589,784	1,529,066	1,417,725
Non-current liabilities	(509,188)	(313,646)	(380,784)
Total equity	747,696	717,662	739,909

For the years ended 31 December 2014, 2015 and 2016, our net current liabilities amounted to RMB332.9 million, RMB497.8 million and RMB297.0 million, respectively. During the Track Record Period, our net current liabilities primarily reflected (i) our significant short-term bank loans and the current portion of our long-term bank loans, which are primarily used for procurement of raw materials; and (ii) payables for the construction of Plant One in connection with the expansion of our business and capital expenditure for technology upgrade after completion of the construction of Plant One. For detailed information on our net current liabilities, please refer to the section headed “Financial Information – Net Current Liability” in this prospectus.

### Summary of Consolidated Cash Flow

The following table sets forth selected cash flow data from our consolidated cash flow statements for these periods indicated:

	For the year ended 31 December		
	2014	2015	2016
		<i>(RMB'000)</i>	
Net cash generated from operating activities	361,484	306,972	89,940
Net cash (used in)/generated from investing activities	(489,250)	69,687	(36,975)
Net cash generated from/(used in) financing activities	9,042	(253,429)	(116,170)
Net (decrease)/increase in cash and cash equivalents	(118,724)	123,230	(63,205)
Cash and cash equivalents at beginning of year	217,545	98,510	222,211
Effect on foreign exchange rate changes	(311)	471	3,437
Cash and cash equivalents at end of year	98,510	222,211	162,443

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## SUMMARY

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### Key Financial Ratios

The following table sets forth certain key financial ratios as at the dates and for the periods indicated:

	As at or for the year ended 31 December		
	2014	2015	2016
Gross profit margin	16.9%	24.4%	10.3%
Net profit margin	6.4%	5.8%	1.3%
Adjusted net profit margin	6.5%	9.2%	2.7%
Return on total assets	4.8%	5.6%	1.0%
Return on equity	12.2%	14.8%	2.6%
Current ratio	0.56	0.41	0.55
Quick ratio	0.47	0.33	0.45
Gearing ratio	1.18	1.32	1.22
Net debt to equity ratio	1.05	1.01	1.00

Our overall gross profit margin decreased from 24.4% in 2015 to 10.3% in 2016, primarily because (i) the average selling price of our urea products has further declined and remained at the level of approximately RMB1,081 per tonne in 2016 as a result of the decline of the average retail price of urea in China; and (ii) the cancellation of VAT exemption on the sales of urea in the PRC since 1 September 2015. For detailed information on the basis of calculation of financial ratios and our ratio analysis during the Track Record Period, please refer to the section headed “Financial Information – Key Financial Ratios” in this prospectus.

### LEGAL PROCEEDINGS

As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim was material importance, and no litigation, arbitration or claim was known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our business, financial conditions or results of operations. We may from time to time become a party to various litigation, arbitration or claims arising in the ordinary course of our business.

### RECENT DEVELOPMENTS

Subsequent to 31 December 2016 and up to the date of this prospectus, there had been no significant change in our principal business, pricing policy, production capacity and costs structure. After the continued decline in the market price of urea from 2012 to 2015 in the PRC, the market price of urea experienced rebound since August 2016. The average retail price (exclusive of VAT) of urea in the PRC increased from RMB1,052 per tonne in August 2016 to RMB1,411 per tonne in May 2017. Accordingly, the average retail price (exclusive of VAT) of urea in North China increased from RMB1,022 per tonne in August 2016 to RMB1,362 per tonne in May 2017. According to Frost & Sullivan, the reasons for such price trend are two-fold. Firstly, the price of coal rebounded because of the policy changes that aimed at rebalancing the supply and demand of coal in the PRC. Secondly, there has been a continuous decline in the number of urea production facilities, especially for small-sized producers with an annual production capacity below 300,000 tonnes. Meanwhile, the average utilisation rate of urea producers in the PRC observed a declining trend throughout 2016 which led to an overall scale down in the supply of urea. For detailed information on the policy changes that aimed at rebalancing the supply and demand of coal in the PRC, please refer to the subsection headed “Industry Overview – Overview of the Urea Market in China – Price Trend of Anthracite” in this prospectus.



## SUMMARY

The market prices of our by-products, namely methanol, liquid carbon dioxide and LNG, also increased from the second half of 2016 to early 2017. Set out below is the average selling price and sales volume of our products based on our unaudited management accounts for the periods indicated:

	<b>For the four months ended 30 April</b>			
	<b>2016</b>		<b>2017</b>	
	<b>Average Selling Price</b>	<b>Sales Volume</b>	<b>Average Selling Price</b>	<b>Sales Volume</b>
	<i>(RMB per tonne)</i>	<i>('000 tonnes)</i>	<i>(RMB per tonne)</i>	<i>('000 tonnes)</i>
Urea	1,090	407.9	1,377	397.7
Methanol	1,212	29.6	1,832	30.5
Liquid carbon dioxide	169	42.4	195	43.0
LNG	2,033	0.3	2,536	2.7

The following table sets forth certain of our unaudited consolidated financial information for the four months ended 30 April 2016 and 30 April 2017, respectively. Our Directors are responsible for the preparation and fair presentation of our unaudited consolidated financial statements of our Group for the four months ended 30 April 2016 and 30 April 2017 from which our revenue and gross profit are extracted for the respective period, in accordance with the International Accounting Standard 34 “Interim Financial Reporting” issued by the IASB. Our unaudited consolidated financial statements for the four months ended 30 April 2017 have been reviewed by our reporting accountants, BDO Limited, in accordance with the Hong Kong Standard on Review Engagements 2410, “Review on Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

	<b>For the four months ended 30 April</b>	
	<b>2016</b>	<b>2017</b>
	<i>(RMB'000, except percentage) (unaudited)</i>	
Revenue	488,189	625,474
Gross Profit	57,804	94,420
<i>Gross Profit Margin</i>	11.8%	15.1%

For the four months ended 30 April 2017, we experienced an increase in revenue compared with the same period in 2016, mainly due to the increases in the average retail prices of urea for the same period resulting from a rebound of the market price of coal. The average selling price of our urea products was approximately RMB1,377 per tonne for the four months ended 30 April 2017, representing an increase of approximately 26.4% from RMB1,090 per tonne for the four months ended 30 April 2016. As a result, our gross profit and gross profit margin also increased as the average selling price of our urea products increased while our sales volume remained relatively stable over the same period. Although the average selling price of our urea products decreased to approximately RMB1,288 per tonne in May 2017 as a market correction from the continued increases from August 2016 to March 2017, our Directors believe that the market price of urea will remain at a relatively stable level in the second half of 2017 based on the following:

- *Recent sales record:* based on our sales record, the average selling price of our urea product between 1 June to 18 June 2017, being the Latest Practicable Date, is about RMB1,358 per tonne, which showed an increase from April and May 2017;
- *Balanced supply and demand of urea:* according to Frost & Sullivan, the PRC Government and the China Nitrogen Fertiliser Industry Association endeavor to eliminate inefficient urea production capacity in the PRC, which led to the total urea production capacity in the PRC decreasing from 37.8 million tonnes to 35.5 million

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## SUMMARY

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tonnes from 2015 to 2016. It is forecasted that the total urea production capacity in the PRC will continue to decrease from 35.5 million tonnes to 34.1 million tonnes from 2016 to 2017. Meanwhile, the total consumption volume of urea recorded a slight increase from 24.5 million tonnes in 2015 to 24.8 million tonnes in 2016. To this end, our Directors believe that there will be a more balanced urea market in 2017 compared with 2015 and 2016. For detailed information, please refer the section headed “Industry Overview – Overview of the Urea Market in China – Urea Production Capacity, Production Volume and Consumption” in this prospectus; and

- *Recovery of coal price:* according to Frost & Sullivan, the PRC Government had issued various industry policies to adjust the supply and demand of coal in 2016, which resulted in an upward trend for the market price of anthracite. According to the same source, the price of anthracite will stabilise in the second half of 2017 and such growth trend is likely to gradually slow down. As the cost of coal accounts for the major portion of the cost of urea and the price of urea change in tandem with the price of coal (albeit with some lag time), a stable or moderate upward price trend of anthracite will result in similar market price trend for urea during the same period. For detailed information, please refer the section headed “Industry Overview – Overview of the Urea Market in China – Price Trend of Anthracite” in this prospectus.

Since 31 December 2016 and up to the Latest Practicable Date, save as disclosed in the paragraph headed “Listing Expenses” in this section, we did not have any significant non-recurring items in our consolidated statement of profit or loss and other comprehensive income.

Prior to 1 September 2015, urea producers, including our Group, were entitled to full VAT exemption on the sales of urea products. The Notice on the Policies on Resuming the VAT Levy on Fertilisers (關於對化肥恢復徵收增值稅政策的通知) came into effect on 1 September 2015 and pursuant to which we are subject to a 13% VAT on our sales of chemical fertilisers. As urea is a commodity, its prevailing market prices are typically determined by both supply and demand. According to Frost & Sullivan, at the time of cancellation of the VAT exemption in September 2015, there was an oversupply of urea products from small-sized and inefficient urea producers. Due to the then temporary oversupply, urea price was kept at a low level, making it difficult for the urea producers to pass on the increased VAT costs to their customers by immediately raising their selling prices of urea products. The market price of urea remained at a low level until the supply and demand has gradually rebalanced in the second half of 2016, which was largely due to the phasing out of small-sized and inefficient urea producers. For further details, please refer to the paragraph headed “Industry Overview – Overview of the Urea Market in China – Future Outlook of the Urea Market – Industry Consolidation” in this prospectus. Accordingly, the market price of urea in the PRC gradually rebounded since August 2016. The joint effect of the increase in VAT costs and a low price level across 2015 and 2016 had a significant impact on the profitability of our Group. Please also refer to the paragraphs headed “PRC Regulations – Legal Supervision Over Taxation in China – Value-added Tax (“VAT”)” and “Risk Factors – Changes in taxation policies of chemical fertilisers may materially and adversely affect our operating results” in this prospectus for further information regarding the change of VAT policies and its impact on our Group.

The State Council promulgated the Tariff Adjustment Plan 2017 (2017年關稅調整方案) which came into effect on 1 January 2017, under which the flat export tariff of RMB80 per tonne for urea products was abolished. In other words, exports of urea products are now tariff-free. According to Frost & Sullivan, this is expected to enhance the price competitiveness of China’s urea products in the export market and support the growth in the overall demand for urea from urea producers in China. Our Directors believe that such policy will benefit our Group in terms of its profitability. Moreover, pursuant to the Circular on Policies for Simplifying and Consolidating VAT Rates (關於簡併增值稅稅率有關政策的通知), which was jointly promulgated by the MOF and the State Administration of Taxation on 28 April 2017 and will come into effect on 1 July 2017, the VAT rate structure will be simplified by cancelling the tax rate of 13% from 1 July 2017. Taxpayers who originally pay VAT at a level of 13% for selling or importing chemical fertilizer shall pay VAT at a level of 11% from 1 July 2017.

Our Company redeemed the CCCO First Tranche Bond and the CCCO Second Tranche Bond in full on 15 January 2016 and 8 August 2016, respectively. On 8 August 2016, the CCCO CB was also redeemed in full by our Company. The PNB-SBI Exchangeable Notes were also redeemed in full by Bloom Ocean on 5 January 2017.

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## SUMMARY

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To finance the redemption of CCCO Bonds and CCCO CB, we borrowed term loans from three Independent Third Parties in August 2016 for an aggregate principal amount of HK\$178 million. Two of these term loans for the aggregate principal amount of HK\$120 million were fully repaid in December 2016 and January 2017, respectively. Part of the two fully repaid term loans were refinanced by a two-year loan for the principal amount of HK\$70 million from another Independent Third Party. Please refer to the section headed “Relationship with Our Controlling Shareholders – Independence from Our Controlling Shareholders – Financial independence” for further details.

### SUSTAINABILITY OF OUR BUSINESS

Our Directors believe that our business will continue to be sustainable amid the impact of current market and tax regulatory conditions in the PRC applicable to the urea industry based on the following reasons:

- i. Our leading position as a coal-based urea producer in the PRC
- ii. Our strategic location and we are a cost leader among competitors
- iii. Drivers of urea market in the PRC
- iv. Long term commitment on our on-going business development
- v. Measures to alleviate the risk of urea price fluctuation

For detailed information on the basis and analysis of the sustainability of our business, please refer to the section headed “Business – Sustainability of Our Business” in this prospectus.

### NO MATERIAL ADVERSE CHANGE

Save as disclosed in “– Listing Expenses” in this section, our Directors confirmed that there has been no material adverse change in our financial or trading position since 31 December 2016 (being the date to which our Company’s latest consolidated financial results were prepared, as set out in the appendix headed “Appendix I – Accountants’ Report” to this prospectus) up to the date of this prospectus.

### RISK FACTORS

We are subject to risks relating to our business, industry, and investors in the Offer Shares are also subject to risks relating to doing business in China and the Global Offering. For a description of these and other risk factors, please refer to the section headed “Risk Factors” in this prospectus. We believe that the following are some of the major risks that we face:

- Substantial part of our revenues are derived from the sale of one product, urea. In the event that the demand for urea, or the selling price of urea, declines, our business, financial condition and results of operations may be materially and adversely affected;
- Our business performance is dependent upon adequate supplies of coal at reasonable prices. Any significant disruption in these supplies or significant fluctuation in the coal prices may harm our results of operations;
- Our sales and growth in market demand for our products are dependent, amongst other things, on the conditions of the global and, in particular, the PRC economy;
- We generate a significant portion of our revenues from customers in the PRC. If we are unable to maintain revenues from sales of our products to those customers and we fail to generate revenue from customers in other industries, our operating results may be harmed;
- Various permits and licences are required for the operation of our business and for the production and selling of chemicals in China. The loss of or failure to renew any of these licences and permits may adversely affect our business and operations; and
- Our existing debt may limit our ability to react to changes in the economy or our industry, or may otherwise adversely affect our operating results and production.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following terms have the following meanings.*

“2014 Entrusted Loan”	the loan provided by Agricultural Bank of China, Dongguang Branch (“ABC”) to Dongguang Chemical as entrusted by Zhaohe pursuant to a loan agreement among Dongguang Chemical, Zhaohe and ABC on 19 December 2014, in the principal amount of RMB340.0 million with a floating annual interest rate of 33.3333% over the prevailing lending interest rate promulgated by PBOC from time to time, for a period of three years
“2015 Entrusted Loan”	the loan provided by ABC to Dongguang Chemical as entrusted by Dongguang Guangyi Investment Co., Ltd.* 東光縣廣義投資有限公司 (“Guangyi”), a limited liability company established under the laws of the PRC on 15 April 2014 and an Independent Third Party, pursuant to a loan agreement among Dongguang Chemical, Guangyi and ABC on 23 March 2015, in the principal amount of RMB340.0 million with an annual interest rate of 10%, for a period of three year
“Accountants’ Report”	the accountants’ report on our Group for the Track Record Period set out in Appendix I to this prospectus
“Application Form(s)”	<b>WHITE</b> application form(s), <b>YELLOW</b> application form(s) and <b>GREEN</b> application form(s), or where the context so requires, any of them
“Articles of Association” or “Articles”	the amended and restated articles of association of our Company, adopted on 20 June 2017 (as amended, supplemented or otherwise modified from time to time)
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“BDO China”	BDO China SHU LUN PAN Certified Public Accountants LLP, the internal control consultant of our Company
“Bloom Ocean”	Bloom Ocean Investments Limited, a company incorporated in the BVI with limited liability on 8 April 2014 and owned as to approximately 44.27% by Timely Moon, approximately 44.01% by Plenty Sun and approximately 11.72% by Mr. Yip, being one of our Controlling Shareholders
“Board”	our board of Directors

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## DEFINITIONS

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“business day”	a day (other than a Saturday, Sunday and public holiday) on which banks in Hong Kong are open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate, a measurement to assess the growth rate of value over time
“Cayman Islands Companies Law” or “Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, CCASS Custodian Participant or CCASS Investor Participant
“CCCO”	CCCO Graphite Limited, a company incorporated in the Cayman Islands with limited liability on 15 May 2015 and wholly owned by CITIC Capital China Opportunities, L.P., an Independent Third Party, and one of our pre-IPO investors. Brief details of its investment are set out in the section headed “History, Reorganisation and Corporate Structure – Pre-IPO Investments – (2) Investment by CCCO” in this prospectus
“CCCO Bonds”	the CCCO First Tranche Bond and the CCCO Second Tranche Bond, brief details of which are set out in the section headed “History, Reorganisation and Corporate Structure – Pre-IPO Investments – (2) Investment by CCCO” in this prospectus

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## DEFINITIONS

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“CCCO CB”	the 12% secured convertible bonds issued by our Company on 3 June 2015 to CCCO in the principal amount of US\$20 million, brief details of which are set out in the section headed “History, Reorganisation and Corporate Structure – Pre-IPO Investments – (2) Investment by CCCO” in this prospectus
“CCCO Deed of Guarantee”	the deed of guarantee and indemnity dated 3 June 2015 provided in favour of CCCO in connection with the issue of the CCCO Bonds and the CCCO CB, brief details of which are set out in the section headed “History, Reorganisation and Corporate Structure – Pre-IPO Investments – (2) Investment by CCCO – Security and undertakings” in this prospectus
“CCCO First Tranche Bond”	the 12% secured bonds due 31 December 2015 issued by our Company on 3 June 2015 to CCCO in the principal amount of US\$5 million, brief details of which are set out in the section headed “History, Reorganisation and Corporate Structure – Pre-IPO Investments – (2) Investment by CCCO” in this prospectus
“CCCO Second Tranche Bond”	the 12% secured bonds due 31 August 2016 issued by our Company on 3 June 2015 to CCCO in the principal amount of US\$5 million, brief details of which are set out in the section headed “History, Reorganisation and Corporate Structure – Pre-IPO Investments – (2) Investment by CCCO” in this prospectus
“CCCO SHA”	the securities holders’ agreement dated 3 June 2015 entered into by CCCO, Mr. Wang, Mr. Sun, Timely Moon, Plenty Sun, Sino-Coal Holding, Bloom Ocean, Mr. Yip and our Company, brief details of which are set out in the section headed “History, Reorganisation and Corporate Structure – Pre-IPO Investments – (2) Investment by CCCO – CCCO SHA” in this prospectus
“CCCO Share Charges”	the share charges all dated 3 June 2015 provided in favour of CCCO in connection with the issue of the CCCO Bonds and the CCCO CB, brief details of which are set out in the section headed “History, Reorganisation and Corporate Structure – Pre-IPO Investments – (2) Investment by CCCO – Security and undertakings” in this prospectus

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## DEFINITIONS

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“CCCO Subscription Agreement”	the subscription agreement dated 28 May 2015 for the subscription of the CCCO Bonds and CCCO CB, brief details of which are set out in the section headed “History, Reorganisation and Corporate Structure – Pre-IPO Investments – (2) Investment by CCCO – The subscription of the CCCO Bonds and the CCCO CB” in this prospectus
“China” or “PRC”	the People’s Republic of China, for the purpose of this prospectus and except where the context requires, references in this prospectus to the PRC or China do not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Circular 13”	Circular of the State Administration of Foreign Exchange on Relevant Issues Concerning Foreign Exchange Administration in Further Simplifying and Improving Foreign Exchange Administration Policies on Direct Investments (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), issued by SAFE and effective on 1 June 2015
“Circular 16”	Circular of the State Administration of Foreign Exchange on Reforming and Regulating the Management Policies Regarding the Settlement under Capital Account (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知), issued by SAFE and effective on 9 June 2016
“Circular 19”	Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知), issued by SAFE on 30 March 2015 and effective on 1 June 2015
“Circular 37”	Notice of the State Administration of Foreign Exchange on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Investing and Financing Overseas and Roundtrip Investment via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), issued by SAFE and effective on 4 July 2014 and which replaced Circular 75

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## DEFINITIONS

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“Circular 75”	Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Return Investment via Overseas Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) which was replaced by Circular 37 on 4 July 2014
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Dongguang Chemical Limited (東光化工有限公司) (formerly known as SINO-COAL CHEMICAL LIMITED (中煤化工有限公司)), a company incorporated in the Cayman Islands with limited liability on 26 July 2013 under the Companies Law
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning as defined in the Listing Rules, and, in the case of our Company, means SCH Ultimate Shareholders, SCH Corporate Shareholders, Sino-Coal Holding, Bloom Ocean and Mr. Yip individually and as a group of persons
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Deed of Indemnity”	the deed of indemnity dated 20 June 2017 and executed by our Controlling Shareholders with and in favour of our Company (for ourselves and as trustee for our subsidiaries stated therein), details of which are set out in the section headed “Statutory and General Information – Other Information – 17. Estate Duty, Tax and Other Indemnity” in Appendix V to this prospectus
“Deed of Non-competition”	the non-compete undertaking dated 20 June 2017 and executed by our Controlling Shareholders in favour of our Company, details of which are set out in the section headed “Relationship with our Controlling Shareholders – Deed of Non-competition” in this prospectus



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## DEFINITIONS

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“Director(s)” or “our Director(s)”	the director(s) of our Company
“Dongguang Chemical”	Hebei Dongguang Chemical Co., Ltd* (河北省東光化工有限責任公司), a wholly foreign owned enterprise and an indirect wholly owned subsidiary of our Company established under the laws of the PRC on 1 July 1998 pursuant to a restructuring of Dongguang Huafei, its predecessor company
“Dongguang Huafei”	Hebei Dongguang Huafei Factory* (河北省東光縣化肥廠), a state-owned enterprise established under the laws of the PRC in 1970 prior to its restructure into Dongguang Chemical. Dongguang Huafei was dissolved on 2 August 1998
“Dubai Ventures”	Dubai Ventures Group Limited, a company incorporated in the Cayman Islands with limited liability on 12 May 2005 under the Companies Law and the then sole shareholder of Sino Emirates prior to the acquisition of Sino Emirates by Sino Nitrogen pursuant to the Reorganisation, details of which are set out in the section headed “History, Reorganisation and Corporate Structure – The Reorganisation” to this prospectus
“EIT”	the PRC Enterprise Income Tax
“EIT Law”	the PRC Enterprise Income Tax Law 《中華人民共和國企業所得稅法》 issued on 16 March 2007, effective on 1 January 2008 and the Implementation Regulations on the EIT Law of the PRC (《中華人民共和國企業所得稅法實施條例》) issued on 6 December 2007 and effective on 1 January 2008
“Employee Share Ownership Committee”	the employee share ownership committee established by Dongguang Huafei (the predecessor company of Dongguang Chemical) on 8 June 1998. It is an association of employees through which the employees hold equity interests in Dongguang Chemical in which they are employed. Upon its establishment, such employee share ownership committee had 670 members
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market research and consulting company which prepared the Frost & Sullivan Report

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## DEFINITIONS

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“Frost & Sullivan Report”	the report, written by Frost & Sullivan and commissioned by our Company, as referred to in the section headed “Industry Overview”
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Placing
“ <b>GREEN</b> application form(s)”	the application form(s) to be completed by HK eIPO White Form Service Provider designated by our Company
“Group” or “our Group” or “we” or “our” or “us”	our Company and its subsidiaries, or where the context refers to any time prior to our Company becoming the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses operated by such subsidiaries or their predecessors (as the case may be)
“HK eIPO White Form”	the application process for Hong Kong Offer Shares with applications issued in applicant’s own name and submitted online through the designated website of <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“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” or “HK\$”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong Offer Shares”	the 16,000,000 new Shares (subject to adjustment as described in the section headed “Structure of the Global Offering”) initially being offered by us for subscription under the Hong Kong Public Offering

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## DEFINITIONS

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“Hong Kong Public Offering”	the issue and offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), subject to and in accordance with the terms and conditions described in the section headed “Structure of the Global Offering – Hong Kong Public Offering” in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Tricor Investor Services Limited, the Hong Kong branch share registrar and transfer office of our Company
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting – Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the Hong Kong underwriting agreement dated 27 June 2017 relating to the Hong Kong Public Offering entered into by, among our Company, the Controlling Shareholders, the executive Directors, the Sole Global Coordinator and the Hong Kong Underwriters, particulars of which are set out in the section headed “Underwriting” in this prospectus
“IASB”	International Accounting Standards Board
“IFRS”	International Accounting Standards, International Financial Reporting Standards, amendments and the related interpretations issued by the IASB
“Independent Third Party(ies)”	a party who is not connected (within the meaning of the Listing Rules) with any directors, chief executive or substantial shareholder of our Company or any of our subsidiaries or an associate of any of them
“International Placing”	the conditional placing of the International Placing Shares to institutional, professional and other investors as set out under the section headed “Structure of the Global Offering” in this prospectus
“International Placing Agreement”	the underwriting agreement relating to the International Placing which is expected to be entered into, among our Company, the Controlling Shareholders, the executive Directors, the Sole Global Coordinator and the International Underwriters on or around 3 July 2017

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## DEFINITIONS

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“International Placing Shares”	the 144,000,000 new Shares (subject to adjustment and the Over-allotment Option) initially being offered by us for subscription under the International Placing described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the underwriters of the International Placing
“Joint Bookrunners” and “Joint Lead Managers”	KGI Capital Asia Limited and Guotai Junan Securities (Hong Kong) Limited
“Latest Practicable Date”	18 June 2017, the latest practicable date for the inclusion of certain information in this prospectus prior to its publication
“LIBOR”	London Interbank Offered Rate
“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, expected to be on or about 11 July 2017, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“M&A Rules”	the Rules on the 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》) issued by six PRC ministries and commissions, which became effective on 8 September 2006 and was revised on 22 June 2009
“Main Board”	the stock market (excluding the options market) operated by the Stock Exchange and which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company, conditionally adopted on 20 June 2017, which will become effective upon Listing (as amended, supplemented or otherwise modified from time to time)
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)

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## DEFINITIONS

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“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部), or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部), as appropriate to the context
“Mr. Guo”	Mr. Guo Jianming (郭建明), a member of the senior management of our Company, one of the SCH Ultimate Shareholders and a Controlling Shareholder
“Mr. HL Li”	Mr. Li Hongliang (李洪亮), one of the SCH Ultimate Shareholders and a Controlling Shareholder
“Mr. Liu”	Mr. Liu Yingdong (劉英棟), one of the SCH Ultimate Shareholders and a Controlling Shareholder
“Mr. Song”	Mr. Song Jianning (宋建寧), one of the SCH Ultimate Shareholders and a Controlling Shareholder
“Mr. Sun”	Mr. Sun Yi (孫毅), an executive Director, one of the SCH Ultimate Shareholders and a Controlling Shareholder
“Mr. Wang”	Mr. Wang Zhihe (王治河), an executive Director and chairman of the Board of our Company, one of the SCH Ultimate Shareholders and a Controlling Shareholder
“Mr. Xu”	Mr. Xu Xijiang (徐希江), an executive Director, one of the SCH Ultimate Shareholders and a Controlling Shareholder
“Mr. Yip”	Mr. Yip Kean Mun (葉建文), one of the shareholders of Bloom Ocean and a Controlling Shareholder
“Mr. ZS Sun”	Mr. Sun Zushan (孫祖善), an executive Director, one of the SCH Ultimate Shareholders and a Controlling Shareholder
“Ms. GE Li”	Ms. Li Guie (李桂娥), one of the SCH Ultimate Shareholders and a Controlling Shareholder
“New Large Granular Urea Production Facility”	our new production facility for the production of large granular urea products, located at the west of the Huimin Road, East Industrial District, Dongguang County, Hebei Province, the PRC, which is under planning and expected to commence operation in 2018. Details of the New Large Granular Urea Production Facility is set out in the section headed “Business – Production – Expansion Plan” in this prospectus

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## DEFINITIONS

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“Offer Price”	the final Hong Kong dollar price per Offer Share (exclusive of a brokerage fee of 1.0%, an SFC transaction levy of 0.0027% and a Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed under the Hong Kong Public Offering and offered under the International Placing, to be determined in the manner further described in the section headed “Structure of the Global Offering – Pricing and allocation” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares together, where relevant, with any additional Shares to be issued pursuant to the exercise of the Over-allotment Option
“Old Plant”	the production plant located to No. 192 Yongxing Road, Dongguang Town, Dongguang County, Canzhou City, Hebei Province, the PRC, which was in operation between 1970 to 2014
“Over-allotment Option”	the option to be granted by our Company to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters pursuant to which we may be required to issue up to 24,000,000 additional Shares at the Offer Price, to cover over-allocation in the International Placing, details of which is described in the section headed “Structure of the Global Offering – Over-allotment Option” in this prospectus
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“People’s Congress”	the legislative apparatus of the PRC, including the National People’s Congress and all the local people’s congresses (including provincial, municipal and other regional or local people’s congresses) as the context may require, or any of them (人民代表大會)
“Plant One”	the production plant located at the West of the Huimin Road, East Industrial District, Dongguang County, Hebei Province, the PRC, which commenced operation in 2014, details of which is set out in the section headed “Business – Production Facilities and Capacities” in this prospectus
“Plant Two”	the production plant located at the East of the Huimin Road, East Industrial District, Dongguang County, Hebei Province, the PRC, which commenced operation in 2009, details of which is set out in the section headed “Business – Production Facilities and Capacities” in this prospectus

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## DEFINITIONS

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“Plenty Sun”	Plenty Sun Limited, a company incorporated in the BVI with limited liability on 2 January 2014 and wholly owned by Mr. Sun, being one of our Controlling Shareholders
“PNB-SBI”	PNB-SBI Asean Gateway Fund Ltd. P., a private fund established in the Federal Territory of Labuan on 10 December 2009 as a limited partnership and one of our pre-IPO investors and brief details of its investment are set out in the section headed “History, Reorganisation and Corporate Structure – Pre-IPO Investments – (1) Investment by PNB-SBI” in this prospectus
“PNB-SBI Exchangeable Notes”	the exchangeable notes issued by Bloom Ocean to PNB-SBI in the aggregate principal amount of US\$5 million, and brief details of which are set out in the section headed “History, Reorganisation and Corporate Structure – Pre-IPO Investments – (1) Investment by PNB-SBI” in this prospectus
“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities or, where the context requires, any of them
“PRC Legal Adviser”	Tian Yuan Law Firm, our legal adviser as to PRC law
“Price Determination Date”	the date, expected to be on or about Monday, 3 July 2017, on which the Offer Price will be determined and in any event, not later than Thursday, 6 July 2017
“Property Valuer”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the reorganisation of our Group as set out in the section headed “History, Reorganisation and Corporate Structure – The Reorganisation” in this prospectus, pursuant to which our Company became the holding company of our various subsidiaries
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中國國家外匯管理局)

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## DEFINITIONS

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“SCH Corporate Shareholders”	collectively, Fair Noble Limited, Fair Tycoon Limited, Power Moon Limited, Decent Magic Limited, Wide Axis Limited, Elite Captain Limited, Honest Nature Limited, Timely Moon and Plenty Sun, the nine corporate shareholders of Sino-Coal Holding, all of which are incorporated in the BVI with limited liability and whose brief details are set out in the section headed “Relationship with our Controlling Shareholders” in this prospectus, and “SCH Corporate Shareholder” means any one of them and each being our Controlling Shareholder
“SCH Ultimate Shareholders”	collectively, Ms. GE Li, Mr. Guo, Mr. ZS Sun, Mr. Xu, Mr. Song, Mr. Liu, Mr. HL Li, Mr. Wang and Mr. Sun, who together through his/her respective SCH Corporate Shareholder ultimately own the issued shares of Sino-Coal Holding and brief details of the SCH Corporate Shareholders are set out in the section headed “Relationship with our Controlling Shareholders”, and “SCH Ultimate Shareholder” means any one of them and each being our Controlling Shareholder
“SCNPC”	the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share Option Scheme”	the share option scheme conditionally approved and adopted by us on 20 June 2017, a summary of its principal terms is set out in the section headed “Statutory and General Information – Other Information – 16. Share Option Scheme” in Appendix V to this prospectus
“Share(s)”	ordinary share(s), with nominal value of US\$0.0001 each, in the share capital of our Company
“Shareholder(s)”	holder(s) of Shares
“Sino-Coal HK”	SINO-COAL CHEMICAL LIMITED (中煤化工有限公司) (formerly known as DONGGUANG CHEMICAL LIMITED (東光化工有限公司) and SINO-COAL CHEMICAL LIMITED), a company incorporated in Hong Kong with limited liability on 6 March 2014 and a direct wholly owned subsidiary of our Company



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## DEFINITIONS

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“Sino-Coal Holding”	SINO-COAL CHEMICAL HOLDING GROUP LIMITED, a company incorporated in the BVI with limited liability on 10 June 2014 and wholly owned by the SCH Corporate Shareholders, being one of our Controlling Shareholders
“Sino-Coal Samoa”	SINO-COAL CHEMICAL LIMITED, an international company incorporated in Samoa with limited liability on 27 February 2014 and a direct wholly owned subsidiary of our Company
“Sino Emirates”	SINO EMIRATES CHEMICALS LIMITED, a company incorporated in Hong Kong with limited liability on 4 October 2007 and an indirect wholly owned subsidiary of our Company
“Sino Nitrogen”	SINO NITROGEN INDUSTRIES LIMITED, a company incorporated in the BVI with limited liability on 13 June 2014 and an indirect wholly owned subsidiary of our Company
“Sole Sponsor” and “Sole Global Coordinator”	KGI Capital Asia Limited, licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“sq.km.”	square kilometres
“sq.m.”	square metres
“Stabilising Manager”	KGI Capital Asia Limited
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under section 2 of the Companies (WUMP) Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs
“Timely Moon”	Timely Moon Limited, a company incorporated in the BVI with limited liability on 3 January 2014 and wholly owned by Mr. Wang, being one of our Controlling Shareholders
“Track Record Period”	the three financial years ended 31 December, 2014, 2015 and 2016

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## DEFINITIONS

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“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Placing Agreement
“United States” or “U.S.”	the United States of America
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated under it
“VAT”	value-added tax
“ <b>WHITE</b> 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
“ <b>YELLOW</b> 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
“Zhaohe”	Zhaohe Eco-Tech Co., Ltd.* (河北昭和生態科技有限公司), a limited liability company established under the laws of the PRC on 17 July 2006, and an Independent Third Party after 17 November 2014 when Mr. Wang transferred his 100% interest therein to a third party
“%”	per cent

For ease of reference, the English names of the PRC established companies or entities, laws or regulations are translations of their Chinese names and have been included in this prospectus for identification purpose only. In the event of any inconsistency between the Chinese names and their English translations, the Chinese names prevail.

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary of technical terms contains explanation of certain terms used in this prospectus as they relate to our Company and as they are used in this prospectus in connection with our Group and its business. These terms and their given meanings may not correspond to standard industry meaning or usage.*

“annualised designed production capacity”	production capacity calculated based on the assumption that production facilities are in operation for 365 days per year, 24 hours per day
“anthracite”	the hardest coal type, which contains a high percentage of fixed carbon and a low percentage of volatile matter. Anthracite is the highest-ranked coal and contains 90% fixed carbon, more than any other form of coal. Anthracite has a semi-metallic lustre and is capable of burning with little smoke. Mainly used for metallurgical purposes
“bituminous coal”	coal formed under high heat and pressure typically containing 45-86% carbon with two to three times the heating value of lignite. Its forms include thermal coal, which is used to generate electricity, and coking coal, which is an important fuel and raw material used in the steel and iron industries
“Central China”	the region includes Hubei Province, Hunan Province, Henan Province and Jiangxi Province
“coal”	coal is a black or brownish-black solid combustible substance formed by the decomposition of vegetable matter without access to air. The rank of coal, which includes anthracite, bituminous coal (both are called hard coal), sub-bituminous coal, and lignite, is based on fixed carbon, volatile matter, and heating value
“East China”	the region includes Shandong Province, Jiangsu Province, Anhui Province, Zhejiang Province, Fujian Province and Shanghai Province
“ISO”	acronym for a series of quality management and quality assurance standards published by the International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“ISO 9001”	a standard and guideline relating to quality management systems, and represents an international consensus on good quality management practices. ISO 9001:2008 is the current version of ISO 9001
“kg”	kilogram

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## GLOSSARY OF TECHNICAL TERMS

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“kWh”	unit of energy (power). The standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
“LNG”	Liquefied natural gas, being natural gas converted into a liquid by cooling it to -260° Fahrenheit
“methanol”	an alcohol fuel largely used in the production of chemical and plastic compounds
“mg”	milligrams
“mm”	millimetre
“Nm <sup>3</sup> ”	normal cubic meter
“North China”	the region includes Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region
“Northeast China”	the region includes Liaoning Province, Jilin Province and Heilongjiang Province
“Northwest China”	the region includes Shaanxi Province, Gansu Province, Ningxia Autonomous Region, Qinghai Province and Xinjiang Autonomous Region
“NO <sub>x</sub> ”	a generic term for the nitrogen oxides that are most relevant for air pollution, namely nitric oxide (NO) and nitrogen dioxide (NO <sub>2</sub> )
“pro-rata production capacity”	production capacity calculated based on the annualised designed production capacity divided by 12 and multiplied by the number of months the production facilities are in operation in a given year
“South China”	the region includes Guangdong Province, Guangxi Province and Hainan Province
“Southwest China”	the region includes Sichuan Province, Yunnan Province, Guizhou Province, Chongqing Province and Tibet Autonomous Region
“sq.m.”	square metres
“urea”	urea is a white crystalline solid organic compound with the chemical formula CO(NH <sub>2</sub> ) <sub>2</sub> . Based on particle size, urea products can be categorised into granular urea (large granular) with particle diameters generally ranging from 2.00 mm to 4.00 mm and prilled urea (small granular) ranging from 1.00 mm to 2.80 mm

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## FORWARD-LOOKING STATEMENTS

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

- our business strategies and plans to execute these strategies;
- our capital expenditure plans;
- our operations and business prospects, including development plans for our existing and new businesses;
- projects under construction or planning;
- our financial condition;
- availability of bank loans and other forms of financing;
- our ability to reduce costs;
- our dividend policy;
- the future developments trends, conditions and competitive environment in our industry;
- the effect of the global financial markets and economic crisis;
- changes or volatility in interest rates, foreign exchange rates and overall market changes;
- the regulatory environment for our industry in general; and
- the general economic trend of the PRC and general economic conditions.

The words “anticipate”, “believe”, “consider”, “could”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “potential”, “project”, “seek”, “will”, “would”, and similar expressions and the negative of these words, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect the current views of our Directors with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Purchasers of our Offer Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties. The uncertainties in this regard include, but are not limited to, those identified in the section headed “Risk Factors”, many of which are beyond our Company’s control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us or our Directors that its plans or objectives will be achieved. If any or all of these risks or uncertainties materialise, or the underlying assumptions prove to be incorrect, our financial condition may be materially and adversely affected and actual outcomes may differ materially from those described in this prospectus as anticipated, believed or expected.

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## **FORWARD-LOOKING STATEMENTS**

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

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## RISK FACTORS

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*You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Offer Shares. Our operations involve certain risks, many of which are beyond our control. You should pay particular attention to the fact that almost all of our business is located in the PRC and we are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Our business, financial condition and operating results could be materially and adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment. Additional risks and uncertainties that are not presently known to us, or not expressed or implied below, or that we deem to be immaterial, could also have a material adverse effect on our business, financial condition and operating results.*

### RISKS RELATING TO OUR BUSINESS

**Substantial part of our revenues is derived from the sale of one product, urea. In the event that the demand for urea, or the selling price of urea, declines, our business, financial condition and results of operations may be materially and adversely affected.**

For the years ended 31 December 2014, 2015 and 2016, the sales of our urea products accounted for 90.7%, 92.5% and 89.8% of our total revenues, respectively. Our profit margin and profitability is highly affected by our average selling price of urea products and our procurement costs of coal. If we are unable to maintain our level of profitability from the sale of urea and we are unable to generate adequate revenues from our other products, our operating results may be harmed.

However, we have limited control on the selling price of urea as the market price of urea are affected by numerous factors, such as general economic conditions, cyclical trends in the end-user markets, mismatch of supply and demand increased competition, prices of coal, weather conditions, the seasonal nature of some of our customers businesses and government policies. These factors lead to a fluctuation in the selling price of urea. We have limited control over these factors. According to Frost & Sullivan, as a result of these factors, the average retail price of urea increased from approximately RMB2,100 per tonne in 2011 to approximately RMB2,200 per tonne in 2012. However, the retail price of urea decreased significantly from 2012 to 2016. The average retail price of urea decreased from approximately RMB2,200 per tonne in 2012 to approximately RMB1,900 per tonne in 2013 and further to RMB1,176 per tonne in 2015. Although the market price of urea in the PRC has experienced rebound since August 2016, there is no guarantee that the price of urea will continue to increase or remain stable in the future. In the event that the selling price of urea declines in the future, our financial performance including our profit margin and profitability may be materially and adversely affected. In addition, any significant decrease in the selling prices of urea could have an adverse impact on our net cash flow generated from operating activities as well as the sufficiency of our working capital.

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## RISK FACTORS

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**Our business performance is dependent upon adequate supplies of coal at reasonable prices. Any significant disruption in these supplies or significant fluctuation in the coal prices may harm our results of operations.**

Coal, including anthracite and bituminous coal, is the major raw material required for the production of our major product, urea. Our cost of raw materials accounted for approximately 55.2%, 50.0% and 43.0% of our total cost of sales for the years ended 31 December 2014, 2015 and 2016, respectively. If adequate supplies of coal are not available in the domestic market, we would have to consider importing coal from overseas which may impose additional costs on us.

We also do not have control of the price of coal. As a commodity, the price of coal may fluctuate significantly as a result of numerous factors. In addition to the general economic conditions in the PRC and the fluctuations in coal prices in the international markets, the PRC Government also influences the coal prices in PRC through various policies. Please refer to the subsection headed “Industry Overview – Overview of the Urea Market in China – Price Trend of Anthracite” in this prospectus for detailed information. If the price of coal increases significantly, our gross margin will decrease. The market price of coal experienced continuous decline during the Track Record Period, which had resulted in the decrease in our purchase price of anthracite and bituminous coal and thus reduced our cost of raw materials. Our average purchase price of anthracite was RMB782 per tonne for the year ended 31 December 2014, which decreased to RMB627 per tonne for the year ended 31 December 2015 and further decreased to RMB510 per tonne for the year ended 31 December 2016. Our average purchase price of bituminous coal was RMB465 for the year ended 31 December 2014, which decreased to RMB367 for the year ended 31 December 2015 and further decreased to RMB345 for the year ended 31 December 2016. We expect that the fluctuation of the selling prices of our urea products will be in line with the changes in the purchase prices of raw materials, such as natural gas and coal, and the future increases in the coal prices, if any, may be accompanied by corresponding increases in the selling prices of our urea products. However, there is no assurance that such increases in selling prices of our urea products will occur, or if they occur, will be proportionate to increases in coal prices.

Our results of operations and profitability are sensitive to the purchase price of coal. In particular, our cost of sales and gross profit margin for our products are heavily affected by the prices of coal. There is no assurance that we can maintain our profit margin in the event that there is an unexpected spike in the price of coal in a short period of time. Such increase could thereby have a material adverse impact on our net cash flow generated from operating activities as well as the sufficiency of our working capital. As a result, increases in the coal prices may adversely affect our profit margin, our working capital sufficiency and other aspects of our results of operations.

**Our sales and growth in market demand for our products are dependent, amongst other things, on the conditions of the global and, in particular, the PRC economy.**

During the Track Record Period, all of our revenue was derived from sales of our products to customers in the PRC. The demand for our products is dependent, amongst other things, on the conditions of the global and, in particular, the PRC economy. For instance, the demand for our products in the PRC is significantly affected by the demand from our customers in the industrial sector industry located in the PRC. The PRC economy and the demand from our customers have grown significantly in recent years. However, there is no assurance that this level of growth will continue, in particular, whether the PRC government may implement stricter rules to restrict the expansion of our industry in the future.



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## RISK FACTORS

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In the PRC, general economic conditions and interest rate levels, inflation and unemployment rates, demographic trends, GDP growth and consumer confidence, amongst other things, influence the growth of industries where our products are widely used or applied. As a result, a downturn in the relevant industries in the PRC or in the markets where our products are used, a downturn in general economic conditions which we sell or intend to sell them could impact on our sales, resulting in pressure on the prices, volumes and margins achieved or achievable in the future. A decline in demand for our products resulting from deteriorating economic conditions could materially and adversely affect our business, financial condition, results of operations and prospects.

**We generate a significant portion of our revenues for industrial use. If we are unable to maintain revenues from sales of our products to those customers and we fail to generate revenue from customers in other sectors, our operating results may be harmed.**

For the years ended 31 December 2014, 2015 and 2016, approximately 46.4%, 42.3% and 30.6%, respectively, of our urea products were sold to customers for agricultural use, and approximately 53.6%, 57.7% and 69.4%, respectively, to customers in other sectors, in particular, for industrial use. If there is a downturn in industrial sector in the PRC and if we are unable to diversify our customer base, by revenue sources or product offering, our business, operating results and financial condition may be harmed.

**Various permits and licences are required for the operation of our business and for the production and selling of chemicals in China. The loss of or failure to renew any of these licences and permits may adversely affect our business and operations.**

PRC laws and regulations require us to maintain various licences and permits to operate our business and to manufacture our products. Such permits include, among others, safety production permit, national production licence for industrial products, registration certificate of hazardous chemicals, pollutant discharge permit, water procurement permit, registration certificate of major hazards and certificate of safe production standardization that are necessary for the production, sales, storage and transportation of hazardous chemicals. Please refer to the section headed “PRC Regulations” in this prospectus for details of the various licences and permits that our Group must obtain for its operations.

For the issuance of these licences and permits, the relevant regulatory authorities would carry out regular inspections to ensure our compliance with applicable laws and regulations. We are also required to renew our licences and permits periodically. Failure to pass these inspections, loss of or failure to renew our licences and permits may result in temporary or permanent suspension of some or all of our production activities, which may disrupt our operations and adversely affect our business, financial condition and results of operations.

**Our existing debt may limit our ability to react to changes in the economy or our industry, or may otherwise adversely affect our operating results and production.**

As at 30 April 2017, our aggregate amount of financial indebtedness amounted to a total of RMB924.2 million. Such indebtedness consist of bank loans of RMB502.1 million and other loans of RMB422.1 million. Our substantial indebtedness may have severe consequences, including:

- potential difficulties in repaying our debts;
- reducing our cash flow as we allocate a substantial portion of the cash flow from our operations to the repayment of our indebtedness instead of making capital expenditures;

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## RISK FACTORS

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- reducing our ability to take advantage of future business opportunities and executing our business strategies due to lack of working capital;
- limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes, or to refinance our existing debt from banks, other financial institutions or financial investors. The foregoing consequence will become more acute when, for example, there are adverse or unfavourable market conditions including significant decrease in the market prices of urea in the PRC, and increased interest rates in the PRC, tighter credit policies concerning the approval of bank loans;
- limiting our ability to adjust to changing market conditions; and
- placing us at a disadvantage compared to competitors who are less highly leveraged.

As the expansion of our business operations and the upgrade of our production facilities requires significant capital expenditures, we may have to further utilise external funding. Additional funding from debt financings may make it more difficult for us to operate our business because we would need to make principal and interest payments in relation to the indebtedness and may be obligated to abide by restrictive covenants under in the debt financing agreements, which may, among other things, limit our ability to make business and operational decisions and pay dividends. Furthermore, raising capital through public or private sales of equity to finance our capital expenditures could cause earnings or ownership dilution to your shareholding interests in our Company.

**We are wholly dependent on our two production plants and any operational disruption in our production plants may result in a reduction of sales volumes and may cause us to incur substantial expenditures.**

We conduct substantially all of our production activities at two production plants in Dongguang County of Cangzhou City, Hebei Province. Our manufacturing operations may be subject to significant interruption if we experience closure of either one of the two production plants, interruption in, or prolonged suspension of, any substantial part of our production, or any damage to or destruction of our production facilities arising from unexpected or catastrophic events (such as earthquakes, fires or floods, or epidemics such as the severe acute respiratory syndrome) or other similar events. If our blanket insurance policy, which covers all important fixed assets and machinery, is insufficient to cover our losses resulting from any such event, or if we are unable to obtain and maintain sufficient coverage at reasonable costs in the future, our business and financial condition may be materially harmed.

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## RISK FACTORS

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### **Intense competition in PRC may materially and adversely affect our financial performance.**

We operate in a competitive industry and frequently encounter competitions from our existing and potential competitors. Many of these competitors may have substantial competitive advantages such as (i) greater name recognition and longer operating histories; (ii) more sales and marketing budgets and resources; (iii) broader distribution networks and more established relationships with distributors and customers; (iv) greater resources to make acquisitions; (v) greater resources to develop and introduce products that compete with our products; (vi) lower labour and development costs; and (vii) substantially greater financial, technical and other resources.

In addition, some of our larger competitors, including state-owned enterprises, are less susceptible to pricing pressure and are therefore in a better position to compete in price competitions. Conditions in our market have changed due to changes in government policies and could continue to change rapidly and significantly as a result of continuing market consolidation. Our current and potential competitors may also establish cooperative relationships among themselves or with third parties that may further enhance their resources. Current or potential competitors may be acquired by or merged with third parties with greater resources. As a result of such mergers and acquisitions, our current or potential competitors might be able to devote greater resources to the promotion or sale of their products, initiate or withstand substantial price competitions, take advantage of other business opportunities, more readily or develop and expand their product and service offerings more quickly than we do. If we are unable to compete effectively, our business, results of operations and financial condition could be materially and adversely affected.

### **Our production plants may be materially and adversely affected by power shortages and increasing electricity prices.**

The operation of our production plants relies heavily on electricity, which is mainly supplied by external power suppliers. For the years ended 31 December 2014, 2015 and 2016, approximately 89.4%, 90.2% and 86.5%, respectively, of electricity consumed by our Group were purchased from the external power suppliers. Any increase in the price of electricity may increase our production costs. We may also experience occasional and temporary power interruption or restrictions on electricity consumption which may be imposed by the PRC authorities, which are out of our control. These factors may disrupt our production and thus materially and adversely affect our results of operations.

### **We rely on a limited number of suppliers to satisfy our coal procurements and any disruption of supply from our major suppliers could result in an adverse impact on our business, profitability and results of operations.**

We procure coal from a limited number of suppliers. The purchase from our five largest suppliers in aggregate amounted to approximately RMB509 million, RMB570 million and RMB414 million, representing approximately 82.2%, 81.7% and 64.7% of our total purchases for the years ended 31 December 2014, 2015 and 2016, respectively.

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## RISK FACTORS

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We did not enter into framework agreements with our major suppliers during the Track Record Period and neither do we intend to enter such arrangements with our suppliers in the future. There can be no assurance that we will be able to agree with our suppliers on the terms of sale and purchase agreements for our raw materials or that we will not encounter any form of disputes, interruption, delay or shortage in supply from our suppliers in the future. If this happens, we may need to source our coal supply from other suppliers. The coal supply market has in the past experienced fluctuation or shortage due to strong demand. We may not be able to secure sufficient supply from other existing and new suppliers at the prices that are acceptable to us or at the volume we require. As such, any interruption, delay or shortage of coal supplies which we encounter from our suppliers may have an adverse impact on our business operations or profitability.

If we are unable to obtain sufficient quantities of raw materials, or if there are increases in the price of any of our major raw materials, we may be unable to maintain our production schedules and meet our commitments to our customers, or we may incur significant additional costs which we may be unable to pass along to our customers. Any such developments could have a material adverse effect to our business, financial condition and results of operations.

### **We incurred net current liabilities as at 31 December 2014, 2015 and 2016.**

During the Track Record Period, we have incurred substantial amount of indebtedness. As at 31 December 2014, 2015 and 2016, we incurred net current liabilities of approximately RMB332.9 million, RMB497.8 million and RMB297.0 million, respectively. For more information, please see the section headed “Financial Information – Net Current Liability” in this prospectus. We cannot assure you that we will not have net current liabilities in the future. Our net current liabilities expose us to certain liquidity risks. Our future liquidity, the payment of trade and bills payables, the payment of other payables and accruals, and the repayment of outstanding debt obligations when they become due will primarily depend on our ability to maintain adequate cash inflows from operating activities and adequate external financing. Our operating cash flows could be adversely affected by numerous factors, including increased market competition, decreased demand for our products and higher raw material prices.

Significant net current liabilities could also constrain our operational flexibility and materially and adversely affect our ability to expand our business. If we do not generate sufficient cash flow from our operations to meet our present and future financial needs, we may need to rely on additional external borrowings for funding. There is no assurance that we could obtain necessary funds on commercially acceptable terms, or at all. This could materially and adversely affect our business expansion plans, financial condition and results of operations.

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**We rely on our suppliers to transport coal to our plants and third-party providers of transportation services to transport our products to our customers, which subjects us to risks and uncertainties that are beyond our control and may adversely affect our operations.**

We rely on our suppliers to transport raw materials to our production facilities, and railroad and trucking companies to deliver our finished products to our customers. Delay in transporting of the raw materials to our Group or our products to our customers may be caused by various impediments including extreme weather conditions, work stoppages, delays and accidents, such as spills or derailments. If our productions or distributions are delayed because our suppliers or distributors are delayed in transporting, or are unable to transport, raw materials or finished products, or if there are significant increases in the cost of the transportation of our raw materials or finished products, our results of operations may be adversely affected.

**We rely on the PRC highway system for delivery of coal from certain suppliers and to transport our products to certain customers; any major disruption or insufficient transportation capacity of which may adversely affect our business and results of operations.**

We rely on the PRC national highway system for delivery of coal from certain suppliers and to transport our products to certain customers. Efficiency of the PRC highway system is subject to a number of factors including but not limited to the transportation capacity, traffic controls and road conditions. Accordingly, there can be no assurance that our transportation requirements can be fully satisfied in the future, nor is there assurance that we will not experience any material delay in the transportation of our raw materials and products as a result of insufficient highway transport capacity. In addition, we rely on the national highway system to transport our urea products from our production facilities to our customers. There can also be no assurance that the national highway system will be able to secure sufficient highway transportation capacity to transport our urea products or that the highway transportation capacity connecting to major urea consumption regions will improve. In addition, in the PRC, highway infrastructure and capacity have in the past been affected by extreme weather conditions, earthquakes, delays caused by major rail accidents and seasonal congestion during public holidays. Under any of these circumstances, the customers may not be able to take delivery of our products, which may lead to delay in payment, or refusal to pay, for our products and, as a result, our business and results of operations could be adversely affected.

**We may be subject to labour shortages, increased labour costs or other factors affecting labour force.**

Labour shortage, increased labour costs or other factors affecting our labour force at our production facilities may significantly disrupt our business operations or delay our expansion plan. For the years ended 31 December 2014, 2015 and 2016, our direct labour costs were RMB37.4 million, RMB41.3 million and RMB50.1 million, representing 3.3%, 2.9% and 3.8%, respectively, of our cost of sales. We may have difficulties in hiring or retaining employees or may be subject to additional direct labour costs in the future. Any failure to attract qualified employees at reasonable cost level and in a timely manner, an increase in our direct labour costs and future disputes with our employees may materially and adversely affect our business, financial condition and results of operations.

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### **Failure in our information and technology systems could result in deficiencies in our business operations.**

Our operations are controlled and managed by software and hardware systems. For example, our urea production is operated under the automatic production control system. These systems are intended to enable us to maximise efficiencies and monitor and control all aspects of our operations and are fundamental to ensure that we maintain our competitiveness in our industry. We use information and technology systems that link our computers and communications control systems to control our production. There can be no assurance that there will not be any failure or breakdown of these systems in the future. Any failure or breakdown in these systems 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 products and offer services to our customers, which could have a material adverse effect on our business and results of operations.

### **We may be adversely affected by any decrease in our sales to our key customers or our customers' default on their obligations under our contracts with them.**

Sales to our five largest customers together accounted for approximately 19.6%, 29.1% and 27.9% of our revenue in the years ended 31 December 2014, 2015 and 2016, respectively. It is essential for us to maintain close and mutually beneficial relationships with them. During the Track Record Period, we deal with a number of our customers in the form of one-off purchase contracts for each transaction. As such, we cannot assure you that our major customers will continue their purchases, if at all, from us at the current levels.

Moreover, our revenue is also subject to our customers' business, product quality, sales strategy, industry conditions and the overall economic market environments. We cannot rule out the risk that our customers may terminate our contracts prior to the agreed term, become insolvent or fail to take delivery of our products in accordance with the contracts. Generally, there is limited financial information available about our counterparties. As a result, counterparty risk is largely assessed on the basis of their reputation in the market place and we cannot assure you that any of our customers can fulfill their obligations under the contracts we enter into with them. During the Track Record Period, we had not experienced any material difficulties in collecting payments from our customers, but we cannot assure you that we will not encounter such difficulties in the future. Any default by our customers on their obligations under our contracts with them may have an adverse effect on our business, financial position and results of operations.

### **Our historical financial and operating results are not indicative of future performance and our financial and operating results are difficult to forecast.**

Our financial and operating results may not meet the expectations of public market analysts or investors, which may cause the price of our ordinary shares to decline. In addition our revenues, expenses and operating results may vary from quarter to quarter and from year to year in response to a variety of other factors beyond our control, including:

- vulnerability of our business to a general economic downturn in China;
- fluctuation and unpredictability of the prevailing urea selling prices in China;

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- fluctuation and unpredictability of costs related to the raw materials used in the production of our products;
- changes in government policies in relations to the subsidies for the energy expenses include but not limited to the electricity fees;
- changes in the laws of the PRC that affect our operations;
- fierce competition in our industry;
- our ability to obtain all necessary government certifications and/or licences to conduct our business; and
- development of a public trading market for our securities.

Due to these factors, among others, we believe that quarter-to-quarter comparisons of our operating results may not be indicative of our future performance and you should not rely on them to predict the future performance of our ordinary shares. In addition, our past results may not be indicative of future performance due to the reasons above.

### **Completion of the New Large Granular Urea Production Facility may result in a significant increase in our depreciation charges**

As the construction of the New Large Granular Urea Production Facility is expected to be completed by the first half of 2018, there will be additional depreciation costs arising from, relating to or in connection with the New Large Granular Urea Production Facility which we have not experienced prior to its commencement of operation.

The total investment costs for the New Large Granular Urea Production Facility are estimated to be approximately RMB63 million. Our Directors expect that the annual depreciation rate would be approximately 8.33%, being an annual depreciation charge of approximately RMB5.2 million for 12 years. Such additional depreciation expenses may affect our financial condition and results of operations.

### **Our productions and operations are subject to extensive environmental protection, occupational health and safety laws, regulations, government policies and industry standards, and compliance with these laws, regulations, policies and standards may be costly.**

Our production and operations are subject to various environmental protection, occupational health and safety laws and regulations, government policies and industry standards applicable in the PRC in relation to the discharge of waste water, solid wastes and gases and the work environment and welfare conditions of our employees. Such laws and regulations include, among others, the Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Law on the Prevention and Control of Water Pollution of the PRC (中華人民共和國水污染防治法), the Law on the Prevention and Control of Air Pollution of the PRC (中華人民共和國大氣污染防治法), the Law of Prevention and Control of Environmental Pollution Caused by Solid Waste of the PRC (中華人民共和國固體廢物污染環境防治法) and the Production Safety Law of the PRC

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## RISK FACTORS

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(中華人民共和國安全生產法). The relevant PRC authorities may impose penalties on companies, suspend operations, make a rectification and close down the companies that fail to comply with these laws and regulations.

During our usual production process, waste water, waste gas and coal slag are regularly discharged. In order to comply with the applicable environmental protection laws and regulations in the PRC, we have installed waste treatment facilities in our production plants to handle such discharges. Our business operations involve the use and production of chemicals that are potentially dangerous. In view of this, we have established a team of occupational health and safety officers and set up a system with clear rules, procedures and allocation of responsibilities to ensure safety production. Please refer to the section headed “Business – Environmental and Safety Regulations” and “– Occupational Health and Safety” in this prospectus for more details. Notwithstanding such measures and safeguard, we cannot assure you that we will, at all times, be in full compliance with the relevant laws and regulations. In the event we are not in compliance with the applicable PRC environmental protection, occupational health and safety laws and regulations, we may be required to rectify such non-compliance and to compensate the entities or individuals who may have suffered from direct losses caused by such non-compliance, and we may also be subject to fines and remedial measures. This may materially and adversely affect our business and financial performance.

Furthermore, the PRC Government is moving towards more rigorous enforcement of applicable environmental protection, occupational health and safety laws and regulations and more stringent environmental and employee protection standards. In addition to the existing environmental protection, occupational health and safety laws and regulations, the PRC Government may promulgate new environmental protection, occupational health and safety laws and regulations aimed at further regulating the environmental pollution and production risks of chemical fertiliser industry in the future. As a result, additional costs in our production and operation may be incurred to adjust our production process, introduce new preventive or remedial measures, purchase new pollution control equipment and update our compliance and monitoring system in order to ensure compliance with such amended laws, regulations, government policies or industry standards, and our budget with respect to environmental and occupational regulatory compliance may not be sufficient to cover such costs. We may need to allocate additional funds for such purpose, which may materially and adversely affect our operation and financial performance. Moreover, if we fail to adjust our production process, introduce new preventive or remedial measures, purchase new pollution control equipment or establish effective compliance and monitoring systems in a timely manner or at all, we may be subject to substantial penalties or heavy fines as a result of non-compliance and our business operations may be disrupted, thus materially and adversely affect our operation and financial performance.



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**Personal injury may occur in the course of our manufacturing processes, which may result in personal injury claims, cessation of our business or civil and criminal penalties.**

Our production processes involve the use of flammable or toxic gas and chemicals which may be dangerous. In addition to complying with the necessary safety requirements and standards, we bear the related risks associated with such manufacturing processes, including explosion or fire, work injury accidents and geological hazards. Such dangers may result in personal injuries and damage to property and equipment. Although we are dedicated to ensuring production and occupational safety in our production plants, there can be no assurance that we will be able to eliminate the risks to personal injury or death of our personnel during our operations. On 27 April 2014, due to a gas leakage, a fire broke out at our Old Plant. Two of our employees were injured and suffered minor burns on their arms as a result of this accident. The injury suffered by one of the affected employees was recognised as employment injury. The relevant employee had received a compensation of RMB34,775 from the local insurance company. No penalties or fines were imposed by the PRC Government against us in respect of this accident. For more information, please refer to the section headed “Business – Occupational Health and Safety” in this prospectus. Accidents similar to any of these may result in personal injury claims, cessation of business, or civil and criminal penalties. If we fail to protect ourselves from such potential liabilities, we may incur significant costs, which would have a material and adverse effect on our financial condition and results of operations.

**The operation of our production facilities and production process may be disrupted by various factors beyond our control.**

Our chemical production business involves the handling, storage and use of hazardous, flammable and explosive materials. Improper handling of these hazardous materials can cause serious pollution, fires, explosions, and may even expose handlers to serious health and safety issues. Accordingly, we may be subject to penalties, fines or lawsuits if we fail to manage such materials properly.

Moreover, operational breakdowns can also result from external factors beyond our control, such as natural disasters (including but not limited to flooding, cyclone, typhoon), terrorism or other third party inference. Such risks of operational breakdowns cannot be excluded even if high technical and safety standards for the construction, operation and maintenance of such production facilities are met. Further, in order to maintain safety standards and operational efficiency, we may conduct maintenance, inspections and technology advancements to our production facilities and suspend our productions and operations accordingly.

Any breakdown or suspension of production or failure to supply products to our customers in a timely manner according to the provisions of our supply contracts may result in breach of contracts, loss of revenue, as well as expose us to liability and the requirement to pay compensation under the relevant contracts, lawsuits and damage to our reputation. Consequently, our business, financial condition and results of operations may be adversely affected.

In addition, events including fires, floods, natural disasters or power failures, which may cause substantial damage to our production facilities and inventories. If we are unable to repair the damaged equipment or resume our production on a timely basis, our operation and our financial performance could be materially and adversely affected. In addition, our production process involves considerable flaming processes and one of our major products, methanol, is highly flammable. If any fire or explosion accident happens in our production facilities and inventories, our business operation could be materially and adversely affected.

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### **Our insurance coverage may be insufficient in certain situations.**

We have obtained insurance coverage for our important fixed assets. Nevertheless, many of our raw materials, production processes and certain finished products are potentially destructive and dangerous in unexpected, uncontrolled or catastrophic situations, including fires, explosions, operating hazards, natural disasters and major equipment failures where we are unable to obtain insurance coverage at a reasonable cost or at all. In the event an accident or natural disaster occurs in the future, it may cause substantial property damage and disruption to our operations and personal injuries, and our insurance coverage may be insufficient to cover such loss. Any uninsured loss or loss in excess of insured limits may have to be compensated by us. This could in turn materially and adversely affect our business and financial performance.

In addition, we do not obtain any insurance coverage against loss of key personnel and product liability claims. If any of such events occurs, our business and financial performance might also be materially and adversely affected.

### **Our failure to obtain or maintain or renew, certain approvals, permits, licences and certificates for the construction of our buildings may have a material adverse effect on our business and operations**

We are required to obtain certain approvals, permits, licences and certificates from various government authorities in order to commence building constructions in the PRC. During the Track Record Period, we failed to obtain the following permits before the commencement of construction of certain buildings, including: (i) the construction land use planning permit for four pieces of lands in our Plant Two; (ii) the construction project planning permit for certain our building with an aggregate gross floor area of approximately 8,119 sq.m.; and (iii) the construction project commencement permit for certain our building with an aggregate gross floor area of approximately 11,981 sq.m.. In addition, as at the Latest Practicable Date, we failed to obtain the relevant construction permits and building ownership certificates for certain of our buildings with an aggregate gross floor area of approximately 3,380 sq.m. on our leased land. For more information, please refer to the sections headed “Business – Legal Non-compliance and Proceedings – (3) Lack of construction permits before the commencement of building construction”, “Business – Legal Non-Compliance and Proceedings – (4) Lease of collectively-owned land for non-agricultural use” and “Business – Properties – Buildings – Owned Buildings – Buildings with Defective Titles” in this prospectus.

In terms of our lack of construction permits, under the relevant PRC laws and regulations, the government authorities could order us to cease construction, rectify such non-compliance within a certain time limit, or pay fines. We may be subject to fines up to approximately RMB1.7 million in total for such non-compliance incidents, based on the construction cost and contractual price of the construction works concerned. The government authorities could also demolish our buildings or confiscate our income derived from the relevant buildings. In terms of our lack of building ownership certificates, according to the relevant PRC laws and regulations and as advised by our PRC Legal Adviser, our rights as owner or occupant of these properties may be adversely affected due to the absence of such building ownership certificates. Also, certain rights including our rights to transfer or lease the buildings and/or to mortgage the buildings may be restricted. In addition, certain approvals, licences, permits and certificates are subject to periodic review and renewal by the government authorities and the standards for compliance may change from time to time. The government authorities may impose more stringent requirements, which may result in our failure to obtain, maintain or renew the approvals, licences, permits and certificates. Any such failure could subject us to fines and other penalties, including cessation of our construction, which could have a material adverse effect on our business, financial condition, results of operation and prospects.

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### **Our lease of certain collectively-owned land for non-agricultural use is prohibited under applicable PRC laws and regulations**

During the Track Record Period and up to the Latest Practicable Date, we leased collectively-owned land for non-agricultural use and according to relevant applicable PRC laws and regulations, such non-agricultural use is prohibited. Pursuant to the lease agreement, the lessor, Dongguang Industrial District Management Committee\* (東光縣工業區管理委員會), would assist us in converting such leased land into state-owned land, thus granting us the land use rights. However, as at the Latest Practicable Date, leased land with a site area of approximately 10,590 sq.m. (the “**Collectively-Owned Area**”) had yet been converted to state-owned land.

As advised by our PRC Legal Adviser, according to the applicable PRC laws and regulations, the PRC Government may require the non-compliance to be rectified or confiscate the income derived from the Collectively-Owned Area or impose fines. Our PRC Legal Adviser further advises us that, due to the uncertainty of the interpretation and implementation of the applicable law, it is uncertain whether as a lessee, we will be subject to any confiscation of income or fines. In addition, as advised by our PRC Legal Adviser, the lease for the Collectively-Owned Area (the “**Lease**”) may be deemed to be null and void under PRC laws due to violation of the relevant applicable PRC laws and regulations and we will not be able to enforce the Lease if the lessor does not perform its obligations under the Lease.

We cannot assure you that the Collectively-Owned Area will be able to be converted into state-owned land and that we will not be subject to any orders from government authorities requiring us to vacate from the Collectively-Owned Area and the buildings erected thereon. If we are ordered to vacate from the Collectively-Owned Area, we may need to incur extra costs in relocating to another location and as a result our business and operation may be interrupted.

On the other hand, long-term leasing of the Collectively-Owned Area is subject to uncertainties. According to the Contract Law of the PRC (中華人民共和國合同法), the term of a property lease agreement shall not exceed 20 years and any period of the lease term beyond such 20-year limitation shall be void. Upon the expiry of the 20-year lease term, the lease agreement shall be enforceable as a periodic tenancy on the premise that the lessee continue to use the leased property and the lessor does not raise objections. In this regard, there is uncertainty with respect to the performance and enforcement of the Lease upon 16 July 2027.

We may be forced to relocate and incur additional costs if the Lease is terminated or materially breached. For more information, please refer to the section headed “Business – Legal Non-compliance and Proceedings – (4) Lease of collectively-owned land for non-agricultural use” in this prospectus.

### **Our non-compliance with certain laws and regulations regarding social insurance and housing provident fund in the PRC could lead to the imposition of fines and penalties on us.**

In accordance with relevant PRC national labour laws and regulations, we are required to contribute to certain employee social welfare schemes including employment injury insurance and housing provident fund. However, during the Track Record Period, we were not in strict compliance with the relevant PRC national labour laws and regulations. For more details of our non-compliance, please refer to the sections headed “Business – Legal Non-Compliance and Proceedings – (1) Failure to make employment injury insurance for employees; and (2) Failure to register housing provident fund account and make housing provident fund contributions for employees” in this prospectus.

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## RISK FACTORS

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For non-compliance of social insurance laws and regulations before 1 July 2011, pursuant to the Interim Regulations Concerning the Levy of Social Insurance Fees (社會保險費徵繳暫行條例) promulgated on and effective from 22 January 1999, the relevant social security authority may order an enterprise to pay the outstanding contributions within a prescribed time limit. If an enterprise fails to do so at the expiration of the time limit, in addition to the outstanding contributions, a late-payment fine of 0.2% per day from the date when the amount became overdue may be imposed. For non-compliance of social insurance laws and regulations on or after 1 July 2011, pursuant to the Social Insurance Law of the PRC (中華人民共和國社會保險法) promulgated on 28 October 2010 and effective as at 1 July 2011, employers are required to contribute, on behalf of their employees, to a number of social insurance funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, employment injury insurance and maternity insurance. If the employer does not pay the full amount of social insurance contribution as scheduled, the social insurance contribution collection institution shall order it to make the payment or make up the difference within a prescribed period and impose a daily surcharge equivalent to 0.05% of the overdue payment from the date when the payment is overdue. If payment is not made within the prescribed period, the relevant administration department shall impose a fine in an amount of between one to three times of the overdue payment. The maximum amount of late charges which may potentially be imposed on us as a result of our non-compliance with the requirements of employment injury insurance is estimated to be approximately RMB0.9 million, nil and nil, as at 31 December 2014, 2015 and 2016, respectively. In April 2015, we have duly paid the late charges in full together with the outstanding amount of the employment injury insurance.

For non-compliance of housing provident fund laws and regulations, pursuant to the Regulations on Administration of Housing Fund (住房公積金管理條例) as amended on and effective from 24 March 2002, enterprises are obliged to pay and deposit housing provident fund for their employees in full amount within a prescribed time limit. If an enterprise fails to deposit the housing provident fund within the time limit or underpays the fund for its employees in accordance with the aforesaid regulations, the housing provident fund authority may order it to deposit the fund within a time limit. If the enterprise fails to pay the outstanding amounts of the housing provident fund in compliance with such order, the housing provident fund authority may apply to the relevant PRC court for the enforcement of the outstanding amount. Other than the outstanding amounts of the housing provident fund, there is no additional late charge as provided in the Housing Provident Regulations. If the enterprise fails to undertake registration of housing provident fund or fails to open housing provident fund account for its employees, housing provident fund authority can order the enterprise to complete such registration procedure within a time limit. If the enterprise fails to do so at the expiration of the time limit, a penalty ranging from RMB10,000 to RMB50,000 may be imposed.

We cannot assure you that we will not be subject to fines or penalties by the relevant PRC authorities for our historical non-compliance. Any such fines or penalties imposed on us could have an adverse effect on our cash flow, business operation and our reputation.

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## RISK FACTORS

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**We may not be successful in identifying, acquiring or merging with suitable business targets, which could adversely affect our growth and revenue.**

Under our plans of expansion, we may establish joint ventures with reputable enterprises or local government to expand into selected markets where appropriate. Such arrangements may be subject to the completion of due diligence, numerous regulatory restrictions and approvals, negotiations of definitive agreements, and our ability to compete with other entities to attract the target parties. As such, there is no assurance that in the future we will be able to identify and enter into arrangements with suitable business partners or acquisition targets on commercially acceptable terms, if at all, or will have sufficient capital to fund such arrangements. Failure in identifying and entering into viable arrangements with suitable targets in the future could adversely affect our growth.

Further, even if we were successful in entering into arrangements with such targets, we cannot assure that the relationships with such partners will result in a positive impact on our revenue, nor can we assure that such arrangements would not be terminated before we can derive all the anticipated benefits. Should that be the case, we may not be able to generate a return on our investment or recover our investment and we may also be forced to incur extra costs in terms of potential compensations or damages for early termination under the relevant contracts, and thus, our business operations and financial condition may be adversely affected.

**Our operations may be adversely affected if any key member of our management leaves.**

Our continued success will depend on the services provided by our management and other qualified and experienced staff. Competition for such talented employees is intense in the industry in which we operate. Our core management teams comprise our executive directors and key senior management as disclosed in the “Directors, Senior Management and Employees” section. If any core management team member leaves and we fail to find suitable substitutes, our business may be adversely affected. Moreover, as our business continues to grow and we expand into other regional markets in the PRC, we will need to employ, train and retain employees on a larger geographical scale. If we cannot attract and retain suitable human resources, our business and prospects will be negatively affected.

**The interests of our Controlling Shareholders may differ from those of our public Shareholders.**

Immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised and taking no account of any Shares which may be allotted and issued pursuant to the exercise of options to be granted under the Share Option Scheme), our Controlling Shareholders will hold approximately 74.19% of our Company’s issued share capital.

Our Controlling Shareholders could, by virtue of its significant ownership of our issued share capital and the position of Mr. Wang, Mr. Sun, Mr. ZS Sun and Mr. Xu in our Board, exercise significant control and exert significant influence over our business or otherwise on matters of significance to us and our other Shareholders by voting at the general meetings of Shareholders and at the Board’s meetings. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. We therefore cannot assure you that our Controlling Shareholders will act in our interests or that conflicts of interest will be resolved in our favour.

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## RISK FACTORS

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**We may be subject to adverse media reports about us or our projects which may contain false or inaccurate information that could materially or adversely affect our business operations and reputation.**

The development of, and future trends in, the urea and coal-based chemical production industry, have been the focus of numerous media reports. As a major coal-based urea producer in the PRC, information about us or our projects appears frequently in various media outlets. Certain of these media reports contain inaccurate information about our Company and our projects. There can be no assurance that there will not be false, inaccurate or adverse media reports about us or our projects in the future. In particular, we may be required to respond or take defensive and remedial actions with regard to such inaccurate or adverse media reports, which may adversely divert our resources and our management's attention and adversely affect our business operations. Moreover, there can be no assurance as to the appropriateness, accuracy, completeness or reliability of any media reports regarding our Company. To the extent that any media reports contain information that is inconsistent or conflict with the information contained in this prospectus, we disclaim them, and investors should not rely on such information in making a decision as to whether to purchase our Shares, and should rely only on the information included in this prospectus.

**Acts of God, acts of war, other disasters and outbreaks of epidemics could affect our business.**

Our business is subject to the general and social conditions in the PRC. Natural disasters, acts of God and other disasters that are beyond our control may materially and adversely affect the economy, infrastructure and livelihood of the people of the PRC. Some cities in the PRC are under the threat of flood, earthquake, sandstorm or drought. Our business, results of operations and financial condition may be materially and adversely affected if these natural disasters occur.

Acts of war and terrorist attacks may cause damage or disruption to us, our employees, facilities, markets, suppliers and customers, any of which may materially and adversely affect our revenue, cost of sales, results of operations, financial condition or Share price. Potential war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot predict.

Moreover, the PRC has, during the past few decades, experienced outbreak of epidemics or influence of viruses, such as severe acute respiratory syndrome (SARS), influenza A (H1N1), avian influenza (H5N1, H7N9 and H10N8) and the outbreak of Zika virus. Any recurrence of such epidemics or other adverse public health problem in the PRC may result in the contraction of such diseases among our employees, which may further cause the suspension of our production and distribution of our coke and coal-based chemical products. In addition, the public transportation may be disrupted by the outbreak of public health problem, which may result in the restriction of our ability to arrange delivery of our coking products to our customers in the PRC. In the event that our suppliers and customers are also materially affected by the outbreak of public health problem, our urea production and sales may be significantly interrupted. Although our business operations were not historically affected by the outbreak of epidemics, we cannot assure you that our business operations will not be materially affected by public health problem in the future.

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## RISK FACTORS

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### RISKS RELATING TO OUR INDUSTRY

#### **Changes in taxation policies of chemical fertilisers may materially and adversely affect our operating results.**

The PRC chemical fertiliser industry had once enjoyed preferential taxation policies which significantly assisted us in achieving higher net profit. According to the Notice of Temporary Exemption of VAT for Urea (關於暫免徵收尿素產品增值稅的通知) jointly issued by the MOF and the State Administration of Taxation on 23 May 2005, fertiliser producers, including us, were entitled to full VAT exemption on urea products. However, pursuant to the Notice on the Policies on Resuming the VAT Levy on Fertilisers (關於對化肥恢復徵收增值稅政策的通知) jointly promulgated by the MOF, the General Administration of Customs and the State Administration of Taxation on 10 August 2015 and which came into effect on 1 September 2015, companies selling and importing chemical fertilisers shall be subject to 13% VAT. As urea is a commodity, its prevailing market prices are typically determined by both supply and demand. According to Frost & Sullivan, at the time of cancellation of the VAT exemption in September 2015, there was an oversupply of urea products from small-sized and inefficient urea producers. Due to the then temporary oversupply, urea price was kept at a low level, making it difficult for the urea producers to pass on the increased VAT costs to their customers by immediately raising their selling prices of urea products. The market price of urea remained at a low level until the supply and demand has gradually rebalanced in the second half of 2016, which was largely due to the phasing out of small-sized and inefficient urea producers. As a result, the joint effect of the increase in VAT costs and a low price level across 2015 and 2016 had a significant impact on our gross profits and depending on the market price of urea, such impact may continue in the future. Assuming that the 13% VAT had been applicable to the sales of urea from 1 January 2014, we would have paid additional taxation in the amount of approximately RMB70.6 million and RMB95.1 million for the years ended 31 December 2014 and 2015, respectively, accounting for approximately 30% and 21% of our total gross profits for the same periods. The amount of VAT paid by our Group for the year ended 31 December 2016 is calculated by deducting the input VAT calculated based on the raw material costs incurred for the production of urea from the output VAT calculated based on the revenue derived from the sales of urea for the year ended 31 December 2016. We applied such calculation to determine the additional tax which would have been payable for the years ended 31 December 2014 and 2015 on the assumption that the 13% VAT had been applicable to the sales of urea from 1 January 2014. This and any future similar changes will likely to impose negative impact on our Group's profit margins. Therefore, our Group's profitability for the year ended 31 December 2014 and 2015 may not be comparable to that in future periods.

While we do not have direct overseas customers, during the Track Record Period, some of our urea products were exported to overseas markets by our trading customers. We regarded such trading customers as our end-customers. The PRC Government may change its export taxation policies to control the chemical fertiliser export in the PRC. According to the Circular of the Customs Tariff Commission of the State Council ("CTCSC") on the Tariff Application Program in 2014 which took effect on 27 December 2013, the export tariffs on urea was RMB40 per tonne in the off-season (from July to October) and was 15% plus RMB40 per tonne in the busy season (from January to June). According to the Circular on the Tariff Implementation Plan for 2015 promulgated by CTCSC and Announcement on the Implementing Proposals for Tariffs in 2016 promulgated by the General Administration of Customs, the export tariff on urea shall be RMB80 per tonne. On 19 December 2016, the State Council promulgated the Tariff Adjustment Plan 2017 (2017年關稅調整方案) which came into effect on 1 January 2017, under which the flat export tariff of RMB80 per tonne for urea products was abolished.

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In the future, the PRC Government may further change the VAT policies applicable to fertiliser industry or change its export taxation policies in respect of other chemical fertiliser products, such as urea, to control their import and export. If such changes to policies occur, our sales and result of operations may be materially and adversely affected.

**If the popularity of urea fertilisers are reduced as a result of increased usage of other types of fertilisers, we may experience a material and adverse influence on our financial performance.**

Urea, our major product, is itself a fertiliser and is used in the production of compound fertilisers, which are the primary fertilisers used in the agriculture industry at this time. If urea fertilisers face substantial competition from other types of fertilisers, the demand of urea fertilisers would decrease and thus our revenue and profit would be materially and adversely affected.

**The urea industry we operate in is highly competitive.**

The urea industry we operate in is characterised as highly competitive and we compete with a number of domestic urea producers. Certain of our competitors may have greater financial, research and other resources, access to proprietary technology, greater expertise and more extensive technical capabilities, greater pricing flexibility and name recognition. In addition, more specialised urea producers with greater financial resources may enter our market in the future. Our ability to compete successfully in the urea 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.

**Seasonality and unexpected adverse weather conditions may materially and adversely affect our operating results.**

Our major product is urea, the price of which is affected by weather conditions and the seasonal nature of fertiliser applications, as agricultural use constituted approximately 76% of the total urea consumption in China in 2016, according to Frost & Sullivan. The demand of urea driven by agricultural use is usually stronger in the Winter and Spring than that in the Summer and Autumn. For example, the average retail price of urea in North China reached its annual lowest level at approximately RMB1,022 per tonne in August 2016 and consecutively increased in each month from August to December and achieved RMB1,276 per tonne in December 2016. Different crops are grown in different regions in the PRC during different seasons, and different regions exhibit various seasonal demands for fertiliser products. The demand for our urea products as well as our revenues and operation results are also influenced by these seasonal demands. Although the majority of our revenues were driven by industrial use during the Track Record Period, we still generated a material portion of our revenues from sales for agricultural use, which accounted for approximately 46.4%, 42.3% and 30.6%, respectively, of our total revenues for the years ended 31 December 2014, 2015 and 2016. Accordingly, due to the weather-related shifts in planting schedules and the sales pattern, our quarterly performance may vary dramatically from one quarter to the next quarter. The unexpected adverse weather conditions may materially and adversely affect the sales of our fertiliser products and thus affect our operation results.



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

Our growth depends on the stable demand for our urea products in the relevant sectors, in particular, the rapid growth of urea demands for industrial use. 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 urea products and urea production processes. If there is a change in market preference or if we fail to keep pace with urea production technology changes, we may not be able to achieve the growth as expected and our business may be adversely affected.

### **RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC**

Most of our assets and operations are in the PRC, and substantially all of our revenue is derived from our operations in the PRC. Accordingly, our future business, results of operations, financial condition and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC, including the following risks:

**Changes in PRC's political and economic policies and social conditions may affect our business and results of operations and may result in our inability to sustain our growth and expansion strategies.**

The PRC economy has largely been a centrally planned economy, which differs from other developed economies of the world in many respects, including:

- its structure;
- the level of governmental involvement;
- the level of development;
- its growth rate;
- the control of foreign exchange; and
- the allocation of resources.

The PRC economy has been transitioning from a planned economy to a more market oriented economy. The PRC Government has, since 1978, implemented economic reform measures emphasising utilisation of market forces in the development of the PRC economy and is continuing to play a significant role in regulating industries by imposing industrial policies.

We cannot, however, predict whether changes in the political, economic and social conditions and policies in the PRC, or in the relevant laws and regulations, will have any material adverse effect on our current or future business, results of operations, financial condition and prospects.

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Our ability to successfully expand our business operations in the PRC depends on a number of factors, including macro-economic and other market conditions, and credit availability from lending institutions. The PRC Government from time to time may change the benchmark interest rates and impose commercial bank lending guidelines that had the effect of restricting loans to certain industries in order to adjust the rate of growth of the PRC economy and economies of local areas within the PRC. Certain of these measures promulgated by the PRC Government may have a material adverse effect on our results of operations, financial condition and our ability to, inter alia, obtain financing, thus limiting our expansion. We cannot assure you that the PRC Government will not implement any additional measures to tighten lending, or that, if any such measure is implemented, it will not have a material adverse effect on our future results of operations or profitability. Furthermore, we cannot assure you that our historical economic and market conditions will continue, or that we will be able to sustain our growth.

**We may be subject to penalties, including restriction on our PRC subsidiaries' ability to distribute profits to us, if our PRC resident shareholders or beneficial owners fail to comply with relevant PRC foreign exchange regulations.**

SAFE issued Circular 37 which took effect on 4 July 2014 to replace Circular 75. Circular 37 requires PRC residents, including PRC individuals and institutions, to register with SAFE or its local branches before it injects assets or equity interests in an offshore special purpose vehicle which is directly established or controlled by the PRC residents for the purpose of overseas investment and financing. In addition, such PRC residents must update their foreign exchange registrations with SAFE when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, share transfers or exchanges, or mergers or divisions.

On 13 February 2015, SAFE issued Circular 13, which has simplified the registration requirements of Circular 37 by allowing PRC residents or institutions to register with designated banks rather than SAFE or its local branches in terms of the foreign exchange registration of offshore entities established or controlled by the PRC residents for the purpose of overseas investment and financing.

If any shareholder holding interest in an offshore special purpose vehicle, who is a PRC resident as determined by Circular 37, fails to fulfill the foreign exchange registration requirements, the PRC subsidiaries of that offshore special purpose vehicle may be prohibited from distributing their profits and dividends to their offshore parent company or from carrying out other subsequent cross-border foreign exchange activities, and the offshore special purpose vehicle may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

Due to the uncertainty concerning the reconciliation of the new notices with other approval requirements, it remains unclear how the Circular 37 and any future legislation concerning offshore investment or cross-border transactions will be interpreted, amended and implemented by the relevant PRC Government. Any failure by our PRC Shareholders to make the registrations and updates as required by under Circular 37 may result in the prohibition of distributions or contributions from capital reductions, share transfers or liquidations of our PRC subsidiaries and

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may affect our ownership structure, acquisition strategy, business operations and ability to make dividend payments to our Shareholders. Furthermore, failure to comply with the abovementioned SAFE registration requirements could result in liability under PRC laws for evasion of foreign exchange controls. As such, our business, financial conditions, results of operations and liquidity as well as our ability to pay dividends or make other distributions to our Shareholders may be materially and adversely affected.

**Rules and regulations in the PRC on investment and loans by offshore holding companies to PRC subsidiaries may delay or prevent us from using the proceeds from the Global Offering to make additional capital contributions or loans to our PRC subsidiaries, which could harm our liquidity and our ability to expand our business.**

As an offshore holding company of our PRC operating subsidiaries, we may make loans, additional capital contributions to our PRC subsidiaries or a combination thereof. Any loans to our PRC subsidiaries are subject to PRC laws and regulations and approvals. For example, loans from us to our wholly owned PRC subsidiaries, which are foreign-invested enterprises, to finance their activities cannot exceed statutory limits and our PRC subsidiaries shall register the relevant crossborder financing agreements with the capital account information system of SAFE within the period from the execution date to the date which is three business days prior to date of withdrawal. In addition, any capital contributions to our PRC subsidiaries must be approved by MOFCOM or its local branches.

There can be no assurance that, in relation to all future loans or capital contributions by us to our PRC subsidiaries, we will be able to complete all required government registrations or obtain all necessary approvals in a timely manner or at all. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds from the Global Offering may be affected, which may in turn materially and adversely affect our liquidity and our ability to fund and expand our business.

Pursuant to Circular 19, which was promulgated by SAFE on 30 March 2015 and became effective on 1 June 2015 and Circular 16, which was promulgated by SAFE and became effective on 9 June 2016, foreign-invested enterprises shall be allowed to settle foreign exchange capital on a discretionary basis. Furthermore, where foreign-invested enterprises are engaged in equity investment in the PRC, they shall comply with the regulations on reinvestment in the PRC. It is uncertain how the PRC authorities will interpret, apply and enforce Circular 19 and Circular 16 and whether these regulations will be effective in unlocking the restrictions on foreign exchange capital settlement.

**Restrictions on currency exchange may limit our ability to utilise our revenue effectively.**

Substantially all of our revenue and operating expenses are denominated in Renminbi, which is currently not a freely convertible currency. The PRC Government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under our structure, our source of funds will primarily consist of dividend payments from our PRC subsidiaries and other payments. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other amounts to us, or to satisfy their foreign currency denominated obligations.

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Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate PRC Government authorities is required where Renminbi are to be converted into foreign currency and remitted out of China to pay capital account items, such as the repayment of bank loans denominated in foreign currencies.

Currently, our PRC subsidiaries may purchase foreign exchange for settlement of current account transactions, including payment of dividends to us, without the prior approval of SAFE. Our PRC subsidiaries may also retain foreign exchange in their current accounts to satisfy foreign exchange liabilities or to pay dividends. Since foreign exchange transactions on the capital account are still subject to limitations and require approval from SAFE, this could affect our subsidiaries' ability to obtain required foreign exchange through equity financing, including by means of capital contributions from us. We also cannot assure you that the PRC Government will not impose further restrictions on the convertibility of the Renminbi.

### **We are subject to risks presented by fluctuations in foreign currencies.**

Most of our revenue is generated from our PRC operating subsidiaries and denominated in Renminbi. From 1994 until 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set by the PBOC. The PRC Government has, with effect from 21 July 2005, reformed the exchange rate regime by permitting Renminbi to fluctuate within a narrow and managed band based on market supply and demand with reference to a basket of currencies. Such revaluation resulted in Renminbi appreciating against the U.S. dollar and Hong Kong dollar by approximately 2% on the same day. The PRC Government has since made further adjustments to the exchange rate system. Any appreciation of Renminbi may result in the decrease in the value of foreign currency-denominated assets. Conversely, any depreciation of Renminbi may adversely affect our business, results of operations and financial condition, and the value of, and any dividends payable on, our Shares in foreign currency terms.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risks. In any event, the availability and effectiveness of these hedges may be limited and we may not be able to hedge our exposure successfully, or at all.

### **Our Company is a holding company that relies on dividend payments from our subsidiaries for funding.**

We are a holding company incorporated in the Cayman Islands and operate our core business primarily through our subsidiaries in the PRC. Therefore, the availability of funds to pay dividends to our Shareholders and to service our indebtedness depends on dividends received from these subsidiaries. If our subsidiaries incur any debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends or other distributions and to service our indebtedness will be restricted.

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PRC laws require that dividends be paid only out of the net profit calculated according to PRC's generally accepted accounting principles, which differ from those in other jurisdictions, including Hong Kong Financial Reporting Standards. PRC laws also require foreign-invested PRC enterprises and PRC incorporated companies, such as our PRC subsidiaries, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends.

In addition, restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future, if any, may also restrict the ability of our PRC subsidiaries to make distributions to us. Therefore, these restrictions on the availability and usage of our major source of funding may affect our ability to pay dividends to our Shareholders and to service our indebtedness.

**The PRC legal system is less developed than legal systems in certain other jurisdictions and embodies inherent uncertainties that could limit the legal protection available to us and to our shareholders.**

As all of our operations are conducted, and substantially all of our assets are located, in the PRC, our business is generally affected by and subject to the PRC legal system and PRC laws and regulations. The PRC legal system is based, in part, on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC Government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, due to the reason that these laws and regulations have not been fully developed, and due to the limited number of published cases and the non-binding nature of prior court decisions, interpretation and enforcement of these PRC laws and regulations involve uncertainties. Interpretations of laws and regulations may differ depending on the way an application or case is presented to a PRC Government agent, as well as to which PRC Government agent such application or case is being presented. We cannot assure that we will receive the same, or more favourable, interpretations of laws and regulations as our competitors.

In addition, the PRC legal system is based, in part, on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. Further, the PRC legal system includes restrictions on and penalties, including criminal liability, relating to various activities that may not have appeared to violate any policies or rules at the time such activities were undertaken, or which may cause us to be deemed in violation of certain policies or rules based on the actions of our counterparties in various transactions, even if we were not aware of whether our counterparties were acting in compliance with applicable PRC laws and regulations. As a result, we may not be aware of actual or deemed violations of such policies and rules until some time after such violations take place. Furthermore, any litigation we undertake in the PRC, regardless of its outcome, may be protracted and result in substantial cost to us and diversion of both our resources and management attention.

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### **The application of PRC enterprise income tax laws on our Group is unclear.**

Under the EIT Law and its Implementation Rules issued on 6 December 2007 effective 1 January 2008, if an enterprise incorporated outside the PRC has its “de facto management organization” located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and thus may be subject to EIT at the rate of 25% on its worldwide income. Under the Implementation Rules of the EIT Law, a “de facto management body” is defined as a body that has real and overall management control over the business, personnel, accounts and properties of an enterprise. Although the Implementation Rules provide a definition of “de facto management organization”, such definition has not been tested and there remains uncertainty as to the circumstances under which a non-PRC enterprise’s de facto management organization is considered to be located in the PRC. We may be deemed a PRC tax resident enterprise and therefore subject to a EIT rate of 25% on our worldwide income because a majority of the members of our management are located in China.

Moreover, under the EIT Law, if we are categorised as a PRC tax resident enterprise, our Shareholders may be subject to a 10% withholding tax, or a withholding tax of a lower tax rate according to relevant bilateral tax convention, on dividends payable by us and gains realised on the sale or other disposition of our Shares.

The EIT Law also provides that qualified dividends received by a PRC tax resident from another PRC tax resident are exempt from EIT. However, given the short history of this law, it remains unclear as to the detailed qualification requirements for such exemption and whether the dividends which we receive indirectly from our PRC subsidiaries will be exempt from EIT if we are recognised as a PRC tax resident enterprise.

### **Our Shareholders’ Gains on the sales of Shares and dividends on the Shares may be subject to PRC income taxes.**

Under the EIT Law, a PRC withholding tax at the rate of 10% is applicable to dividends payable by “PRC tax resident enterprises” to investors that are “non-PRC residents”, which refers to investors that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their source within the PRC. Similarly, any gain realised on the transfer of shares of “PRC tax resident enterprises” by such investors is also subject to PRC income tax, usually at a rate of 10% unless otherwise reduced or exempted by relevant tax treaties or similar arrangements, if such gain is regarded as income derived from sources within the PRC. We are a holding company incorporated in the Cayman Islands and substantially all of our operations are in the PRC. There is uncertainty as to whether we will be considered a “PRC tax resident enterprise” for the purpose of the EIT Law. As a result, it is unclear whether dividends paid on our Shares, or any gain realised from the transfer of our Shares, would be treated as income derived from sources within the PRC and would as a result be subject to PRC income tax. If we are considered a “PRC tax resident enterprise”, then any dividends paid to our Shareholders that are “non-PRC residents” and any gains realised by them from the transfer of our Shares may be regarded as income derived from PRC sources and, as a result, would be subject to a 10% PRC income tax, unless otherwise reduced or exempted. It is unclear whether, if we are considered a “PRC tax resident enterprise”, our Shareholders would be able to claim the benefit of income tax treaties or agreements entered into between PRC and other countries or regions. If dividends payable to our non-PRC Shareholders that are “non-PRC residents”, or gains from the transfer of our Shares are subject to PRC tax, the value of such non-PRC Shareholders’ investment in our Shares may be materially and adversely affected.

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## RISK FACTORS

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**We face uncertainty with respect to the indirect transfers of equity interests in our PRC resident enterprises through transfers made by our non-PRC holding companies.**

On 3 February 2015, the State Administration of Taxation promulgated the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (“**Circular 7**”), which replaced certain provisions in the Notice on Strengthening the Administration of Enterprise Income Tax on Equity Transfers of Non-resident Enterprises (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) (“**Circular 698**”). Circular 7 provided comprehensive guidelines relating to, and also heightened the Chinese tax authorities’ scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise (the “**Chinese Taxable Assets**”). For example, Circular 7 stated that where a non-resident enterprise transfers Chinese Taxable Assets indirectly by disposing of equity interests in an overseas holding company which directly or indirectly holds such Chinese Taxable Assets, and such transfer is considered to be for the purpose of avoiding EIT payment obligations and without any other bona fide commercial purpose, the transfer may be regarded by the Chinese tax authorities as a direct transfer of Chinese Taxable Assets. Although Circular 7 contains certain exemptions, it is unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares or to any future acquisition by us outside of China involving Chinese Taxable Assets, or whether the Chinese tax authorities will apply Circular 7 to such transaction. Therefore, the Chinese tax authorities may deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisitions by us outside of China involving Chinese Taxable Assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional PRC tax reporting obligations or tax liabilities.

**You may experience difficulty in effecting service of legal process and enforcing judgements against us and our management.**

A majority of our assets are located in the PRC. Most of our Directors and senior management reside in the PRC. Accordingly, it may be difficult for investors to effect service of process within the United States, the United Kingdom, the BVI, the Cayman Islands or other countries upon our management who reside in the PRC or us, or to enforce judgements obtained from non-PRC courts against, our management who reside in the PRC or us.

Furthermore, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements awarded by courts in the United States, the United Kingdom, the BVI, the Cayman Islands and most other western countries. Hence, the recognition and enforcement in the PRC of judgements of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

**If we are unable to offset increased labour costs, our business could be materially and adversely affected.**

As at 30 April 2017, most of our employees are located in China. As a result of macroeconomic and other policies of the PRC Government, the average wages paid for manufacturing labour in China have risen recently and may continue to rise. Our business, results of operations and financial condition could be materially and adversely affected if we are unable to offset the increase in our labour costs or pass along these increased labour costs to customers.

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## RISK FACTORS

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On 29 June 2007, the Standing Committee of the National People's Congress of China enacted a new labour law, namely the Labour Contract Law of the PRC (《劳动合同法》), or the Labour Contract Law, which became effective on 1 January 2008 as amended on 28 December 2012. The Labour Contract Law imposes more onerous requirements in terms of the signing labour contracts, payment of remuneration, stipulating probation and penalties and dissolving labour contracts. It also requires the terms of employment contracts to be in writing within one month of the commencement of an employment relationship, which may make hiring temporary workers more difficult. As a result of these new regulations which are designed to enhance labour protection, we expect our labour costs to increase, as the continued success of our business depends significantly on our ability to attract and retain qualified personnel. In the event that we decide to change our employment or labour practices, the Labour Contract Law and its implementation rules may also limit our ability to effect those changes in a manner that is most advantageous to us or in a timely and cost-effective manner. In addition, as the interpretation and implementation of these new regulations are still evolving, our employment practice may not at all times be deemed in compliance with the new regulations. If we are subject to severe penalties or incur significant liabilities in connection with labour disputes or investigations, our business and results of operations may be adversely affected.

### **RISKS RELATING TO THE GLOBAL OFFERING**

**As there has been no prior public market for our Shares before the Listing, the liquidity and market price of our Shares following the Listing may be volatile.**

Before the Listing, there has been no public market for our Shares. The Offer Price for our Shares will be the result of negotiations between the Sole Global Coordinator (on behalf of the Underwriters) and us, which may differ from the market prices of our Shares after the Listing. We have applied to the Stock Exchange for the listing of, and permission to deal in, our Shares. However, being listed on the Stock Exchange does not guarantee that an active and liquid public trading market for our Shares will develop, or that if it does develop, it will be sustained after the Listing or that the market price of our Shares will not decline below the Offer Price. The market price, liquidity and trading volume of our Shares may be volatile and could result in substantial losses for investors purchasing the Offer Shares in the Global Offering.

Factors that may affect the volume and price at which our Shares will be traded include, among other things, variations in our revenue, earnings, cash flows, announcements of new investments and changes in laws and regulations in China. We can give no assurance that these developments will not occur in the future.

**Since there will be a gap of several days between pricing and trading of our Offer Shares, holders of our Offer Shares are subject to risk that the market price of our Offer Share could be lower than the offer price.**

The Offer Price of our Offer Shares is expected to be determined on the Price Determination Date. However, our Offer Shares will not commence trading on the Stock Exchange until the Listing Date. Investors may not be able to sell or otherwise deal in our Offer Shares during that period. As a result, holders of our Offer Shares are subject to the risk that the price of our Offer Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that may occur between the Price Determination Date and the time when trading of our Offer Shares begins.



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## RISK FACTORS

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**Our historical dividend payments should not be taken as an indication of our future dividend policy or our payment of dividends in the future.**

We may distribute dividends by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval.

The Board will review dividend policy from time to time in light of various factors such as our financial results, our Shareholders' interests, general business conditions and strategies, our capital requirements, contractual restrictions on the payment of dividends and other factors the Board may deem relevant in determining whether dividends are to be declared and paid.

Our Company and our subsidiaries have paid dividends in the past. For further information, please refer to the section headed "Financial Information – Dividend Policy" in this prospectus. Any historical dividend payment should not be regarded as an indication of future dividend policy or our payment of dividends in the future.

**The sale of substantial number of our Shares by our existing Shareholders could have a material adverse effect on our Share price.**

Future sales of a substantial number of Shares by our Shareholders in the public markets could materially and adversely affect market prices of our Shares prevailing from time to time. The Shares held by our Controlling Shareholders are subject to certain lock up restrictions, details of which is set out in the section headed "Underwriting – Underwriting arrangements and expenses – Undertakings" in this prospectus. Nevertheless, after these restrictions lapse or if they are waived or breached, future sales of a substantial number of our Shares, or the perception that these sales may occur, could materially and adversely affect the market prices of our Shares and our ability to raise equity capital in the future.

**You will incur immediate and substantial dilution and may experience further dilution in the future.**

As the Offer Price of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution. In addition, we may issue additional Shares or equity-related securities in the future under share option scheme or to raise additional funds, finance acquisitions or for other purposes. If we issue additional Shares or equity-related securities in the future, the percentage ownership of our existing Shareholders may be diluted. In addition, such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

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## RISK FACTORS

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**Certain facts, forecasts and statistics in this prospectus relating to the PRC, the PRC economy and the industry in which we operate are derived from various government or official sources and may not be fully reliable.**

Facts and statistics relating to the PRC economy and the industry in which we operate contained in this prospectus have been compiled from various publicly available official publications and industry-related sources which we have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, we cannot guarantee the quality or reliability of official publications and sources. In addition, statistics derived from official sources may not be prepared on a comparable basis. While we believe that the sources of the information are appropriate sources and have taken reasonable care in extracting and reproducing such information, they have not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, nor any of their or our affiliates or advisors. We cannot assure that such facts and statistics are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

Due to possibly flawed or ineffective collection methods or discrepancies between official publications and market practice and other problems, the statistics herein may be inaccurate or may be incomparable to statistics produced for other economies and should not be unduly relied upon. Furthermore, we cannot assure you that they are stated or compiled on the same bases or with the same degree of accuracy, as may be the case in other countries. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics.

**We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.**

Before the publication of this prospectus, there may be press and media coverage which contains certain information regarding the Global Offering and us that is not set out in this prospectus. We have not authorised the disclosure of such information in any press or media. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no presentation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any such information.

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## WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

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

### WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES

Rule 8.12 of the Listing Rules provides that a new applicant applying for a primary listing on the Stock Exchange must have sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. The core business and operations of our Company are primarily located, managed and conducted in the PRC and substantially all of our Group's assets are based in the PRC. All of our executive Directors are ordinarily based in the PRC and our Group does not and, in the foreseeable future, will not have any management presence in Hong Kong.

In view of that, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from the compliance with Rule 8.12 of the Listing Rules.

In order to ensure that regular communication is effectively maintained between the Stock Exchange and our Company, we will put in place the following measures:

- (a) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Company's principal channel of communication with the Stock Exchange and ensure that our Company complies with the Listing Rules at all times. The two authorised representatives are Mr. Wang, an executive Director, and Mr. Cheng Shing Hay, the company secretary of our Company. Mr. Wang holds valid travel documents to visit Hong Kong and Mr. Cheng Shing Hay is a holder of Hong Kong permanent identity card and is ordinarily resident in Hong Kong. In addition, Mr. Sun, is appointed as the alternate to the two authorised representatives. Each of the authorised representatives will therefore be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and e-mail (if applicable). Each of the two authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange;
- (b) each of the authorised representatives has means to contact all members of the Board promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. In order to further enhance the communication between the Stock Exchange, our authorised representatives and our Directors, our Company will implement the policies that:
  - (i) each Director will provide his office phone number, mobile phone number, fax number and e-mail address to the authorised representatives and his respective alternate; and
  - (ii) in the event that a Director expects to travel and be out of office, he will provide the phone number of the place of his accommodation to the authorised representatives and his respective alternate;

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## WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

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- (c) all our Directors have confirmed that they possess valid travel documents to visit Hong Kong for business purposes and would be able to come to Hong Kong and meet the Stock Exchange upon reasonable notice;
- (d) we will appoint KGI Capital Asia Limited as our compliance adviser upon Listing pursuant to Rule 3A.19 of the Listing Rules. The compliance adviser will act as the alternate channel of communication with the Stock Exchange when our authorised representatives are not available. The compliance adviser will have access at all times to the authorised representatives (including the alternative authorised representative), the Directors and senior management of our Company to ensure that it is in a position to provide prompt responses to any queries or request from the Stock Exchange in respect of our Company; and
- (e) in addition, all Directors will provide their mobile phone numbers, office phone numbers, fax numbers and e-mail addresses to the Stock Exchange to ensure that they will be readily contactable when necessary to deal promptly with enquiries from the Stock Exchange.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY STATEMENT**

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

### **INFORMATION ON THE GLOBAL OFFERING**

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out in this prospectus and the Application Forms. 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 in this prospectus must not be relied upon as having been authorised by us, 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 parties 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 in the relevant Application Forms.

### **RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES**

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit an offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any 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 sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption from the authorities.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attached to them). None of us, 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 parties involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise or any rights in relation to, our Shares.

### REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal register of members will be maintained by its principal registrar, Conyers Trust Company (Cayman) Limited, in the Cayman Islands and our Company's branch register of members will be maintained by its Hong Kong branch registrar, Tricor Investor Services Limited in Hong Kong.

Dealings in the Shares will be subject to Hong Kong stamp duty. Hong Kong stamp duty will be charged on the sale and purchase of Shares only, at the current rate of 0.2% of the consideration for, or (if greater) the value of, the Shares being sold or purchased, whether or not the sale or purchase is on or off the Stock Exchange.

No stamp duty is payable by applicants in the Global Offering.

### APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Offer Shares being offered under the Global Offering (including the additional Offer Shares which may be made available under the exercise of the Over-allotment Option), Shares, up to 10% of the Shares in issue as at the Listing Date, which may be issued on the exercise of any options which may be granted under the Share Option Scheme, and the Remuneration Shares to be issued as referred to in the section headed "Directors and Senior Management – Senior Management" in this prospectus.

Save as disclosed herein, none of the Shares are listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Companies (WUMP) Ordinance, any allotment made in respect of any application will be void if the listing of, and permission to deal in, our Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants in 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, and permission to deal in, the Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Placing Agreement relating to the International Placing is expected to be entered into on or around the Price Determination Date, subject to agreement on pricing of the Offer Shares between the Sole Global Coordinator (on behalf of the Underwriters) and our Company. The Global Offering is managed by the Sole Global Coordinator.

**If, for any reason, the Offer Price is not agreed, the Global Offering will not proceed and will lapse.** For further information about the Underwriters and the underwriting arrangements, please see the section headed “Underwriting” in this prospectus.

### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

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

### STABILISATION AND OVER-ALLOTMENT

Details of the arrangement relating to stabilisation and Over-allotment Option are set out in “Structure of the Global Offering” in this Prospectus.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in HK\$ has been translated, for illustration purposes only, into RMB in this prospectus at the following rate:

HK\$1 : RMB0.87

HK\$1 : US\$0.13

The exchange rate between HK\$ and RMB was set by PBOC for foreign exchange transactions prevailing as at the Latest Practicable Date. No representation is made that any amounts in RMB or HK\$ can be or could have been at the relevant dates converted at the above rates or any other rates, or at all.

### ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments/are rounded to one decimal place. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

### WEBSITE

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



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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
<b>Executive Directors</b>		
Mr. Wang Zhihe (王治河)	Room 302, Unit 3, Block 2 Huafei Cang Jiashou Yuan Nanwaihuan Road Dongguang Town Dongguang County Cangzhou, Hebei Province PRC	Chinese
Mr. Sun Yi (孫毅)	Room 302, Unit 1, Block 3 Shuiwu Jujiashu Yard South Huan Cheng Road Dongguang Town Dongguang County Cangzhou, Hebei Province PRC	Chinese
Mr. Sun Zushan (孫祖善)	Suite 4, Huafei Cang Jiashou Yuan Nanwaihuan Road Dongguang Town Dongguang County Cangzhou, Hebei Province PRC	Chinese
Mr. Xu Xijiang (徐希江)	Room 202, Unit 2, Block 2 Jinlongxiaoqu Nanwaihuan Road Dongguang Town Dongguang County Cangzhou, Hebei Province PRC	Chinese

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
<b>Independent non-executive Directors</b>		
Ms. Lin Xiuxiang (林秀香)	No. 601, Unit 3, Block 3 9 Yuyuantan South Road Haidian District, Beijing PRC	Chinese
Mr. Liu Jincheng (劉金成)	No. 301, Unit 2, Block 26 Yangang Small District Yucai Street, Yuhua District Shijiazhuang PRC	Chinese
Mr. Ng Sai Leung (吳世良)	Room 37H, Block 15 South Horizons Ap Lei Chau Hong Kong	Chinese

For further information regarding our Directors, please refer to the section headed “Directors and Senior Management” in this prospectus.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

**Sole Sponsor and Sole Global  
Coordinator**

KGI Capital Asia Limited  
41/F, Central Plaza  
18 Harbour Road, Wanchai  
Hong Kong

**Joint Bookrunners and  
Joint Lead Managers**

KGI Capital Asia Limited  
41/F, Central Plaza  
18 Harbour Road, Wanchai  
Hong Kong

Guotai Junan Securities (Hong Kong) Limited  
27/F, Low Block, Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

**Co-Managers**

VC Brokerage Limited  
28/F, The Centrium  
60 Wyndham Street, Central  
Hong Kong

Dongxing Securities (Hong Kong) Company  
Limited  
6805-6806A, International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

**Legal Advisers to our Company**

*as to Hong Kong law:*  
Chiu & Partners  
40/F, Jardine House  
1 Connaught Place, Central  
Hong Kong

*as to PRC law:*  
Tian Yuan Law Firm  
10/F, CPIC Plaza, No. 28  
Fengsheng Lane, Xicheng District, Beijing  
PRC

*as to Cayman Islands law:*  
Conyers Dill & Pearman  
Cricket Square  
PO Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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<b>Legal Advisers to the Sole Sponsor and the Underwriters</b>	<i>as to Hong Kong law:</i> DLA Piper Hong Kong 17/F, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong  <i>as to PRC law:</i> Commerce & Finance Law Offices 6/F, NCI Tower A12 Jianguomenwai Avenue Chaoyang District, Beijing PRC
<b>Reporting Accountants and Auditors</b>	BDO Limited 25th Floor, Wing On Centre 111 Connaught Road Central Hong Kong
<b>Property Valuer</b>	Jones Lang LaSalle Corporate Appraisal and Advisory Limited 6/F, Three Pacific Place 1 Queen's Road East Hong Kong
<b>Industry Consultant</b>	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. 1018, Tower B 500 Yunjin Road Shanghai, 200232 PRC
<b>Compliance Adviser</b>	KGI Capital Asia Limited 41/F, Central Plaza 18 Harbour Road, Wanchai Hong Kong
<b>Receiving Bank</b>	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office in the Cayman Islands</b>	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Headquarters in the PRC</b>	Chengdong Industrial Zone Dongguang County Hebei Province PRC
<b>Principal place of business in Hong Kong</b>	Unit 1201-5, China Resources Building No. 26 Harbour Road Wanchai Hong Kong
<b>Company website</b>	<a href="http://www.dg-chemical.com">www.dg-chemical.com</a> <i>(information contained in this website does not form part of this prospectus)</i>
<b>Company secretary</b>	Mr. Cheng Shing Hay, <i>HKICPA (non-practising)</i> , CAANZ Unit 1201-5, China Resources Building No. 26 Harbour Road Wanchai Hong Kong
<b>Authorised representatives</b> (for the purpose of the Listing Rules)	Mr. Wang Zhihe Room 302, Unit 3, Block 2 Huafei Cang Jiashou Yuan Nanwaihuan Road Dongguang Town Dongguang County Cangzhou, Hebei Province PRC  Mr. Cheng Shing Hay Unit 1201-5, China Resources Building No. 26 Harbour Road Wanchai Hong Kong  <i>alternate to the authorised representatives</i> Mr. Sun Yi Room 302, Unit 1, Block 3 Shuiwu Jujiashu Yard South Huan Cheng Road Dongguang Town Dongguang County Cangzhou, Hebei Province PRC

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## CORPORATE INFORMATION

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<b>Authorised representatives</b> (for the purpose of the Companies Ordinance)	Mr. Cheng Shing Hay Unit 1201-5, China Resources Building No. 26 Harbour Road Wanchai Hong Kong
<b>Audit Committee</b>	Mr. Ng Sai Leung ( <i>Chairman</i> ) Ms. Lin Xiuxiang Mr. Liu Jincheng
<b>Remuneration Committee</b>	Ms. Lin Xiuxiang ( <i>Chairlady</i> ) Mr. Liu Jincheng Mr. Sun Yi
<b>Nomination Committee</b>	Mr. Wang Zhihe ( <i>Chairman</i> ) Ms. Lin Xiuxiang Mr. Liu Jincheng
<b>Corporate Governance Committee</b>	Mr. Ng Sai Leung ( <i>Chairman</i> ) Mr. Sun Yi Ms. Lin Xiuxiang
<b>Principal Share Registrar and Transfer Office</b>	Conyers Trust Company (Cayman) Limited Cricket Square PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Hong Kong Share Registrar</b>	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal bankers</b>	China Construction Bank Dongguang Branch 243 Fuqian Street Dongguang County Dongguang Town Cangzhou, Hebei Province PRC  Industrial and Commercial Bank of China Limited Dongguang Branch 74 Fuqian Street Dongguang County Dongguang Town Cangzhou, Hebei Province PRC

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## CORPORATE INFORMATION

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Agricultural Bank of China Dongguang  
County Branch  
106 Fuqian Street  
Dongguang County  
Dongguang Town  
Cangzhou, Hebei Province  
PRC

Bank of Cangzhou Dongguang Branch  
308 Jiancheng Street  
Dongguang County  
Dongguang Town  
Cangzhou, Hebei Province  
PRC

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## INDUSTRY OVERVIEW

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*The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the market research report prepared by Frost & Sullivan, which was commissioned by us. We believe that the information is derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading in any material respect. The information has not been independently verified by us, the Sole Sponsor or any of our or their respective directors, officers or representatives or any other person involved in the Global Offering nor representation is given as to its accuracy or completeness. The information and statistics contained in this section may not be consistent with other information and statistics compiled within or outside of the PRC. The information should not be relied upon in making, or refraining from making, any investment decision. Our Directors confirm that, after taking reasonable care, there has been no adverse change in the market information since the date of the Frost & Sullivan Report, which may qualify, contradict or have an impact on the information as disclosed in this section.*

### **REPORT COMMISSIONED FROM FROST & SULLIVAN**

We commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on, the urea and methanol markets in China for the period from 2011 to 2021. We paid Frost & Sullivan a fee of RMB1,500,000 which we believe reflects market rates. The payment of such amount is not conditional on our successful listing or on the research findings of the Frost & Sullivan Report. Other than the Frost & Sullivan Report, no other information disclosed in this prospectus is extracted from reports commissioned by us or the Sole Sponsor.

Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in China includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom.

### **RESEARCH METHODOLOGY**

The Frost & Sullivan's Report includes information on China's urea market, urea downstream market, methanol market and other economic data. The market research process for such study was undertaken by Frost & Sullivan through a detailed primary research which involved discussing the status of the industry with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database. Projected total market size was obtained from historical data analysis plotted against the macroeconomic data as well as specific related industry drivers.



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## INDUSTRY OVERVIEW

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### BASIS AND ASSUMPTIONS

Frost & Sullivan's report was compiled based on the below assumptions: (i) China's economy is likely to maintain steady growth in the next decade; (ii) China's social, economic, and political environment is likely to remain stable in the forecast period; and (iii) market drivers like increasing demand from industrial applications, more penetration into new and innovative areas, industry consolidation and government supporting measures are expected to drive the growth of China's urea market.

The report was completed in June 2017. All the data regarding our Group is based on audited figures of our Group.

### OVERVIEW OF THE UREA MARKET IN CHINA

Urea has a wide range of applications. Its main use in agricultural applications is to act as an effective neutral nitrogen fertiliser. Industrial uses of urea are rapidly growing owing to its wide applications, as raw materials for the synthesis of polymers necessary for producing formaldehyde resin, which is then used to manufacture plastics, coatings and adhesives. Urea can also be used in cosmetics as a moisturizer and it is a common ingredient in skin care and personal care products, such as face cream, shampoo, hair conditioner and hand lotion. Urea also has pharmaceutical applications. For instance, it can be made into ointments for external use. It also functions similarly to sorbitol as osmotic diuretic, and is commonly used in denaturing and solubilizing proteins.

Based on the particle size, urea products in general can be categorized into granular urea or prilled urea. Granular urea (large granular) has particle diameters generally ranging from 2 mm to 4 mm while prilled urea (small granular) has particle diameters generally ranging from 1 mm to 2.8 mm. Large granular and small granular urea contain the same amount of nitrogen, but large granular urea is more resilient to crushing. Small granular urea's softer and smaller particles make it more vulnerable to damage caused by handling and more apt to absorb moisture in humid environment.

For agricultural application, large granular and small granular urea products have similar fertilising value, and end users' preferences are primarily driven by habits and practices. For example, modern farming economies generally prefer large granular urea, while small granular urea is more popular in Asian countries such as India and China as it dissolves faster. However, the demand for large granular urea for agricultural purpose is likely to grow in tandem with the modernisation of farming technology in the PRC.

For industrial application, urea is widely used for the manufacture of different products, including, among others, adhesives, plastics, coatings, cosmetics, and pharmaceuticals. Both large granular and small granular urea are adopted, depending on the traits of purity, ease of transport and storage needs of different downstream industries.

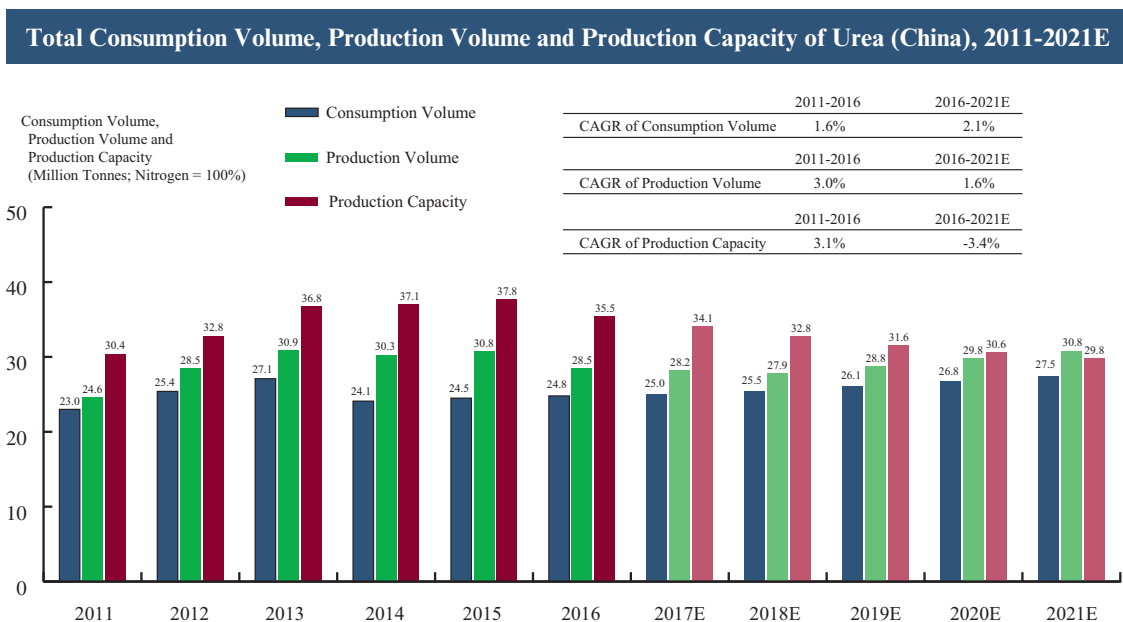
Urea manufacturers are often involved in the production of methanol, which is produced during the production process of urea.

## INDUSTRY OVERVIEW

### Urea Production Capacity, Production Volume and Consumption

China has the largest urea production capacity globally from 2011 to 2016. The country's urea production capacity was around 35.5 million tonnes in 2016, representing approximately 40% of the world's total urea production capacity. It is estimated that China's total urea production capacity will observe shrink from 2016 to 2021 at around 29.8 million tonnes level in 2021. In terms of production volume, China's urea production volume has grown from 24.6 million tonnes in 2011 to 28.5 million tonnes in 2016, at a CAGR of 3.0%. According to Frost & Sullivan, in 2016, the average utilisation rate of urea production facilities in China is approximately 67% and outperformers can reach approximately 75% or above. The production capacity of China's urea industry, as well as other second industry sectors, normally refers to the designed capacity. Nevertheless, it is a general case for China's second industry sectors that the annualized designed capacity exceeds the designed capacity, which may result in higher production volume than the designed production capacity in certain periods. Therefore, it is not unusual to observe that the expected production volume exceeds the expected designed capacity in 2021.

The following chart sets forth the total and estimated consumption volume, production volume and production capacity of urea in China for the period between 2011 and 2021:



Source: National Bureau of Statistics; China Nitrogen Fertiliser Industry Association; Frost & Sullivan Analysis

Agricultural use of urea as fertilisers and for the production of fodder continues to be major downstream application of urea products in China. From 2011, the consumption volumes gradually increased before peaking at 27.1 million tonnes in 2013, and then dropped to 24.1 million tonnes in 2014 with a slight rebound to 24.5 million tonnes and 24.8 million tonnes in 2015 and 2016, respectively. Agricultural demand is expected to maintain a mild growth from 2016 to 2021 and the total consumption volumes of urea is expected to reach approximately 27.5 million tonnes in 2021.

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## INDUSTRY OVERVIEW

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Industrial consumption observed a rapid growth from 2011 to 2016 at a CAGR of approximately 10%. In 2016, it accounted for around 24% of the total domestic urea consumption volume, and such proportion is expected to increase to around 32% in 2021. Key applications include, amongst others, the manufacturing of adhesives for wood panels, the production of melamine for coatings and plastics and nitrification. Overall, urea's industrial applications in China market are continuously expanding and developing. Based on above estimated consumption volume, the Company forecasts a growth in the demand for urea in the future.

Urea production is broadly categorised into coal-based and gas-based production. Although the end products are identical, coal-based and gas-based urea producers adopt different raw materials, production facilities, and production processes for the production of urea. Coal-based urea producers generate synthesis gas by processing coal, with coke and liquid products being the by-products, while gas-based producers generate synthesis gas by processing gas, with acetylene and prussic acid being the by-products.

Since China has abundant coal resources but is in shortage of natural gas and oil, coal is the major source of energy in China. Thus, approximately 76% of the total urea production capacity utilises coal-based production in China in 2016. On the other hand, China's major gas-based urea producers are primarily located in the Southwest region of China based on the distribution of natural gas reserves. Due to the relatively high cost of transportation, the major consumers of those gas-based urea producers are also located in nearby regions. Nevertheless, gas price has been gradually increasing because of limited natural gas supply in recent years, thus creating significant cost pressure for gas-based urea producers and driving down the total production capacity and production volume of urea from this region. Coupled with continuous declining of the price of urea in recent years, some small and medium-sized gas-based producers are loss-making. This situation is expected to persist owing to the limited supply of natural gas, thus pushing these small and medium-sized gas-based producers out of the market. Therefore, the share of gas-based urea capacity is expected to further drop in the forecast period while coal-based production is expected to remain the mainstream production in China due to, amongst others, the abundance of coal resources, limited natural gas and oil resources and reforms of related legislations which indirectly benefitted coal-based production.

China's urea production capacity has observed a surplus in recent years as the industry is undergoing upgrade and transformation. The surplus in production capacity is mainly from gas-based urea producers, which constitutes around 24% of total urea capacity in China in 2016. From the supply side, the phasing out of outdated facilities takes time while new urea production facilities continue to come into operation. The demand side has maintained a relatively stable momentum, primarily because urea consumption remains largely dominated by agricultural use which represents approximately 76% of total urea consumption in China, and this downstream market is relatively mature and stable.

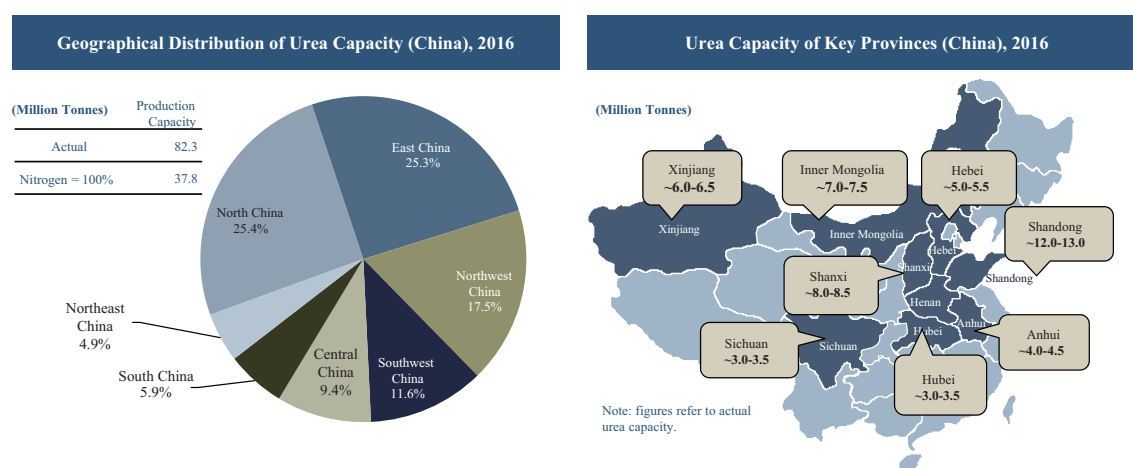
To alleviate the short-term over-capacity of urea production, the PRC Government has adjusted relevant policies to support export growth. For example, the MOF had adopted a new tariff policy on 1 January 2015 with a flat export tariff of RMB80 per tonne. Furthermore, on 19 December 2016, the State Council promulgated the Tariff Adjustment Plan 2017 (2017年關稅調整方案) which came into effect on 1 January 2017, under which the flat export tariff of RMB80 per tonne for urea products was abolished. The 13th Five-Year Development Plan for Nitrogen Fertiliser Industry laid out objectives of a limited nitrogen fertiliser production

## INDUSTRY OVERVIEW

capacity at around 61.0 million tonnes and a higher capacity utilisation rate of more than 80% by 2020. As a result, 3.4 million tonnes and 3.0 million tonnes production capacity of synthesis ammonia and urea, respectively, are estimated to be closed down by 2016. By 2020, this amount of closed-down urea production capacity is expected to reach 13 million tonnes.

Shandong Province, Shanxi Province, Henan Province, and Inner Mongolia Autonomous Region, four key regions in the North China, constitute China's largest urea production cluster. The aggregate consumption volume of urea in these four regions accounts for approximately 70% of their own urea production in 2016, and the remaining 30% of urea produced was supplied to other regional markets in China (covering more than 20 regions and districts) or exported overseas.

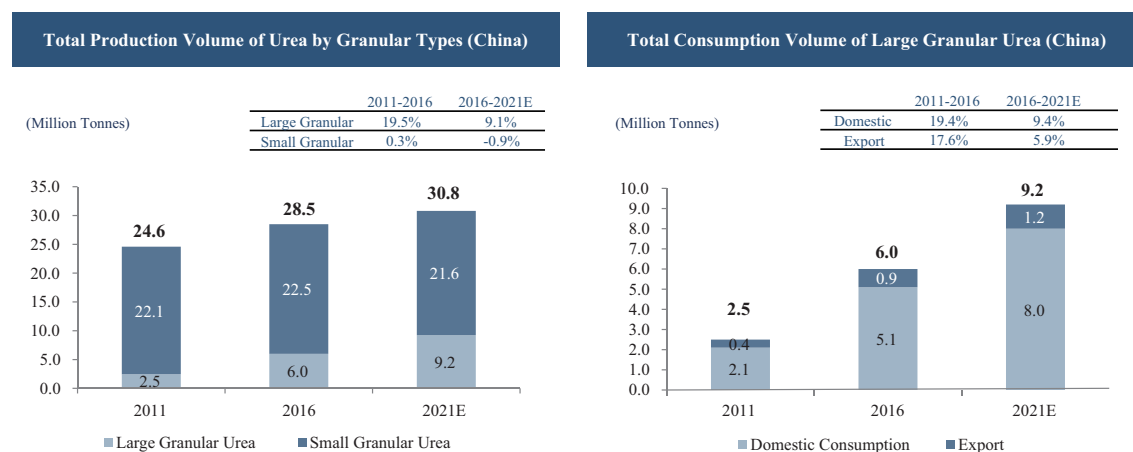
The following charts set forth the geographical distribution of urea production capacity and the urea capacity of key regions in China in 2016:



Source: Frost & Sullivan Analysis

### Large Granular Urea

The following charts set forth the actual and total production volume and consumption volume of urea by granular types in China for the periods indicated:



Source: Frost & Sullivan Analysis

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## INDUSTRY OVERVIEW

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The market of large granular urea products has following features:

- *Seasonality:* demand of domestic production of large granular urea is primarily driven by the local market, and agricultural use is the major downstream application of granular urea in China, representing approximately 90% of all consumption in China. Therefore, the demand of large granular urea is subject to seasonality which corresponds with China's farming customs and practices. As the Winter and Spring are major seasons for sowing seeds and fertilisation, the production and consumption of large granular urea primarily take place from late Autumn in November to late Spring in May. Correspondingly, other months constitute off-season for large granular urea production and consumption.
- *Geographical distribution of supply and demand:* geographical distribution of large granular urea production is similar to the distribution of urea production. The geographical distribution of demand of large granular urea is similar to the distribution of urea demand in general, as agricultural use is the major downstream application of both large granular urea and urea in China. Nevertheless, in China, Northeastern China and North China together take an even higher volume share in terms of the consumption of large granular urea at around 50% to 55%, because granular urea is more suitable for and favored by matured farm economies, and these two regions are major agricultural regions in China with great amounts of large-sized farms with more advanced farming technology.
- *Price:* the average price of large granular urea is generally 6% to 8% higher than the average price of urea.

As one of the major urea producers in the PRC, our Group observed a growing demand in large granular urea products and introduced a new production line in December 2014 and further expanded the production capacity in 2015 which enabled our Group to transform small granular urea products to large granular urea products. Furthermore, subject to the completion of the Global Offering, our Group plans to commence the construction of the New Large Granular Urea Production Facility in the second half of 2017 to better capture the expected growing demand of large granular products in the future. Please refer to the subsection headed "Business – Production – Expansion Plan" in this prospectus for further information.

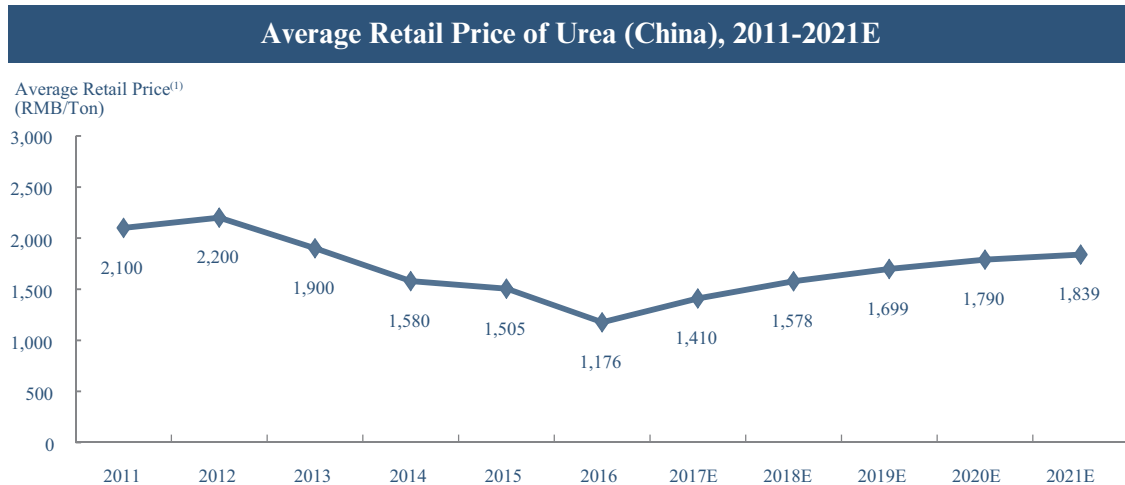
### Price and Cost Structure Analysis of Urea

Urea retail prices are affected by (i) the price of the key raw materials used in production and (ii) the supply and demand for urea. Urea prices rose significantly in 2011 and 2012 to RMB2,100 per tonne and RMB2,200 per tonne, respectively, largely due to an increase in coal price. However, the slowdown in China's heavy industries and the restructuring of China's energy sector drove down the demand for coal, which led to a decrease in coal prices in 2013 and 2014. The average retail price of urea dropped consecutively in 2015 and 2016 to RMB1,505 per tonne and RMB1,176 per tonne, respectively, as a result of lowered raw material price and a surplus in production capacity which arose during the industrial upgrade process of China's urea market.

China is one of the largest energy consumers worldwide, and approximately 70% of the energy consumption is derived from coal. China's efforts to moderate its coal consumption through coal tax reform, which has been in force since December 2014, is expected to facilitate a rebound in coal prices, which is likely to support the recovery of urea price. Also, urea demand is expected to be stimulated by the rapidly growing industrial applications and preferential export policy adopted by the PRC Government. Therefore a moderate upward trend is forecasted for the price of urea from 2016 to 2018.

## INDUSTRY OVERVIEW

The following chart sets forth the actual and estimated average retail price of urea in China for the period between 2011 and 2021:



Source: Frost & Sullivan Analysis

Note:

<sup>(1)</sup> VAT excluded.

The urea industry is undergoing upgrade and transformation, whereby outdated and inefficient capacity is expected to become obsolete and eliminated. Both the PRC Government and the industry have been taking measures to substantiate the progress of such upgrade and transformation. In July 2015, China's Ministry of Industry and Information Technology issued the Instructions to Promotion of Transformation and Development of Fertiliser Industry (the "**Instructions**"). According to the Instructions, China fertiliser industry was experiencing a key transformation period and only industry upgrade and transformation could relieve production capacity surplus, adjust industry structure, propel the upgrade of products' quality and structure, and enhance innovation ability. Following the Instructions, the industry made a development plan laying out that during the 13th five-year period, the objectives are a limited nitrogen fertiliser production capacity at around 61.0 million tonnes and a higher capacity utilisation rate of more than 80% by 2020. The impacts brought by these measures are expected to occur gradually in the forecast period, and the rebalance of urea supply and demand is expected to support the rebound in urea price. According to Frost & Sullivan, great progress has been achieved in reducing surplus in urea capacity in China, and from 2015 to 2016, total urea capacity in China decreased from 37.8 million tonnes to 35.5 million tonnes. Meanwhile, in terms of production capacity, the market share of small-sized producers further decreased from approximately 12% in 2015 to approximately 9% in 2016. For above reasons, during the forecast period, the price of urea is likely to rebound and maintain an upward momentum in the forecast period from 2017 to 2021.

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## INDUSTRY OVERVIEW

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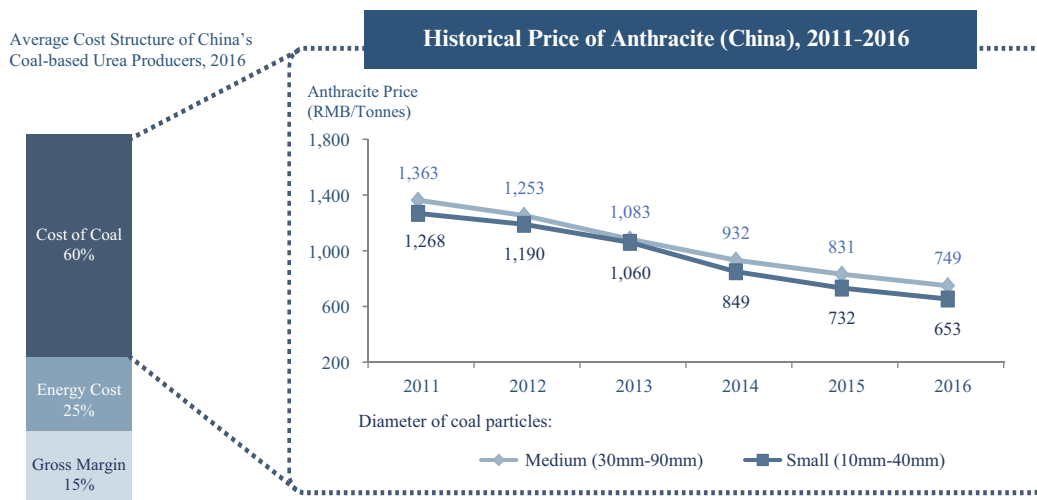
Key assumptions adopted in forecasting the average retail price of urea in China, among other, include:

- (i) the PRC economy is likely to maintain a steady growth in the forecast period with the forecasted CAGR of nominal GDP of 7.9% from 2016 to 2021 and reach RMB108.8 trillion in 2021;
- (ii) the policies and measures to reduce urea capacity surplus and rebalance urea market supply and demand is likely to positively influence the urea selling price. One of the primarily measures, among others, is the objective of the 13th five-year plan of China Nitrogen Fertiliser Industry Association (the “CNFA”):
  - a. to limit the nitrogen fertiliser production capacity and reduce capacity surplus during the 13th five-year period from 2016 to 2020, and therefore China’s urea production capacity is forecasted to decrease at a CAGR of -3.4% from 2016 to 2021 and reduce to approximately 29.8 million tonnes in 2021; and
  - b. to improve the average utilisation rate of China’s nitrogen fertiliser production capacity from between approximately 60% and 71% during 2011 to 2016, to over 80% by end of 2020. On this basis, the urea production volume is forecasted to gradually grow from approximately 28.5 million tonnes in 2016, to approximately 30.8 million tonnes in 2021, representing a CAGR of approximately 1.6% during the same period;
- (iii) the domestic urea product consumption volume in China is forecasted to continuously grow from 2016 to 2021 from 24.8 million tonnes to 27.5 million tonnes. Although the agricultural consumption of urea products is expected to maintain at a relatively stable level, the industrial demand is forecasted to be strong owing to its wide-range of applications in the secondary industry in the PRC, therefore become a driving factor to an increased urea selling price. The industrial consumption of urea is forecasted to grow at a CAGR of approximately 8.1% from approximately 6 million tonnes to approximately 8.8 million tonnes from 2016 to 2021;
- (iv) the PRC social, economic, and political environment is likely to remain stable in the forecast period; and
- (v) the policies and measures to reduce anthracite capacity surplus and rebalance anthracite market supply and demand is likely to take effect, and the price of anthracite is forecasted remain relatively stable in the forecast period, therefore raw material price factor is unlikely to result in any decrease of the selling price of urea.

## INDUSTRY OVERVIEW

Coal and natural gas are key raw materials used in the production of urea in China. With the shortfall in gas supply and continuously increasing gas price, urea production in China is expected to rely more heavily on coal resources. In general, the average cost split of China's coal-based urea production between the cost of coal and that of energy is approximately three to one, and from 2011 to 2016, for leading coal-based urea producers, the gross margin generally fluctuated in the range of eight to 20 percent based on the market supply and demand, according to Frost and Sullivan.

The following chart sets forth the average cost structure for China's coal-based urea producers in 2016 and the historical price of anthracite in China for the period between 2011 and 2016:



Source: Frost & Sullivan Analysis

The level of fluctuations as to urea price and coal price may differ for various reasons, which include, among others: (i) changes in urea prices typically lags slightly behind the changes in coal price; (ii) urea price is highly affected by the overall domestic supply and demand, as well as relevant industry rules and regulations in the PRC. For example, the lifting of the VAT exemption in a buyer favorable market in September 2015 restricted the urea producers' flexibility to increase urea prices at that time and thus resulted in an industrial-wide delay of urea price adjustments; and (iii) urea price is also affected by the prices of other major cost elements, such as energy cost.

### Price Trend of Anthracite

The decrease in anthracite price in recent years has successfully helped alleviate the surplus in China's anthracite capacity. In 2016, there were some fluctuations with the anthracite price due to the PRC Government's adjustments of the supply and demand of anthracite. In the second half of 2016, the average retail price of anthracite observed an upward trend based on the effect of such adjustment. The supply and demand of anthracite is expected to gradually rebalance. Thus, in the first half of 2017, the average retail price of anthracite is forecasted to continue with an upward trend. In the second half of 2017, the growth is likely to gradually slow down and the price will stabilise in the future. Based on above information and forecast from Frost & Sullivan, the Group forecasts that the price of anthracite will have a moderate upward trend in 2017.



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## INDUSTRY OVERVIEW

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Policies issued by the PRC Government to adjust the supply and demand of coal in 2016 include the Opinions to Resolve Excess Production Capacity and to Achieve Better Development of the Coal Industry (國務院關於煤炭行業化解過剩產能實現脫困發展的意見) promulgated by the State Council in February 2016, which aims to eliminate 500 million tonnes of capacity surplus of coal in three to five years from 2016, the Notice on Implementation of Strict Control, Reduction, and Replacement of New Coal Capacity-related Matters (關於實施減量置換嚴控煤礦新增產能有關事項的通知) promulgated by the PRC National Development and Reform Commission, the National Energy Administration and the State Administration of Coal Mine Safety in July 2016, which sets out several imperatives on coal capacity control and reduction, such as ceasing the approval of new construction of coal mine projects throughout three years from 2016. With the aim of further eliminating capacity surplus of coal, guiding the expectation of future coal price and to further rebalancing the abnormal fluctuations of coal market price, the PRC Government, together with the relevant industry association, issued Memo on the Rebalance of the Abnormal Fluctuations in the Coal Market Price (關於平抑煤炭市場價格異常波動的備忘錄) in December 2016 and the PRC National Development and Reform Commission and other 22 authorities jointly issued Opinions on How to Eliminate Excess Production Capacity in the Steel and Coal Industry and Achieve Better Development in 2017 (關於做好2017年鋼鐵煤炭行業化解過剩產能實現脫困發展工作的意見) in April 2017.

### Major Drivers of China's Urea Market

China's urea industry is undergoing major transformation, with the main objectives of reducing production capacity surplus, adjusting industry structure, propelling the upgrade in product quality and structure, and enhancing innovation ability. The PRC government issued a series of policies in support of the above objectives, including the Instructions to Promotion of Transformation and Development of Fertiliser Industry (關於推進化肥行業轉型發展的指導意見) issued by the PRC Ministry of Industry and Information Technology on 20 July 2015, the Notice on the Policies on Resuming the VAT Levy on Fertilisers (關於對化肥恢復徵收增值稅政策的通知) jointly issued by the MOF, the General Administration of Customs and the State Administration of Taxation on 10 August 2015, which cancelled the VAT exemption enjoyed by fertiliser producers, and the Notice on Reduction of the On-Grid Tariff and Industrial and Commercial Electricity Tariff of Coal-Fired Power Generation (關於降低燃煤發電上網電價和工商業用電價格的通知) issued by PRC National Development and Reform Commission on 13 April 2015, which came into effect from 20 April 2015 and achieved a nation-wide call-off of preferential electricity tariff for fertiliser producers by 20 April 2016. Furthermore, on 23 July 2016, the General Office of the State Council issued Guiding Opinions on Promoting the Transformation and Benefit of Petrochemical Industry (關於石化產業調結構促轉型增效益的指導意見) which aims to resolve the excess production capacity and strictly control new capacity to better regulate the development of several industries including urea industry. The 13th Five-Year Development Plan for Nitrogen Fertiliser Industry put forward by the China Nitrogen Fertiliser Industry Association also laid out objectives for a limited nitrogen fertiliser production capacity at around 61.0 million tonnes and a higher capacity utilisation rate of more than 80% by 2020. Such support in industry upgrade and transformation is likely to be a key market driver for China's urea industry.

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## INDUSTRY OVERVIEW

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Urea has vast industrial applications. Industrial application of urea require urea of various purity grades. Based on the purity grades of urea, the price of urea can generally range from RMB3,000 per tonne to RMB8,000 per tonne. The use of urea in China for industrial application lags behind those of developed countries. Hence, increasing and broadening of industrial application of urea in the PRC will increase China's urea production and consumption which will in turn drive China's urea market.

### **Entry Barriers of China's Urea Market**

China's urea market is undergoing major upgrade and transformation process during which small-sized manufacturers, being urea manufacturers with an annual production capacity below 300,000 tonnes, face great challenges for survival. Competitive market participants generally enjoy economies of scale and are more cost competitive. Therefore, scale of operation is one of the key barriers of entry for new entrants of China's urea market.

Initial capital and operating investment in the urea market are significant for those new entrants, because the urea industry usually requires sufficient capital support to procure production equipment, hire staff, rent or construct production plants, and continuously purchase raw materials.

Sales network and customer relationship are another key barrier for the new entrants to the market. Key players in the market have generally established a reliable and stable supply chain with selected qualified customer base. Thus, it is rather difficult for new entrants to set up their own customer base and develop the sales networks.

The transportation of coal and urea is costly. By leveraging the geographical advantages, players with proximity to supplies and customers are able to gain competitive advantage on product prices due to their relatively low transportation costs, and such advantage is highly important when the market experiences capacity surplus. Without such advantage, new entrants are likely to face great challenge when they attempt to enter into the market.

### **Future Outlook of the Urea Market**

The future growth in the demand for urea is dependent on the following key factors:

- *Growth of Industrial Application*

Industrial applications of urea are growing at a rapid pace in China. In 2016, industrial applications accounted for around 24% of total volume consumption of urea in China, and the percentage is expected to increase to around 32% in 2021. The CAGR for the consumption of melamine, the major industrial downstream product of urea, exceeds 20% in recent years. In addition, the implementation of China National IV Emission Standard by the PRC Government is expected to facilitate further growth in demand for urea for automobile exhaust purification.

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## INDUSTRY OVERVIEW

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- *Industry Consolidation*

The surplus in urea production is expected to result in further reform and consolidation in China's urea market. During the 12th Five-Year period from 2011 to 2015 in China, urea capacity and urea production in coal-producing regions have been steadily increasing, demonstrating a trend of resource-oriented relocation of facilities in order to maximise utilisation of resources and minimise cost. Meanwhile, increasing competition and China's increasingly tight environmental legislations have driven out many small-sized and out-dated manufacturers. By the end of 2016, the total number of producers in China's urea market is close to 150, among which 60 participants have an actual urea production capacity of more than 0.5 million tonnes and around 30 to 40 participants' level of capacity is below 0.18 million tonnes. Therefore, the competitiveness of the small-sized urea producers is expected to be increasingly restricted. These small-sized producers are expected to be driven out of the market or to be targets from merger and acquisitions. With the impacts of current capacity surplus in China's urea industry and the call-off of preferential VAT policy for urea manufacturers in 2015, the cost pressure of small-size market players is expected to continue increasing, which will eventually phase them out of the market. Such process of industry upgrade and consolidation is considered to be beneficial for the development of large market players such as the Group from a long-term perspective.

- *Product Innovation and the Development in Advanced Modified Urea*

The development of new value-adding urea products is expected to facilitate an upgrade in the industry and sustain further development in the industry. Major categories of advanced modified urea products include polypeptide urea and sulfur-coated urea (which slowly releases the urea and hence can upgrade the effectiveness and efficiency of urea), polypeptide chelated potash urea (which can improve root system to enhance the absorption of nutrients), and bi-enzyme urea (which features enhanced efficiency and autonomous biological control). These advanced modified urea products facilitate improvements in effectiveness and efficiency of fertiliser, and are expected to increase in importance thereby sustaining the agricultural demand for urea in China.

### **Future Outlook of China's Urea Downstream Application**

Application of urea can be broadly categorised into agricultural uses and industrial uses, accounting for 76% and 24% of the total market demand as at 2016, respectively.

- *Agricultural Use*

In China, agricultural use of urea remains the major downstream application primarily because China is a major country for agricultural products with substantial domestic demand for nitrogen fertilisers and the largest exporter of nitrogen fertilisers.

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## INDUSTRY OVERVIEW

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- *Industrial Use*

According to the Frost & Sullivan Report, industrial applications of urea are forecasted to develop rapidly in China due to its wide application scope and the promising growth of all major downstream markets which mainly include the manufacturing of adhesives for wood panels, the production of melamine for coatings and plastics, and nitrification. As a result, local urea products' share in advanced industrial applications is expected to rise.

Industrial urea's applications in the environmental protection industry, primarily thermal and diesel nitrification, still account for a relatively small portion of the total industrial consumption of urea. However, taking into account the continuous tightening of the relevant environmental regulations and the society's increasing awareness of environmental issues, the demand for industrial urea in environmental protection industry is expected to rise sharply in the future.

Urea also has some pharmaceutical applications. According to the Frost & Sullivan Report, China's pharmaceutical market possesses significant potential for development due to the large population base and the fact that the pharmaceutical market is not yet mature. Multiple drivers are expected to support the growth of China's pharmaceutical market, including economic and demographic development, policy support, enhanced social welfare and health facilities among the public, industry reform, and improved research and development capability of local drug producers. The growth in pharmaceutical market is likely to significantly drive demand for urea.

### OVERVIEW OF THE METHANOL MARKET IN CHINA

Most urea manufacturers do not merely produce urea, but also produce other chemical products, such as methanol. Methanol is widely used in the chemical, pharmaceutical, energy and textile industry. Methanol can be produced using various methods including gas-to-methanol, cook oven gas-to-methanol and coal-to-methanol.

#### **Methanol Production Capacity, Production Volume and Consumption**

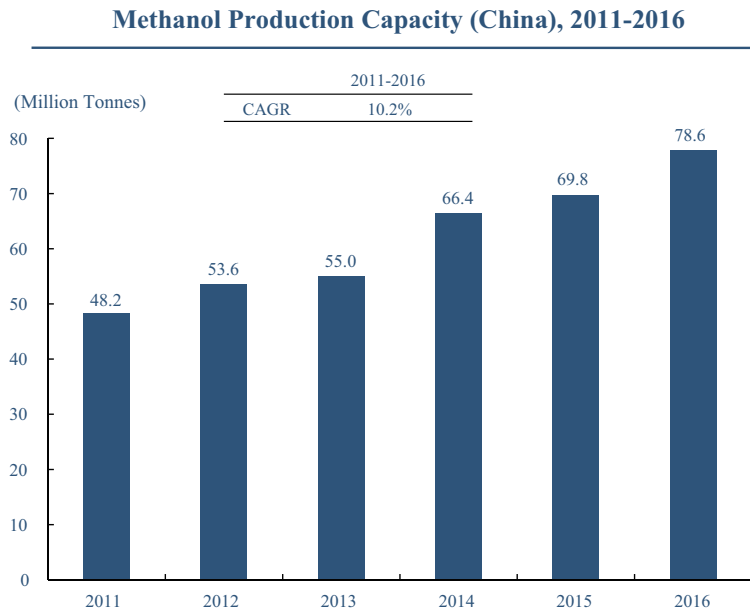
Between 2011 and 2016, the production capacity for methanol in China continued to grow at a CAGR of 10.2%, increasing from 48.2 million tonnes in 2011 to 78.6 million tonnes in 2016. Due to the large amount of imported methanol, requirements for product homogeneity, and the existence of a large number of backward methanol manufacturers, the PRC methanol market faced the issue of production overcapacity. The PRC Government has implemented several measures to solve these problems, including, prohibiting the establishment of coal-to-methanol manufactures with annual capacity of less than 1 million tonnes. Notwithstanding these measures, the methanol production capacity had continued to increase in 2016. However, as the emerging downstream markets of methanol continue to develop, it is expected that the outdated methanol production capacity is likely to be eliminated and replaced with modern facilities which can be used efficiently.

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## INDUSTRY OVERVIEW

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The following chart sets forth the methanol production capacity in China for the period between 2011 and 2016:



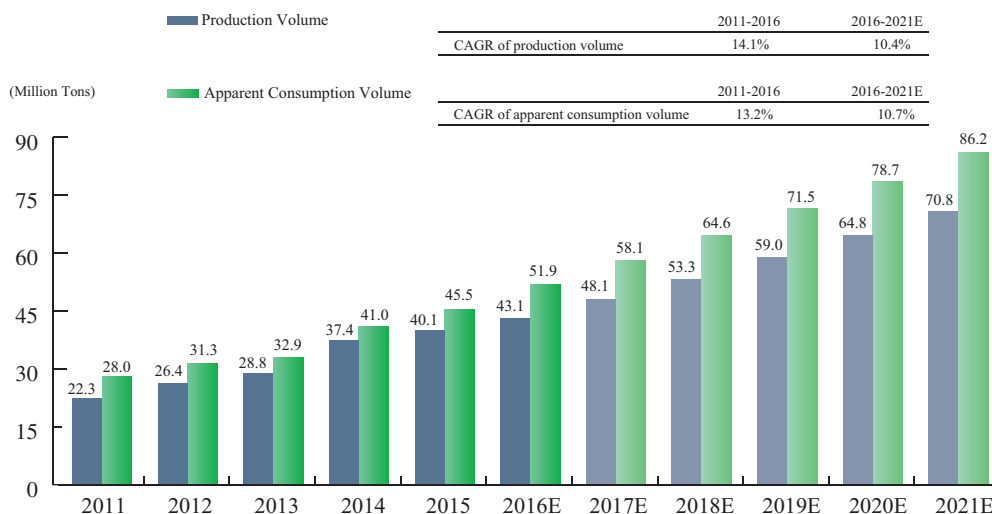
Source: Frost & Sullivan Analysis

During the period from 2011 to 2016, the total production volume of methanol in China increased from 22.3 million tonnes to 43.1 million tonnes, representing a CAGR of 14.1%. In 2013, the growth of methanol production volume experienced a significant setback under the influence of regulation in relation to prohibition of establishing new natural gas-to-methanol projects. As an increasing number of manufacturers switched their focus from producing methanol for traditional downstream uses to developing emerging areas of methanol applications such as methanol-to-olefin and methanol fuel, it is expected that the production volume of methanol will increase, reaching 70.8 million tonnes in 2021 at a CAGR of 10.4% from 2016 to 2021.

## INDUSTRY OVERVIEW

The following chart sets forth the total and estimated production volume and apparent consumption volume (being production volume plus imports minus exports) of methanol in China for the period between 2011 and 2021:

### Total Apparent Consumption and Production Volume of Methanol (China), 2011-2021E



Source: Frost & Sullivan Analysis

Note: Apparent consumption is production plus imports minus exports

From 2011 to 2016, the total apparent consumption volume of methanol reached a CAGR of 13.2%, rising from 28.0 million tonnes to 51.9 million tonnes, respectively. At present, a considerable portion of methanol production capacity remains utilised for traditional methanol downstream uses. According to Frost & Sullivan, by 2021, the total apparent consumption volume of methanol is expected to reach 86.2 million tonnes at a CAGR of approximately 10.7% from 2016. This is mainly due to the rising demand from the emerging field driven by a certain number of methanol-to-olefin projects. Moreover, in the field of methanol fuel, beside Guizhou, Gansu Shanxi, Shaanxi Provinces and Shanghai, many more provinces are expected to be added to the pilot regions for methanol-fueled vehicles in the future.

### Price Analysis of Methanol

Starting from 2011, in order to solve the problem of over capacity in methanol market, the PRC Government has begun to strictly limit methanol production capacity. As a result, the gas-to-methanol manufacturing facilities and coal-to-methanol manufacturing facilities with less than 1 million tonnes annual production capacity were not permitted to be established or extended. Such measures and regulations directly drove up the price of methanol in 2011. Subsequently, prices of methanol showed a decline trend, decreasing to RMB1,935 per tonne in 2016, with a CAGR of -8.1% from 2011 to 2016, mainly due to sluggish demands in traditional downstream industries, such as coating, adhesive and pigment industries, and upgrade of existing coal-to-methanol manufacturing facilities.

As a result of the further development of emerging downstream application, the price of methanol is expected to increase to RMB2,437 per tonne, with a CAGR of 4.7% from 2016 to 2021.

### **Main Drivers of the Methanol Market**

Methanol market in China is experiencing an adjustment period, during which the methanol manufacturers with lower capacity are likely to be eliminated while the leading competitors with strong capacity are expected to hold more market share. The concentration rate is likely to increase further. Also, the industry integration is likely to drive the development of methanol market in China.

### **Entry Barriers of the Methanol Market**

Methanol manufacturers require significant capital investment to establish production facilities, hire experienced talents, introduce cutting-edge techniques and build industry networks. In addition, many leading companies have been engaged in the methanol industry for a long period of time and accumulated well-established clients who have established stable cooperation with their suppliers. Lack of client base is another entry barrier for new entrants.

### **Future Outlook of the Methanol Market**

The future growth of the demand for methanol is dependent on the following:

- *Increasing demand from the emerging fields with great potential*

As a result of emerging new uses of methanol such as methanol-to-olefin, methanol protein, and methanol gasoline, it is expected that the demand for methanol will increase. In addition, benefitting from the support from the PRC Government in respect of the rapid development of automotive industry and shortage of vehicle fuel, methanol gasoline is potentially regarded as another potential downstream use of methanol.

In recent years, more and more players in the methanol market no longer focus on traditional downstream applications of methanol, such as formaldehyde, acetic acid, dimethyl ether. Such manufacturer are likely to pay more attention in developing emerging areas of methanol applications including methanol to olefin, methanol fuel and others.

- *Industry consolidation*

In 2016, there were more than 200 methanol manufacturers, among which 20% has production capacity exceeding 0.5 million tonnes. However, the methanol capacity utilisation rate merely reached over 50% in 2016. As a result, the PRC Government and related associations proposed to eliminate outdated production capacity, tighten methanol industry-access system, improve access threshold and control the quantity and the overall size of the industry.

- *Focusing on Technology Development*

In order to increase capacity utilisation rate, the methanol manufacturers have to focus on developing large-scale domestic dry coal powder gasification technology and large-scale domestic compressor technology with high efficiency and large-scale low-tension methanol synthesis technology. Meanwhile, the manufacturers popularised the technology of low-tension methanol synthesis and thus, methanol synthesis catalyser production method has become increasingly popular among the manufacturers of the sector. Also, more companies have established technology research and development centre as part of their important long-term strategy.

## INDUSTRY OVERVIEW

### COMPETITIVE LANDSCAPE

We face intensive competition in the urea and methanol industry in China. Our industry is dominated by top ten manufacturers due to various factors including (i) a high amount of initial capital investment required for establishing and maintaining large scale production so as to achieve economies of scale; (ii) accessibility to key raw materials; and (iii) tight quality standard for advanced applications. Our competitors include state-owned enterprises, private-owned enterprises and foreign-invested enterprises based in China.

The following charts set forth the market share and ranking of the top urea manufacturers in the PRC by production capacity in 2016:

#### Top 10 by Production Capacity for Urea Manufactures

Name	2016			Company Profile	Location of Headquarters
	Production Capacity (thousand tonnes)	Market Share (%)	Ranking		
Company A (unlisted company)	18,000	23.3%	1	Company A is the largest integrated coal energy group.	Shanxi Province
Company B (listed company)	5,260	6.8%	2	Company B is one of the largest coal and coal chemical groups in China, and also covers business in electricity, aluminum, construction, real estate, equipment manufacturing, trading and logistics.	Shanxi Province
Company C (listed company)	3,310	4.3%	3	Company C is one of the most important fertiliser manufacturers in the world and covers a wide range of business including fertilisers, chemicals, agricultural chemicals, electricity, real estate and others	Hubei Province
Company D (listed company)	2,800	3.6%	4	Company D is a large modern agricultural company and mainly focuses on manufacturing fertilisers, processing grains and others.	Henan Province
Company E (unlisted company)	2,400	3.1%	5	Company E is one of the largest urea manufacturing enterprises in China.	Shandong Province
Company F (listed company)	2,000	2.6%	6	Company F is one of the largest coal energy groups which involves in the businesses of coal production and trading, coal chemical, coal mining equipment manufacturing, coal mine design and others.	Beijing
Company G (listed company)	1,800	2.3%	7	Company G is an important chemical material manufacturer in China and one of the largest dimethyl fumarate (DMF) suppliers globally.	Shandong Province



## INDUSTRY OVERVIEW

Name	2016			Company Profile	Location of Headquarters
	Production Capacity <i>(thousand tonnes)</i>	Market Share <i>(%)</i>	Ranking		
Company H (listed company)	1,200	1.6%	8	The main business of company H includes coal and fertiliser manufacturing.	Shanxi Province
<b>Our Group</b>	<b>1,095</b>	<b>1.4%</b>	<b>9</b>	<b>Our Group is one of the major coal-based urea producers in the PRC.</b>	<b>Hebei Province</b>
Company I (listed company)	900	1.2%	10	Company I is involved in many industrial fields such as fertilisers, chemical equipment, new energy, chemical engineering design, finance and others.	Shandong Province

Source: Company and Frost & Sullivan Analysis

The top ten enterprises have a total urea production capacity of approximately 38.8 million tonnes, representing 50.2% of the total market in 2016. We ranked No. 9 in 2016 and our production capacity and market share was approximately 1.1 million tonnes and 1.4%, respectively.

The following chart sets forth the market ranking of the top urea manufacturers in the PRC by revenue in 2016:

### Top 10 by Revenue for Urea Manufacturers

Name	2016		Company Profile	Location of Headquarters
	Market Share <i>(%)</i>	Ranking		
Company A (unlisted company)	18.8%	1	Company A is the large integrated coal energy group.	Shanxi Province
Company B (listed company)	5.0%	2	Company B is one of the largest coal and coal chemical group in China, and also covers business in electricity, aluminum, construction, real estate, equipment manufacturing, trading and logistics.	Shanxi Province
Company D (listed company)	3.1%	3	Company D is a large modern agricultural company and mainly focuses on manufacturing fertilisers, processing grains and others.	Henan Province

## INDUSTRY OVERVIEW

Name	2016		Company Profile	Location of Headquarters
	Market Share (%)	Ranking		
Company E (unlisted company)	2.9%	4	Company E is one of the largest urea manufacturing enterprises in China.	Shandong Province
Company F (listed company)	2.4%	5	Company F is one of the largest coal energy groups which involves in the businesses of coal production and trading, coal chemical, coal mining equipment manufacturing, coal mine design and others.	Beijing
Company C (listed company)	1.9%	6	Company C is one of the most important fertiliser manufacturers in the world and covers a wide range of business including fertilisers, chemicals, agricultural chemicals, electricity, real estate and others.	Hubei Province
Company G (listed company)	1.6%	7	Company G is an important chemical material manufacturer in China and one of the largest dimethyl fumarate (DMF) supplier globally.	Shandong Province
Company H (listed company)	1.4%	8	The main business of company H includes coal and fertiliser manufacturing.	Shanxi Province
<b>Our Group</b>	<b>1.4%</b>	<b>9</b>	<b>Our Group is one of the major coal-based urea producers in the PRC.</b>	<b>Hebei Province</b>
Company I (listed company)	1.3%	10	Company I is involved in many industrial fields such as fertilisers, chemical equipment, new energy, chemical engineering design, finance and others.	Shandong Province

*Source: Company and Frost & Sullivan Analysis*

The top ten urea enterprises in terms of revenue are mainly located in the central and southwestern regions in China. As of 2016, the top ten companies occupied 39.8% in this market in terms of revenue. We ranked No. 9 with a market share of 1.4% in 2016.

Although the agricultural uses of urea remain the main application of urea products in China, the industrial uses are likely to continue to expand and develop. Therefore, urea manufacturers will not only focus on the sale of urea for agricultural applications but also expand the sale to industrial applications.

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## INDUSTRY OVERVIEW

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In terms of revenue from sale to industrial downstream, the concentration rate of top five coal-based urea enterprises was approximately 23.3% in 2016. We ranked No. 3 with a market share of 3.3% in 2016.

The following chart sets forth the market ranking of the top urea manufacturers by revenue of downstream industrial application in 2016:

### Top 5 by Revenue of Industrial Downstream for Urea Manufacturers

Name	2016		Company Profile	Location of Headquarters
	Market Share	Ranking		
	(%)			
Company A (unlisted company)	12.9%	1	Company A is the largest integrated coal energy group.	Shanxi Province
Company E (unlisted company)	3.4%	2	Company E is one of the largest urea manufacturing enterprises in China.	Shandong Province
<b>Our Group</b>	<b>3.3%</b>	<b>3</b>	<b>Our Group is one of the major coal-based urea producers in the PRC.</b>	<b>Hebei Province</b>
Company C (listed company)	1.9%	4	Company C is one of the most important fertiliser manufacturers in the world and covers a wide range of business including fertilisers, chemicals, agricultural chemicals, electricity, real estate and others.	Hubei Province
Company G (listed company)	1.8%	5	Company G is an important chemical material manufacturer in China and one of the largest dimethyl fumarate (DMF) suppliers globally.	Shandong Province

*Source: Our Company, Frost & Sullivan Analysis*

In terms of revenue from sale to agricultural downstream, we ranked No. 11 among all urea production companies in the PRC with a market share of approximately 0.6% in 2016.

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## PRC REGULATIONS

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All of our business operations are based in the PRC and are subject to extensive supervision and regulation by the PRC Government. This section summarises the main laws, rules and regulations which impact key aspects of our business.

### LAW SUPERVISION OVER SAFE PRODUCTION IN CHINA

#### Production Safety Law

The Production Safety Law of the PRC (《中華人民共和國安全生產法》) (the “**Production Safety Law**”), which was promulgated by the SCNPC on 29 June 2002 with effect from 1 November 2002 and revised on 27 August 2009 and 31 August 2014, respectively, stipulates that enterprises engaged in production activities in China are required to (1) comply with the Production Safety Law and relevant laws and regulations on production safety, (2) strengthen managerial control over production safety, (3) establish and improve the safe production responsibility system and rules and regulations on safety production, (4) improve working conditions at production sites, and (5) promote the building of standardization on safety production to raise the safety level and to ensure workplace safety at production sites.

#### Regulations on Safety Production Permit

The Regulations on Safety Production Permit (《安全生產許可證條例》) (the “**Regulations on Safety Production Permit**”), which were promulgated by the State Council on 13 January 2004 and revised on 18 July 2013 and 29 July 2014, stipulate that enterprises engaged in the production of hazardous chemicals must obtain a safety production permit (“**Safety Production Permit**”) from the competent work safety authorities prior to its commencement of production. Enterprises without the Safety Production Permit are not allowed to engage in hazardous chemical production activities. The Safety Production Permit is valid for three years and may be extended within three months upon its expiration by the original issuing authority.

If an enterprise violates the provisions of the Regulations on Safety Production Permit and commences production without obtaining the Safety Production Permit or fails to renew the Safety Production Permit upon its expiration, the relevant authorities may order it to suspend production, confiscate the illegal gains and impose a fine on the enterprise. If a criminal offense is committed, the offender may be subject to criminal liabilities.

### LAW SUPERVISION OVER THE CHEMISTRY INDUSTRY IN CHINA

#### Regulations on the Safety Management of Hazardous Chemicals

The Regulations on the Safety Management of Hazardous Chemicals (《危險化學品安全管理條例》) (the “**Hazardous Chemical Regulations**”) were promulgated by the State Council on 26 January 2002 and revised on 2 March 2011 and 7 December 2013 respectively. The Hazardous Chemical Regulations stipulated administrative and supervisory rule for the production, storage, use, operation and transportation of hazardous chemicals. Hazardous chemicals include hyper-toxic and other chemicals that are toxic, corrosive, explosive, flammable or accelerative, and which damage human health, facilities or the environment.

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## PRC REGULATIONS

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The PRC Government exerts strict control over the manufacture and storage of hazardous chemicals and adopts a corresponding examination and approval system. Without proper examination and approval, no enterprise or individual is allowed to produce or store hazardous chemicals. The rebuilding or expansion of an enterprise that produce hazardous chemicals shall also follow the approval procedures in accordance with Hazardous Chemical Regulations. Enterprises engaging in the production of hazardous chemicals must, prior to the commencement of production, obtain a production permit for hazardous chemicals.

The safety conditions of newly built, reconstructed and expanded construction projects for the production and storage of hazardous chemicals is subject to the examination of the safety supervision regulatory authority. In the event that the enterprise undertaking such construction project fails to do so, the relevant safety supervision regulatory authority shall order the concerned party to discontinue the construction process and make corrections within a specified time limit. Failure to make corrections within the specified time limit may result in a fine of no less than RMB500,000 but not exceeding RMB1 million. If the aforesaid violation constitutes a crime, the concerned party shall be subject to criminal liability.

### **Measures for Implementation of Safety Production Permit of Hazardous Chemical Production Enterprises**

The Measures for Implementation of Safety Production Permit of Hazardous Chemical Production Enterprises (《危險化學品生產企業安全生產許可證實施辦法》) were formulated according to the Regulations on Safety Production Permit, and were promulgated by the State Administration of Work Safety (the “SAWS”) and State Administration of Coal Mine Safety and became effective on 17 May 2004. Amendments were made to such measures by the SAWS on 5 August 2011 and 27 May 2015.

According to the aforesaid measures, hazardous chemical production enterprises must obtain the Safety Production Permit for Hazardous Chemicals. The local work safety authorities at the provincial level are responsible for the issuance and administration of Safety Production Permit for Hazardous Chemicals for enterprises within its administrative regions except central enterprises and their directly controlled enterprise headquarters involved in the production of hazardous chemicals. If a hazardous chemical production enterprise commences production without obtaining the Safety Production Permit for Hazardous Chemicals, the relevant authorities may order it to suspend production, confiscate the illegal gains and impose a fine of no less than RMB100,000 but not exceeding RMB500,000 on the enterprise. If a criminal offense is committed, the offender may be subject to criminal liabilities.

### **Administrative Measures for the Registration of Hazardous Chemicals**

The Administrative Measures for the Registration of Hazardous Chemicals (《危險化學品登記管理辦法》), which were promulgated by the SAWS on 1 July 2012 and came into effect on 1 August 2012, stipulated that enterprises engaged in the production or importation of any chemical listed in the Catalogue of Hazardous Chemicals must register with the competent work safety administration authorities. Registration must be completed prior to the inspection and acceptance for the completion of construction or the first importation activity. Hazardous Chemicals Registration Certificate is valid for three years and may be renewed within three months prior to expiration upon re-examination.

### **Administrative Regulations on the Safety Supervision of Construction Project involving Hazardous Chemical**

The Administrative Regulations on the Safety Supervision of Construction Project involving Hazardous Chemical (《危險化學品建設項目安全監督管理辦法》), which were promulgated by the SAWS on 30 January 2012 and came into effect on 1 April 2012, and revised on 27 May 2015, stipulate that projects for the construction, renovation and expansion of facilities used in the production or storage of hazardous chemicals, as well as projects which generate hazardous chemicals (including hazardous chemical pipeline construction projects), are subject to inspections, supervision and administration by competent regulatory authorities. Such projects must not commence construction or operation without first completing the safety review and the acceptance of the completed safety facilities.

### **Administration Regulations on the Production Permit for Industrial Products of the PRC and the Implementation Measures**

The Administration Regulations on the Production Permit for Industrial Products of the PRC (《中華人民共和國工業產品生產許可證管理條例》) were promulgated by the State Council on 9 July 2005 and became effective on 1 September 2005. The Implementation Measures of the Administration Regulations on the Production Permit for Industrial Products of the PRC (《中華人民共和國工業產品生產許可證管理條例實施辦法》) were promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (the “GAQSIQ”) on 21 April 2014, and became effective on 1 August 2014.

Pursuant to the aforesaid regulations and implementation measures, enterprises engaged in hazardous chemical production shall obtain the production licence for industrial products. An enterprise shall meet the following requirements for obtaining a production licence for industrial products:

- (1) having a business licence which matches the production activities the enterprise engaged in;
- (2) having professional technicians qualified for the production of its products;
- (3) having suitable production conditions and means of inspection and quarantine for its products;
- (4) having suitable technical documents and technique documents for its products;
- (5) having sound and effective quality control system and responsibility system;
- (6) the products complying with the relevant national standards, industrial standards and requirements for ensuring personal health and personal and property safety; and
- (7) complying with the provisions of state industrial policies, without occurrence of the following matters which are expressly eliminated and prohibited from investment and construction by the government: outdated technique, high energy consumption, environment pollution and waste of resources.

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## PRC REGULATIONS

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The GAQSIQ is responsible for the management of the production licence for industrial products nationwide, and local bureaus of quality supervision, inspection and quarantine at provincial level may be responsible for the issuance of production licences for some products. The production licence for industrial products shall be valid for five years and may be extended within six months upon its expiration by the local bureaus of quality supervision, inspection and quarantine at provincial level.

If an enterprise violates the aforesaid regulations and implementation measures, the relevant authorities may order it to rectify the violations within a prescribed period of time or to suspend production. The relevant authorities may also confiscate the illegal products, revoke the production licence, confiscate the illegal income and impose a fine on the enterprise. If a criminal offense is committed, the responsible person may be subject to criminal liabilities.

### LEGAL SUPERVISION OVER PROPERTY IN CHINA

The Land Administration Law of the PRC (《中華人民共和國土地管理法》), which was promulgated on 25 June 1986 and revised on 29 December 1988, 29 August 1998 and 28 August 2004 by the SCNPC, and relevant regulations stipulate that urban land in the PRC belongs to the state and land in rural and suburban areas (except as otherwise owned by the state), as well as farm housing land, individual land plots and mountainous land, belongs to relevant farming collectives. State-owned land and land owned by farming collectives may, according to law, be provided for use by organised work units (including enterprises) or individuals. Enterprises or individuals wishing to use State-owned land must apply to and obtain a State Owned Land Use Rights Certificate from the competent land administration. Pursuant to relevant regulations and rules, generally speaking, state-owned land use rights are valid for a period of 70 years in respect of land for residential use, 40 years in respect of land for commerce, tourism and entertainment purpose, and 50 years in respect of land for industrial use or for comprehensive utilization or other.

Pursuant to a series of construction-related laws and regulations, including the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》), Law on Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》), the Construction Law of the PRC (《中華人民共和國建築法》), Administration Regulation on the Quality Management for Construction Projects (《建設工程質量管理條例》), Measures for Building Registration (《房屋登記辦法》) and the Provisions on Acceptance Inspection Upon Completion of House Construction and Municipal Infrastructure Projects (《房屋建築和市政基礎設施工程竣工驗收規定》), before obtaining the property ownership certificate, the developer of a construction project is required to obtain various permits, certificates and other approvals, including land use right certificate, the construction land planning permit, the construction project planning permit and construction permit in relation to such construction project. After completion of a construction project, the local government authorities would conduct an inspection and issue a certified report on the completed construction of properties and municipal infrastructure, or completion certificates, if the construction process and property comply with the relevant laws, rules and regulations.

### LEGAL SUPERVISION OVER ENVIRONMENTAL PROTECTION IN CHINA

#### **Environmental Protection Law**

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (“**Environmental Protection Law**”), which was promulgated by the SCNPC on 26 December 1989, revised on 24 April 2014 and came into effect on 1 January 2015, provides a regulatory framework to protect and develop the environment, prevent and reduce pollution and other public hazards, and safeguard human health. The environmental protection department of the State Council is in charge of promulgating national standards for environmental protection. The Environmental Protection Law requires any facility that produces pollutants or other hazards to adopt environmental protection measures in its operations and establish an environmental protection responsibility system. Enterprises that are in violation of the Environmental Protection Law may be subject to a warning, payment of damages, imposition of a fine, or limitation or suspension of production in accordance with the seriousness of the case. If a criminal offense is committed, the offender may be subject to criminal liabilities.

#### **Environmental Impact Assessment Law**

The Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》), which was promulgated by the SCNPC on 28 October 2002, revised on 2 July 2016, and with effect from 1 September 2016, stipulates that the PRC Government has established a system to assess the environmental impact from construction projects, and classify and administer the environmental impact assessments in accordance with the degree of the environmental impact. If the construction project may result in a material impact on the environment, an environmental impact report appraising thoroughly the potential environmental impact of the project is required; if the construction project may result in a slight impact on the environment, an environmental impact record of analyzing or appraising the potential environmental impact is required; if the construction project may result in very little impact on the environment, an environmental impact appraisal is not required but filing an environment impact form is needed. Responsible construction units shall prepare the environmental impact report and the report shall be approved by the relevant PRC authority before construction commences.

#### **The Law on Prevention and Control of Air Pollution**

The Law on Prevention and Control of Air Pollution of the PRC (《中華人民共和國大氣污染防治法》), which was promulgated by the SCNPC on 5 September 1987 and amended on 29 August 1995, 29 April 2000 and 29 August 2015 and came into effect on 1 January 2016, stipulates that new construction projects, expansion projects or reconstruction projects which discharge atmospheric pollutants shall comply with regulations regarding environmental protection of construction projects. The environmental impact statement of the construction projects shall include an assessment of the project impact on the ecosystem and be submitted to the environmental protection authority for approval. The construction project can only be put into operation after the environmental protection authority has examined and approved the atmospheric pollution prevention facilities.



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## PRC REGULATIONS

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### **Law on the Prevention and Control of Water Pollution**

The Law on the Prevention and Control of Water Pollution of the PRC (《中華人民共和國水污染防治法》), which was promulgated by the SCNPC on 11 May 1984 and was amended on 15 May 1996 and 28 February 2008 respectively and with effect from 1 June 2008, stipulates that an environmental impact assessment must be conducted in respect of all projects involving the construction, renovation or expansion of water facilities which discharge pollutions directly or indirectly into water. Facilities for prevention and control of water pollution must be designed, constructed and put into use or operation simultaneously with the main facility of a construction project. No construction projects shall be permitted to be put into operation or to use before its facilities for the prevention and control of water pollution have been inspected and accepted by the environmental protection administrative authorities. Furthermore, enterprises which discharge industrial sewage directly or indirectly into water systems must obtain sewage discharge permit.

### **Law on Prevention and Control of Environmental Pollution Caused by Solid Waste**

The Law on Prevention and Control of Environmental Pollution Caused by Solid Waste of the PRC (《中華人民共和國固體廢物污染環境防治法》), which was promulgated by the SCNPC on 30 October 1995 and as amended on 29 December 2004, 29 June 2013 and 24 April 2015, respectively, stipulates that construction projects where solid waste will be generated or projects for the storage, utilization or treatment of solid waste shall be subject to environmental impact assessment according to law. Facilities for the prevention and control of solid waste must be designed, constructed and put into use or operation simultaneously with the main facility of a construction project. No construction projects shall be permitted to be put into operation or to use before its facilities for the prevention and control of solid waste have been inspected and accepted by the environmental protection administrative authorities.

### **Law on Prevention and Control of Noise Pollution**

The Law on Prevention and Control of Noise Pollution (《中華人民共和國環境噪聲污染防治法》), which was promulgated by the SCNPC on 29 October 1996 and came into effect on 1 March 1997, stipulates that enterprises that may discharge noise during a construction project must prepare an environmental impact assessment report and submit it to the competent environmental protection administrative authorities for approval. No construction projects shall be permitted to commence construction or operation prior to the inspection and acceptance of facilities for prevention and control of noise pollution by the environmental protection administrative authorities.

## **LEGAL SUPERVISION OVER LABOUR PROTECTION IN CHINA**

### **The Labour Law and the Labour Contract Law**

Pursuant to the Labour Law of the PRC (《中華人民共和國勞動法》) effective on 1 January 1995 and amended on 27 August 2009, the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) promulgated by SCNPC on 29 June 2007 and revised on 28 December 2012, and the Implementing Regulations of the Labour Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》) promulgated by the State Council and became effective on 18 September 2008, an employment relationship is established from the date when an employee commences working for

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## PRC REGULATIONS

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an employer and a written employment contract shall be entered into within one month from the date on which the employee commences work. If an employer fails to enter into a written employment contract with an employee more than one month but less than one year from the date on which the employment relationship is established, it shall pay the employee twice his/her salary for each month of the past period and rectify the situation by subsequently entering into a written employment contract with the employee.

### **Laws and Regulations on the Supervision over the Social Security and Housing Funds**

As required under the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) and the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》), the Provisional Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》), the Regulation of Insurance for Work Injury (《工傷保險條例》), the Regulation of Unemployment Insurance (《失業保險條例》), the Decision of the State Council on Setting up Basic Medical Insurance System for Staff Members and Workers in Cities and Towns (《國務院關於建立城鎮職工基本醫療保險制度的決定》), enterprises are obliged to provide their employees in the PRC with welfare schemes covering basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance. If an enterprise fails to pay social insurance premiums within the time period specified by the authorities, a daily fine of 0.05% on any delinquent payments may be imposed on it. If an enterprise fails to make such payments on time, it may be liable to a fine equal to one to three times the overdue amount.

According to the Regulations on the Administration of Housing Provident Funds (《住房公積金管理條例》), enterprises should undertake registration at the competent managing centre of housing fund and then, upon the examination by such managing centre of housing fund, undergo the procedures of opening the account of housing fund for their employees at the relevant bank. Enterprises are also obliged to timely pay and deposit then housing fund in the full amount. In the event that an enterprise fails to pay housing provident fund within the time period according to the regulation, the PRC authorities may order it to pay the fund within a time limit. If the enterprise still fails to make overdue contributions, such relevant PRC authorities may apply to court for compulsory execution. If the enterprise fails to undertake registration of housing provident fund or fail to open housing fund account for its employees, the competent PRC authorities shall order the enterprise to complete such registration procedure regarding housing provident fund within a prescribed time limit. If the enterprise fails to do so within the prescribed time limit, a penalty ranging from RMB10,000 to RMB50,000 may be imposed.

### **LEGAL SUPERVISION OVER TAXATION IN CHINA**

#### **Enterprise Income Tax**

According to the PRC Enterprise Income Tax Law, which was promulgated on 16 March 2007 and became effective from 1 January 2008, the income tax for both domestic and foreign-invested enterprises is at a uniform rate of 25%. The Regulation on the Implementation of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) (the “**EIT Rules**”) was promulgated on 6 December 2007 and became effective from 1 January 2008.

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## PRC REGULATIONS

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Moreover, pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on income (內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排), a PRC resident enterprise which distributes dividends to its Hong Kong shareholders may pay income tax according to PRC law, however, if the beneficiary of the dividends is a Hong Kong resident enterprise, which directly holds no less than 25% equity interests of the aforesaid enterprise (i.e. the dividend distributor), the tax levied shall be 5% of the distributed dividends. If the beneficiary is a Hong Kong resident enterprise, which directly holds less than 25% equity interests of the aforesaid enterprise, the tax levied shall be 10% of the distributed dividends.

### Value-added Tax (“VAT”)

The Temporary Regulations on VAT of the PRC (《中華人民共和國增值稅暫行條例》), which were promulgated by the State Council on 13 December 1993 and were amended on 10 November 2008 and 6 February 2016, and the Detailed Implementing Rules of the Temporary Regulations on Value-add Tax of the PRC (《中華人民共和國增值稅暫行條例實施細則》), which were promulgated by the MOF and became effective on 25 December 1993, and were amended on 15 December 2008 and 28 October 2011, set out that entities and individuals selling goods or providing processing, repairing or replacement services and importing goods into China shall be identified as taxpayers of VAT, and shall pay VAT under the regulations, except for the small-scale taxpayers, including (i) taxpayers engaged in the production of goods or the provision of taxable services, and taxpayers engaged principally in the production of goods or provision of taxable services and also in the wholesale or retail of goods, with the annual sales amounts subject to VAT being less than RMB500,000; (ii) taxpayers other than those specified in (i), with the annual taxable sales amounts being less than RMB800,000, for taxpayers engaged in the sales of goods or the provision of taxable services, the tax payable shall be the balance of output tax for the period after deducting the input tax for the period. A tax rate of 17% shall be levied on general taxpayers selling or importing various goods (including methanol and liquid ammonia, etc.) except for certain specified goods on which a tax rate of 13% shall apply and on taxpayers providing processing, repairing or replacement service; the applicable rate for selling or importing urea shall be 13%.

Pursuant to the Notice on Levying VAT Policy on Certain Agricultural Means of Production (關於若干農業生產資料徵免增值稅政策的通知), which was promulgated by the State Administration of Taxation and the MOF and came in to effect on 20 July 2001 and Circular on Tentative Exemption From VAT on the Urea Product (關於暫免徵收尿素產品增值稅的通知), which was promulgated by the State Administration of Taxation and the MOF on 26 May 2005 and came into effect on 1 July 2005, nitrogen, urea and other certain specified chemical fertilisers were exempt from VAT.

Pursuant to the Notice on the Policies on Resuming the VAT Levy on fertilisers (關於對化肥恢復徵收增值稅政策的通知) (the “**Notice**”), which were jointly promulgated by the MOF, the General Administration of Customs and the State Administration of Taxation on 10 August 2015 and came into effect on 1 September 2015. Pursuant to the Notice, the preferential policies of exemption of VAT on certain chemical fertilisers were abolished and the taxpayer selling and importing chemical fertilisers shall be subject to 13% VAT.

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## PRC REGULATIONS

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Pursuant to the Circular on Policies for Simplifying and Consolidating VAT Rates (關於簡併增值稅稅率有關政策的通知), which was jointly promulgated by the MOF and the State Administration of Taxation on 28 April 2017 and will come into effect on 1 July 2017, the VAT rate structure will be simplified by cancelling the tax rate of 13% from 1 July 2017. Taxpayers who originally pay VAT at a level of 13% for selling or importing chemical fertilizer shall pay VAT at a level of 11% from 1 July 2017.

### **APPROVALS FROM PRC GOVERNMENT AUTHORITIES RELATING TO THE REORGANIZATION AND CIRCULAR 37**

#### **M&A Rules**

Under the M&A Rules, which was issued by the MOFCOM, State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration for Industry & Commerce of the PRC, China Securities Regulatory Commission and SAFE on 8 August 2006, effective on 8 September 2006 and further amended on 22 June 2009 by the MOFCOM, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchase and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. According to Article 11 of the M&A Rules, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company which is related to or connected with it/him, approval from MOFCOM is required.

#### **Circular 37**

SAFE promulgated Circular 37 on 4 July 2014 which rescinded the Circular 75. Subject to the Circular 37, domestic resident, individuals or institutions, are required to register with the bureau of foreign exchange administration before they invest in special purpose vehicles with legitimate assets or equity interests inside and outside the PRC. Failure to comply with the registration procedures set forth in the Circular 37 may result in restrictions imposed on the subsequent foreign exchange activities of the relevant domestic residents, including the remitting back of dividends and profits. Domestic residents who invest special purpose vehicles with legitimate assets or equity interests inside and outside the PRC prior to the implementation of the Circular 37, but fail to conduct the foreign exchange registration of overseas investments shall submit explanatory statement and state the reasons to the bureau of foreign exchange administration. The bureau of foreign exchange administration may allow complementary registration under the principles of legality and legitimacy. In the event of any violation of foreign exchange regulations by domestic residents who apply for the foresaid complementary registration, administrative penalty would be imposed in accordance with relevant laws.

On 13 February 2015, SAFE issued Circular 13, which has simplified the registration requirements of Circular 37 by allowing PRC residents or institutions to register with designated banks rather than SAFE or its local branches in terms of the foreign exchange registration of offshore entities established or controlled by the PRC residents for the purpose of overseas investment and financing.

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## PRC REGULATIONS

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### LEGAL SUPERVISION OVER FOREIGN CURRENCY EXCHANGE

Pursuant to the Rules for Administration of Foreign Exchange of the PRC (《中華人民共和國外匯管理條例》), which were amended on 5 August 2008, Renminbi is freely convertible for current account items, including the distribution of dividends payments, interest payments, trade and service-related foreign exchange transactions. Conversion of Renminbi for capital account items, such as direct investment, loans, securities investment and repatriation of investment, however, is still generally subject to the approval or verification of the SAFE.

Pursuant to the Regulation of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》), promulgated on 20 June 1996 by the PBOC and which became effective on 1 July 1996, the Foreign-Invested Enterprises (“**FIE**”), may only buy, sell or remit foreign currencies at those banks authorised to conduct foreign exchange business after providing valid commercial supporting documents and, in the case of capital account item transactions, obtaining approvals from the SAFE.

According to Circular 13, the SAFE cancels the confirmation and registration requirements for foreign investors’ non-monetary contribution and contribution to purchase equity interest held by Chinese parties under domestic direct investment. The confirmation and registration requirements for foreign investors’ monetary contribution is simplified to book-entry registration under domestic direct investment.

Pursuant to Circular 19 and Circular 16, the foreign exchange capital in the capital account of foreign-invested enterprises for which the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) has been handled can be settled at the banks based on the actual operation needs of the enterprises. The use of capital by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises other than used for the following purposes: for the payment beyond the business scope of the enterprises or the payment prohibited by national laws and regulations, for investment in securities or other finance and investment except for principal-guaranteed bank products unless otherwise provided for granting loans to non-related enterprises unless explicitly permitted by the scope of business, or for paying the expenses related to the construction or purchase of real estate not for self-use, except for real estate enterprises.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### HISTORY AND DEVELOPMENT

We commenced our business in July 1998 through our sole operating subsidiary Dongguang Chemical. Dongguang Chemical was established pursuant to the restructuring of Dongguang Huafei from a state-owned enterprise to a domestic limited company in July 1998 and was founded by Mr. Wang, Mr. Sun, Mr. Xu, Mr. ZS Sun, Mr. HL Li, Mr. Song, each of them a SCH Ultimate Shareholder and a Controlling Shareholder (details of the remaining SCH Ultimate Shareholders, namely Mr. Guo, Ms. GE Li and Mr. Liu, are set out in the section headed “Relationship with our Controlling Shareholders – Independence from our Controlling Shareholders” in this prospectus), Mr. Zhu Xiangying (朱項英), Mr. Ren Zhongrang (任忠讓), Mr. Wei Zhenming (魏振明) and the Employee Share Ownership Committee upon its establishment. Mr. Wang, Mr. Sun, Mr. Xu, Mr. ZS Sun, Mr. HL Li and Mr. Song are our existing directors and/or our employees. Mr. Zhu Xiangying (朱項英), Mr. Ren Zhongrang (任忠讓) and Mr. Wei Zhenming (魏振明) were the then employees of Dongguang Chemical. As for the Employee Share Ownership Committee, the member of such committee comprises of the then employees of Dongguang Chemical. All of these individual founders and the members of the Employee Share Ownership Committee had been employees of Dongguang Huafei, the predecessor company of Dongguang Chemical. The founders founded Dongguang Chemical with his/her own financial resources. Please refer to the paragraph headed “Directors and Senior Management – Directors – Executive Directors” in this prospectus for further information on Mr. Wang, Mr. Sun, Mr. Xu and Mr. ZS Sun.

We are one of the major coal-based urea producers in the PRC with headquarters in Hebei. According to Frost & Sullivan, we ranked No. 9 among all urea production companies in the PRC in terms of both production capacity and revenue from sales of urea in 2016. In addition, we also ranked No. 3 and No. 11 in terms of revenue from sale of urea for industrial use and agricultural use, respectively, among all urea production companies in the PRC in 2016. Please refer to the section headed “Business” in this prospectus for further details of our business operations,

Our business and corporate milestones are set out below.

#### Milestones

The following events are the key corporate and business development milestones of our Group:

July 1998	Establishment of Dongguang Chemical pursuant to the restructuring of Dongguang Huafei from a state-owned enterprise to a domestic limited company
July 2001	Started to shift from the manufacturing of ammonium to urea
May 2007	Commencement of construction of Plant Two
January 2008	Conversion of Dongguang Chemical from a domestic limited company into a sino-foreign equity joint venture enterprise

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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July 2009	Completion of construction of Plant Two
October 2012	Commencement of construction of Plant One
April 2014	We closed the Old Plant
August 2014	Completion of the construction of Plant One
December 2014	Established a production line for production of large granular urea
April 2016	Commencement of formal production of LNG by recycling gas emission created during the urea production process

### **ESTABLISHMENT AND MAJOR CHANGES CONCERNING OUR COMPANY AND THE SOLE OPERATING SUBSIDIARY OF OUR COMPANY**

During the Track Record Period, the principal business of our Group had been operated under a sole operating subsidiary of our Company. The establishment and major changes concerning our Company and this sole operating subsidiary are set out below.

#### **Incorporation and change in issued share capital of our Company**

Our Company was incorporated on 26 July 2013 as part of the Reorganisation. Upon incorporation, one subscriber Share was issued, at US\$1, by our Company to a subscriber which was transferred on the same day to Gao Jun, an Independent Third Party, at US\$1. On the same date, an aggregate of 49,999 Shares were allotted and issued, credited as fully paid, by our Company to Gao Jun.

On 15 April 2014, the authorised share capital of our Company was subdivided from US\$50,000 divided into 50,000 Shares having a par value of US\$1 each to US\$50,000 divided into 500,000,000 Shares having a par value of US\$0.0001 each. On 12 June 2014, our Company had repurchased the 500,000,000 Shares, representing the then entire issued share capital of our Company, from Gao Jun and such Shares were cancelled against the then issued share capital of our Company. On the same date, an aggregate of 200 million Shares were allotted and issued, credited as fully paid, by our Company to Sino-Coal Holding. As a result, the entire issued share capital of our Company was wholly owned by Sino-Coal Holding.

On 28 November 2014, an aggregate of 73,600,000 Shares were allotted and issued, fully paid, by our Company to Sino-Coal Holding. On the same date, as part of the Reorganisation, our Company acquired from Bloom Ocean its entire issued share capital in, and the then shareholder's loan to, Sino Nitrogen. The consideration was satisfied by the allotment and issue, credited as fully paid, by our Company of an aggregate of 176,400,000 Shares to Bloom Ocean. Please refer to the paragraph headed "The Reorganisation – (6) Acquisition of Sino Nitrogen by our Company" in this section for further information. As a result, our Company has been owned as to 60.8% by Sino-Coal Holding and as to 39.2% by Bloom Ocean.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

On 19 May 2015, as part of the Reorganisation, 6,080,000 new Shares were issued by our Company to Sino-Coal Holding as loan capitalisation. On the same date, Bloom Ocean subscribed for 3,920,000 Shares at par as top up subscription. Please refer to the paragraph headed “The Reorganisation – (7) Loan capitalisation and top up issue” in this section for further information.

Please refer to the section headed “Relationship with our Controlling Shareholders” for further information on the SCH Ultimate Shareholders, Mr. Wang, Mr. Sun and Mr. Yip as parties acting in concert (within the meaning under the Takeovers Code).

### **Establishment and major changes concerning Dongguang Chemical, the sole operating subsidiary of our Company, which is established in the PRC**

#### *(a) Incorporation of Dongguang Chemical*

Dongguang Chemical is a wholly foreign owned enterprise established under the laws of the PRC on 1 July 1998. It principally engages in the manufacture of coal-based urea. At the time of establishment, Dongguang Chemical’s registered capital amounted to approximately RMB4.30 million which had been fully paid up and was owned by the following shareholders:

<u>Name of shareholders</u>	<u>Percentage of equity interests held</u>	<u>Relationship with our Group</u>
	<i>(Approximate)</i>	
1. Employee Share Ownership Committee	74.7%	The Employee Share Ownership Committee is an association of employees through which the employees hold equity interests in Dongguang Chemical in which they are employed
2. Mr. Wang	5.4%	Each an executive Director, a Controlling Shareholder and a SCH Ultimate Shareholder
3. Mr. Sun	4.4%	
4. Mr. Xu	1.9%	
5. Mr. ZS Sun	4.2%	
6. Mr. HL Li	1.9%	
7. Mr. Song	1.9%	Each a SCH Ultimate Shareholder and a Controlling Shareholder
8. Mr. Zhu Xiangying	1.9%	Each a then employee of Dongguang Chemical
9. Mr. Ren Zhongrang	1.9%	
10. Mr. Wei Zhenming	1.9%	
Total:	100%	



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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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(b) *U.S. listing attempt and entering into, and termination of, the contractual arrangements*

In 2010, Dongguang Chemical considered the possibility to seek listing in the United States so as to gain access to capital in the United States for further growth. Our Group submitted on a confidential basis, a draft Form F-1 registration statement to the U.S. Securities and Exchange Commission (“SEC”) in December 2010 under the foreign issuer non-public submission policy. Such submission was not a formal filing, but allowed us to obtain SEC’s preliminary view in relation to a possible future formal registration of a public offering or listing of securities in the United States (the “**Confidential Submission**”). In response to the Confidential Submission, SEC raised comments in January 2011 and November 2011 on the draft Form F-1 registration statement submitted with the Confidential Submission, and the SEC raised certain comments, inter alia, which required our Group to:

- **Industry:** provide backup materials for the industry ranking and qualitative information about the industry, the business and the competitive advantages cited for the Company in the draft Form F-1 registration statement;
- **Business:** make additional and/or relevant disclosure in relation to, among others, pricing of urea, historical customer base, and substantiate/elaborate the strengths and strategies;
- **Financial:** quantify factors that affect results of operations, enhance disclosure to discuss the trend of financial figures including revenue and interest expenses, elaborate on the notes receivable from customer for purchase of products and enhance disclosure regarding certain outstanding related party loans;
- **Taxation laws:** elaborate on certain taxation laws in the PRC and the United States to clarify whether certain laws were applicable and how they may affect potential investors and Dongguang Chemical and whether Dongguang Chemical was regarded as “resident enterprise” for PRC taxation purpose; and
- **Others:** enhance disclosure of material agreements including the contractual arrangements, add relevant risk factors based on enhanced disclosures, provide quantitative estimations on the legal, accounting and other expenses, and use of proceeds in the draft Form F-1 registration statement.

SEC also raised some other drafting comments in respect of certain tables and the writing style of the draft Form F-1 registration statement. None of the comments raised by SEC related to any historical legal or other regulatory non-compliance issues of our Group, any misstatement of the financial information of our Group or any other matter which may otherwise render us not suitable for listing on the Stock Exchange. Our Group addressed the comments made in January 2011 by way of submitting an amendment to the draft Form F-1 registration statement in early November 2011. As Dongguang Chemical decided not to proceed with the possibility to seek listing in the United States subsequently as a result of the unfavourable market conditions at that time, the comments made on by SEC in late November 2011 had not been addressed. No formal filing of the requisite registration statement for public offerings and listing in United States had been made by Dongguang Chemical under the U.S. Securities Act.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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To the best knowledge, information and belief of our Directors having made all reasonable enquiries, our Directors confirm that (i) the SEC's comments were primarily relating to disclosure or required clarification; (ii) Dongguang Chemical's decision for not proceeding the U.S. listing attempt was due to unfavourable capital market conditions, but not any difficulty in addressing the SEC comments; and (iii) they are not aware of any such comments from SEC which indicated that our Group was not suitable for a formal registration of an offering of securities in the United States should our Group proceed to make a formal filing. Our Directors are of the view that there was nothing in the comments or in the course of the Confidential Submission that was material to the effect that it would have resulted in the SEC preventing us from proceeding with its U.S. listing attempt should we have chosen to proceed with it. On such basis, our Directors are of the view that the Confidential Submission has no adverse implication on our proposed listing in Hong Kong and are not aware of any matters arising from the Confidential Submission and the comments raised by SEC which may affect the suitability of the Company to list its shares on the Stock Exchange.

In relation to the previous U.S. listing attempt, the Sole Sponsor reviewed the relevant documents including the written correspondence with the SEC relating to the Confidential Submission provided by the Company, and had discussions with the Company and the Company's special U.S. counsel (engaged to, inter alia, conduct due diligence on the U.S. listing attempt) to further understand the U.S. listing attempt and the Confidential Submission. Whilst the Sole Sponsor does not have the relevant qualification or expertise in relation to the previous U.S. listing attempt, based on the due diligence steps undertaken by the Sole Sponsor and the information and representation given to the Sole Sponsor, nothing has come to the Sole Sponsor's attention that could cast doubts on the Directors' views set out above.

At the time when the Confidential Submission was made, the then PRC laws and regulations did not prohibit or restrict foreign ownership in the manufacture of urea. However, the then PRC laws and regulations did prevent direct foreign investment in certain industries. To avoid such uncertainties and the then concern regarding the possible future foreign ownership restrictions, on 16 August 2010, the following contractual arrangements ("**Contractual Arrangements**") were entered into:

1. an exclusive business cooperation agreement entered into between Dongguang Zhonghe Import and Export Trade Co., Ltd. (東光衆和進出口貿易有限公司) ("**Zhonghe Export**") and Dongguang Chemical pursuant to which Zhonghe Export were appointed as Dongguang Chemical's exclusive services provider to provide management consulting, staff training, business support, financing and related services related to the business operations of Dongguang Chemical;
2. an exclusive option agreement entered into between Zhonghe Export, Dongguang Chemical, the SCH Ultimate Shareholders, Mr. Li Guangkai and Sino Emirates pursuant to which Zhonghe Export has an exclusive option to purchase, or to designate another qualified person to purchase, the equity interests in Dongguang Chemical then held by SCH Ultimate Shareholders, Mr. Li Guangkai and Sino Emirates;

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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3. a power of attorney executed by the SCH Ultimate Shareholders, Mr. Li Guangkai and Sino Emirates in favour of Zhonghe Export pursuant to which Zhonghe Export is provided with the power to act as its or his/her exclusive agent with respect to all matters related to the ownership of Dongguang Chemical, including the right to sell, transfer, pledge or dispose of the equity interests in part or in whole, exercise all shareholders' rights and voting rights to which it or his/her is entitled under the PRC law and in accordance with the articles of association of Dongguang Chemical; and
4. a share pledge agreement entered into between Zhonghe Export, the SCH Ultimate Shareholders, Mr. Li Guangkai and Sino Emirates pursuant to which the SCH Ultimate Shareholders, Mr. Li Guangkai and Sino Emirates pledged its or his/her equity interest in Dongguang Chemical to Zhonghe Export to secure Dongguang Chemicals' obligations under the exclusive business cooperation agreement.

As Dongguang Chemical decided not to proceed with the possibility to seek listing in the United States subsequently, each of the above Contractual Arrangements were terminated on 3 December 2012 and as advised by our PRC legal advisors, the termination of each of the Contractual Arrangements was binding among the parties thereto and the Contractual Arrangements has been effectively unwind as of such date. For so long as our Directors understand, there were no disagreements between our Group and the SEC in relation to the Confidential Submission and the U.S. listing attempt, and, save for the decision for not to proceed with the possibility to seek listing in the United States, there were no disagreements between our Group and the related professional parties of the U.S. listing attempt. Save as disclosed herein, 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 attempt for listing in the United States that needs to be brought to the attention of our Shareholders and potential investors of our Company.

*(c) Acquisition of the remaining equity interest in Dongguang Chemical by Sino Emirates and transformation into a wholly foreign owned enterprise*

On 25 November 2014, the SCH Ultimate Shareholders entered into an equity transfer agreement with Sino Emirates, pursuant to which Sino Emirates agreed to acquire from each of the SCH Ultimate Shareholders his/her entire interest in Dongguang Chemical for cash at the aggregate consideration of RMB54,720,000, which is equivalent to the aggregate amount of registered capital then held by each of the SCH Ultimate Shareholders. Such consideration was determined between the parties on an arm's length basis with reference to the registered capital then owned by each of the SCH Ultimate Shareholders. 50% of such consideration was payable within 15 days after completion of the change in transfer of the above registered capital with the relevant Administration for Industry and Commerce Bureau; and the remaining balance being payable within 90 days after completion of the change in transfer of the above registered capital with the relevant Administration for Industry and Commerce Bureau. A new business licence was issued by Cangzhou City Administration for Industry and Commerce Bureau\* (沧州市工商行政管理局) on 28 November 2014 and the above transfers were completed as at such date. As a result, Dongguang Chemical's registered capital was wholly owned by Sino Emirates.

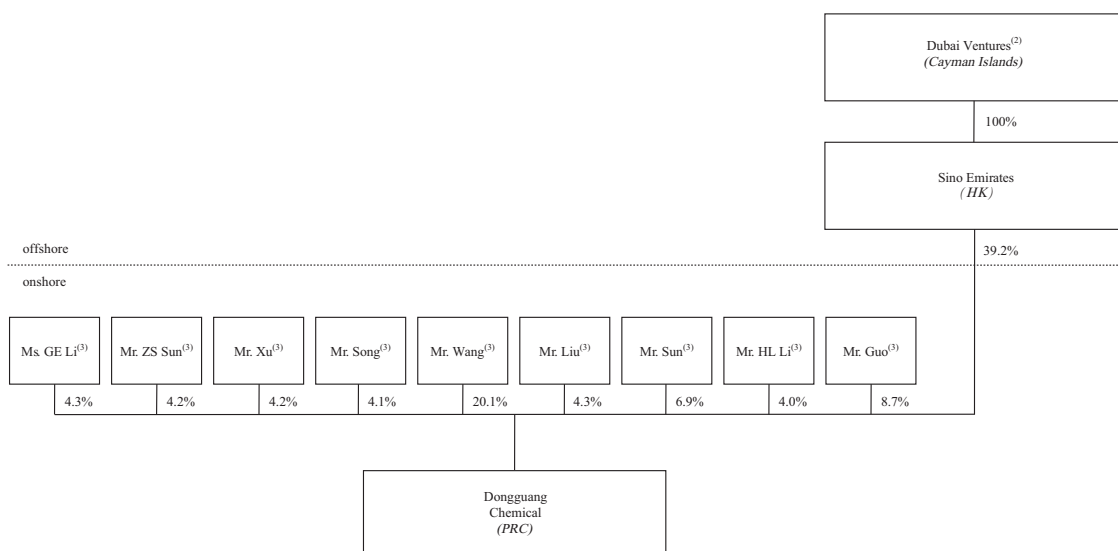
## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

A certificate of approval for establishment of enterprises with investment of Taiwan, Hong Kong, Macao and overseas Chinese in the PRC has been issued by The People's Government of Hebei Province (河北省人民政府) on 28 November 2014 and with effective from such date, Dongguang Chemical has become a wholly foreign owned enterprise established under the laws of the PRC.

Dongguang Chemical became an indirect wholly owned subsidiary of our Company upon completion of the acquisition of Sino Nitrogen by our Company as part of our Reorganisation. Please refer to the paragraph headed "The Reorganisation" in this section for further information on the acquisition of Sino Nitrogen by our Company.

### THE REORGANISATION

Prior to the Reorganisation, the structure of our Group was as follows:



*Notes:*

1. All percentages shown in this chart are approximate figures
2. Dubai Ventures is a company incorporated in the Cayman Islands with limited liability, an Independent Third Party.
3. All of them are PRC natural persons. They are SCH Ultimate Shareholders and are parties acting in concert (within the meaning under the Takeovers Code) with each other. Please refer to the section headed "Relationship with our Controlling Shareholders" for further information.

### Corporate restructuring

To rationalise our Group's structure in preparation for the Listing, our Group underwent various corporate structuring as more particularly described as follows:

(1) *Incorporation of our Company*

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 26 July 2013 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 1 December 2016. Please refer to the above paragraph headed "Establishment and major changes concerning our Company and the sole operating subsidiary of our Company – Incorporation and change in issued share capital of our Company" in this section for information on the change in issued share capital of our Company.

(2) *Incorporation of Sino-Coal Samoa*

Sino-Coal Samoa was incorporated on 27 February 2014 in Samoa as an international company with 1,000,000 authorised shares of US\$1 each. On the same day, 1,000,000 shares of US\$1 each was allotted and issued, credited as fully paid, to our Company, as a result of which the entire issued share capital of Sino-Coal Samoa was wholly owned by our Company.

(3) *Incorporation of Sino Nitrogen*

Sino Nitrogen was incorporated on 13 June 2014 in the BVI as a limited liability company with 50,000 authorised shares of US\$1 each. On the same day, one share of US\$1 was allotted and issued, credited as fully paid, to Bloom Ocean, as a result of which the entire issued share capital of Sino Nitrogen was wholly owned by Bloom Ocean.

(4) *Acquisition of Sino Emirates by Sino Nitrogen*

On 18 July 2014, Sino Nitrogen acquired from Dubai Ventures its entire issued share capital in, and shareholder's loan to, Sino Emirates by paying a cash consideration for an aggregate amount of US\$26 million, of which the consideration for the entire issued share capital in Sino Emirates was US\$8,041,729.90 and the consideration for the then shareholder's loan was US\$17,958,270.10. Such aggregate consideration was settled on 16 July 2014. The consideration was determined with reference to the net asset value of Dongguang Chemical as at 31 December 2013 and the then outstanding unsecured interest free intercompany loan advanced to Sino Emirates by Dubai Ventures. Following such acquisition, Sino Emirates became a wholly owned subsidiary of Sino Nitrogen.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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(5) *Acquisition of the remaining equity interest in Dongguang Chemical by Sino Emirates*

Pursuant to an equity transfer agreement dated 25 November 2014 and entered into between the SCH Ultimate Shareholders and Sino Emirates, the SCH Ultimate Shareholders transferred his/her entire interest in Dongguang Chemical, which in aggregate accounts for 60.8% of the equity interest in Dongguang Chemical, for cash at the aggregate consideration of RMB54,720,000 which is equivalent to the aggregate amount of registered capital then held by each of the SCH Ultimate Shareholders. Such consideration was determined between the parties on an arm's length basis with reference to the registered capital then owned by each of the SCH Ultimate Shareholders and the transfer became effective on 28 November 2014.

(6) *Acquisition of Sino Nitrogen by our Company*

On 28 November 2014, our Company acquired from Bloom Ocean its entire issued share capital in, and shareholder's loan to, Sino Nitrogen at a consideration of RMB720,386,000 for the entire issued share capital in Sino Nitrogen and at a consideration of US\$27,000,000 for the then shareholder's loan. The consideration was determined with reference to the then net asset value of Sino Nitrogen and the then outstanding unsecured interest free intercompany loan advanced to Sino Nitrogen by Bloom Ocean. At the direction of our Company, Bloom Ocean transferred the entire issued share capital in Sino Nitrogen, and assigned the then shareholder's loan to, Sino-Coal Samoa and the consideration was settled by our Company by allotting and issuing, credited as fully paid, 176,400,000 new Shares to Bloom Ocean. Following such acquisition, Sino Nitrogen became an indirect wholly owned subsidiary of our Company.

(7) *Loan capitalisation and top up issue*

On 19 May 2015, as part of the Reorganisation, certain non-interest bearing shareholder's loan due and owing by our Company to Sino-Coal Holding, which amounts to approximately US\$5 million, was settled by our Company by allotting and issuing, credited as fully paid, 6,080,000 new Shares by our Company to Sino-Coal Holding. In order for Bloom Ocean to maintain its then shareholding in our Company at 39.2%, Bloom Ocean subscribed for 3,920,000 Shares at par on the same date.

Upon completion of the above corporate restructuring, our Company became the holding company of the members of our Group.

As advised by our PRC Legal Adviser, we have obtained and completed all the requisite and approvals, registrations and/or filings formalities in all material aspects from the relevant PRC Government authorities in respect of the Reorganisation, and the Reorganisation to the extent that PRC laws are applicable, has complied with the applicable laws and regulations in the PRC. Each of the SCH Ultimate Shareholders, being our Controlling Shareholders and a PRC resident, had filed application pursuant to the relevant overseas investment foreign exchange registration procedures under the Notice No. 37 on 8 August 2014, in respect of his/her establishment and acquisition of control of special purpose companies for equity financing and/or return investment of our Group and such registration had been completed.

### PRE-IPO INVESTMENTS

For the benefit of our Reorganisation, we entered into the below Pre-IPO investments:

(1) **Investment by PNB-SBI**

*The subscription of the PNB-SBI Exchangeable Notes*

On 12 December 2014, (i) Bloom Ocean as issuer; (ii) PNB-SBI as investor; and (iii) Mr. Wang and Mr. Sun as guarantors entered into a subscription agreement (“**PNB-SBI Subscription Agreement**”) for the subscription of the PNB-SBI Exchangeable Notes. Bloom Ocean issued the PNB-SBI Exchangeable Notes to PNB-SBI on 5 January 2015.

The principal amount of the PNB-SBI Exchangeable Notes was US\$5 million with an interest rate of 12% per annum and maturity date on 5 January 2017. Pursuant to the exchangeable note instrument (the “**PNB-SBI Notes Instrument**”) dated 5 January 2015 and entered into between Bloom Ocean as issuer, our Company, Sino-Coal Holding, the SCH Ultimate Shareholders as the promoters and PNB-SBI as the noteholder, at any time prior to the redemption date of the PNB-SBI Exchangeable Notes, all the PNB-SBI Exchangeable Notes shall be automatically and mandatorily exchangeable into Shares (the “**PNB-SBI Exchangeable Shares**”) which shall be transferred to PNB-SBI by Bloom Ocean on the earlier of the Listing Date or (if so restricted under the Listing Rules) the date falling five clear Business Days prior to the date of the expected hearing by the Stock Exchange of the application for Listing. The number of PNB-SBI Exchangeable Shares transferrable by Bloom Ocean was determined based on the following formula:

$$CS = (OPA/158,400,000) \times OS$$

Where:

CS means the number of PNB-SBI Exchangeable Shares to be transferred to PNB-SBI, rounded to the nearest whole number of Shares

OPA means the US\$ amount of the outstanding principal amount of the PNB-SBI Exchangeable Notes registered in the name of PNB-SBI as at the date of conversion

OS means the total number of issued Shares outstanding as at the PNB-SBI Conversion Date, excluding such Shares allotted and issued pursuant to the Global Offering

Bloom Ocean had also granted a put option to PNB-SBI pursuant to which, in the event that the PNB-SBI Exchangeable Notes shall be converted into PNB-SBI Exchangeable Shares but the Listing fail to occur on or before the maturity date, PNB-SBI may request Bloom Ocean to acquire all the PNB-SBI Exchangeable Shares and any Shares held by PNB-SBI derived therefrom.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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The PNB-SBI Exchangeable Notes had been redeemed in full by Bloom Ocean upon maturity on 5 January 2017 in accordance with the terms and conditions of the PNB-SBI Exchangeable Notes. The PNB-SBI Exchangeable Notes had not been exchanged into any PNB-SBI Exchangeable Shares. Following the redemption of PNB-SBI Exchangeable Notes, the special rights granted to PNB-SBI (such as right to designate an observer to the Board, information rights and visiting rights, pre-emptive rights and tag along rights) had been terminated, and the personal guarantee given by Mr. Wang and Mr. Sun in favour of PNB-SBI to secure the due and punctual payment of all monies obligations and liabilities due, owing or incurred to PNB-SBI by Bloom Ocean under the PNB-SBI Subscription Agreement or PNB-SBI Notes Instrument or the PNB-SBI Exchangeable Notes had been released on the same date.

The proceeds from the PNB-SBI Exchangeable Notes had been fully utilised for acquisition of the remaining equity interest in Dongguang Chemical by Sino Emirates from the SCH Ultimate Shareholders (details of which are set out in the above paragraph headed “The Reorganisation – Corporate Restructuring – (5) Acquisition of the remaining equity interest in Dongguang Chemical by Sino Emirates” in this section) and payment of the Listing expenses.

### Information about PNB-SBI

PNB-SBI is a private fund established in the Federal Territory of Labuan on 10 December 2009 as a limited partnership. It is a US\$50 million joint venture fund and it focuses on investments in the Asia Pacific Region, with an emphasis on the ASEAN countries. PNB-SBI is jointly managed and owned by PNB Equity Resource Corporation Sdn Berhad, the private equity investment arm of Pemodalan Nasional Berhad, and SBI Holdings Inc (formerly known as Softbank Investment Corporation), an asset management company that focuses on, among others, brokerage and investment banking, financial services. The sole general partner of PNB-SBI is PNB-SBI Asean Gateway Investment Management Limited incorporated in the Federal Territory of Labuan. Save as disclosed above, neither PNB-SBI nor any of its beneficial owners has any other relationship with our Group or any connected person of our Company.

### (2) Investment by CCCO

#### *The subscription of the CCCO Bonds and the CCCO CB*

On 28 May 2015, (i) our Company as the issuer; (ii) Sino-Coal Holding, Bloom Ocean, Timely Moon, Plenty Sun, Mr. Wang and Mr. Sun (collectively, as the “**CCCO Guarantors**”); and (iii) CCCO as the investor entered into a subscription agreement (i.e. the CCCO Subscription Agreement) for the subscription of the CCCO Bonds (comprising the CCCO First Tranche Bond and the CCCO Second Tranche Bond) and the CCCO CB for cash at the consideration equal to 100% of the respective principal amounts of the CCCO Bonds and the CCCO CB, payable by CCCO to our Company. The maturity dates of the CCCO First Tranche Bond and CCCO Second Tranche Bond were 31 December 2015 and 31 August 2016, respectively and the maturity date of the CCCO CB was 2 September 2016. Our Company issued the CCCO Bonds and the CCCO CB to CCCO on 3 June 2015. The CCCO First Tranche Bond was redeemed in full by our Company on 15 January 2016. By mutual agreement between our Company and CCCO, the CCCO Second Tranche Bond and the



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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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CCCO CB were redeemed by our Company on 8 August 2016. Please refer to the paragraph headed “Relationship with our Controlling Shareholders – Independence from our Controlling Shareholders – Financial independence” for the financing and refinancing arrangements for the redemption of CCCO Bonds and CCCO CB.

### *Security and undertakings*

In connection with the issue of the CCCO Bonds and the CCCO CB, the following share charges and guarantee and indemnity were provided in favour of CCCO:

- CCCO Share Charges:**
- (a) a charge over the entire issued share capital of Bloom Ocean dated 3 June 2015 and executed and delivered by Mr. Wang, Mr. Sun, Timely Moon, Plenty Sun and Mr. Yip in favour of CCCO;
  - (b) a charge over the 51.809% of the entire issued share capital of Sino-Coal Holding dated 3 June 2015 and executed and delivered by Mr. Wang, Mr. Sun, Timely Moon and Plenty Sun in favour of CCCO;
  - (c) a charge over the entire issued share capital of our Company dated 3 June 2015 and executed and delivered by Sino-Coal Holding and Bloom Ocean in favour of CCCO;
  - (d) a charge over the entire issued share capital of Sino-Coal Samoa dated 3 June 2015 and executed and delivered by our Company in favour of CCCO;
  - (e) a charge over the entire issued share capital of Sino Nitrogen dated 3 June 2015 and executed and delivered by Sino-Coal Samoa in favour of CCCO; and
  - (f) a charge over the entire issued share capital of Sino Emirates dated 3 June 2015 and executed and delivered by Sino Nitrogen in favour of CCCO.

Upon the redemption of the CCCO Second Tranche Bond and the CCCO CB by our Company, the CCCO Share Charges were discharged on 8 August 2016.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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**CCCO Deed of Guarantee:** a deed of guarantee and indemnity dated 3 June 2015 and given by (i) Mr. Wang, Mr. Sun, Timely Moon, Plenty Sun, Sino-Coal Holding, Bloom Ocean (collectively, the “**CCCO Shareholder Guarantors**”); (ii) our Company, Sino-Coal Samoa, Sino Nitrogen and Sino Emirates in favour of CCCO

In respect of the CCCO Shareholder Guarantors, their guarantee obligations under the guarantee and indemnity in respect of obligations of our Group under the CCCO investment documents shall lapse immediately upon the Listing Date. Upon the redemption of the CCCO Second Tranche Bond and the CCCO CB by our Company, the CCCO Deed of Guarantee was released and discharged on 8 August 2016.

### *CCCO SHA*

As one of the conditions precedent to the CCCO Subscription Agreement, each of the CCCO Guarantors and Mr. Yip entered into the CCCO SHA on 3 June 2015 to regulate the relationship among the parties thereto and the manner in which the affairs of our Company and our Group are to be regulated. Under the CCCO SHA, CCCO was granted a number of special rights. Upon the redemption of the CCCO Second Tranche Bond and the CCCO CB by our Company, the CCCO SHA was terminated and ceased to have effect on 8 August 2016.

### **Information about CCCO**

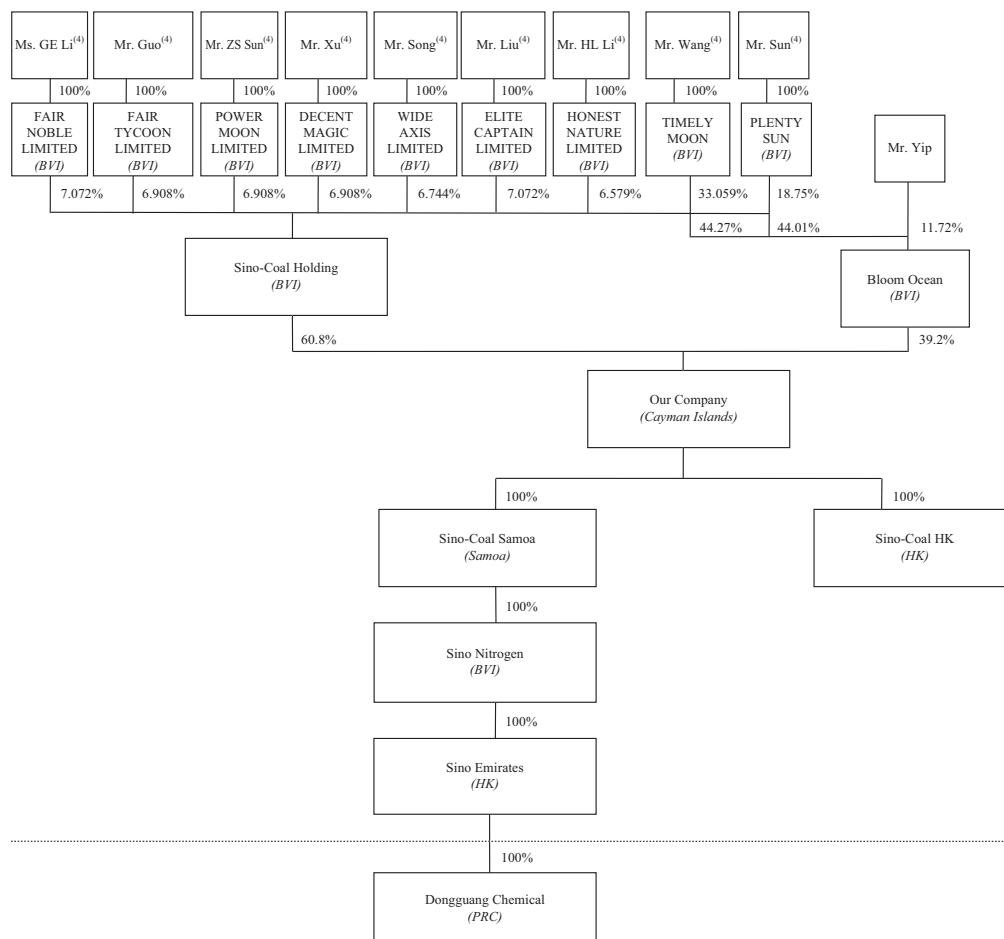
CITIC Capital China Opportunities, L.P. is the sole shareholder of CCCO. CITIC Capital China Opportunities, L.P. is managed by CCCO GP Ltd., an indirect wholly-owned subsidiary of CITIC Capital Holdings Limited. CITIC Capital Holdings Limited is an alternative investment management and advisory company primarily engaging in private equity, real estate, structured investment and finance, asset management and ventures with asset under management of over US\$7.9 billion. Save as disclosed above, neither CCCO nor any of its beneficial owners has any other relationship with our Group or any connected person of our Company.

The above pre-IPO exchangeable notes and bonds had been redeemed in full and there were no pre-IPO investment arrangement subsisting as at the Latest Practicable Date.

# HISTORY, REORGANISATION AND CORPORATE STRUCTURE

## CORPORATE STRUCTURE

The following chart sets out the shareholding and corporate structure of our Group immediately before the completion of the Global Offering:



### Notes:

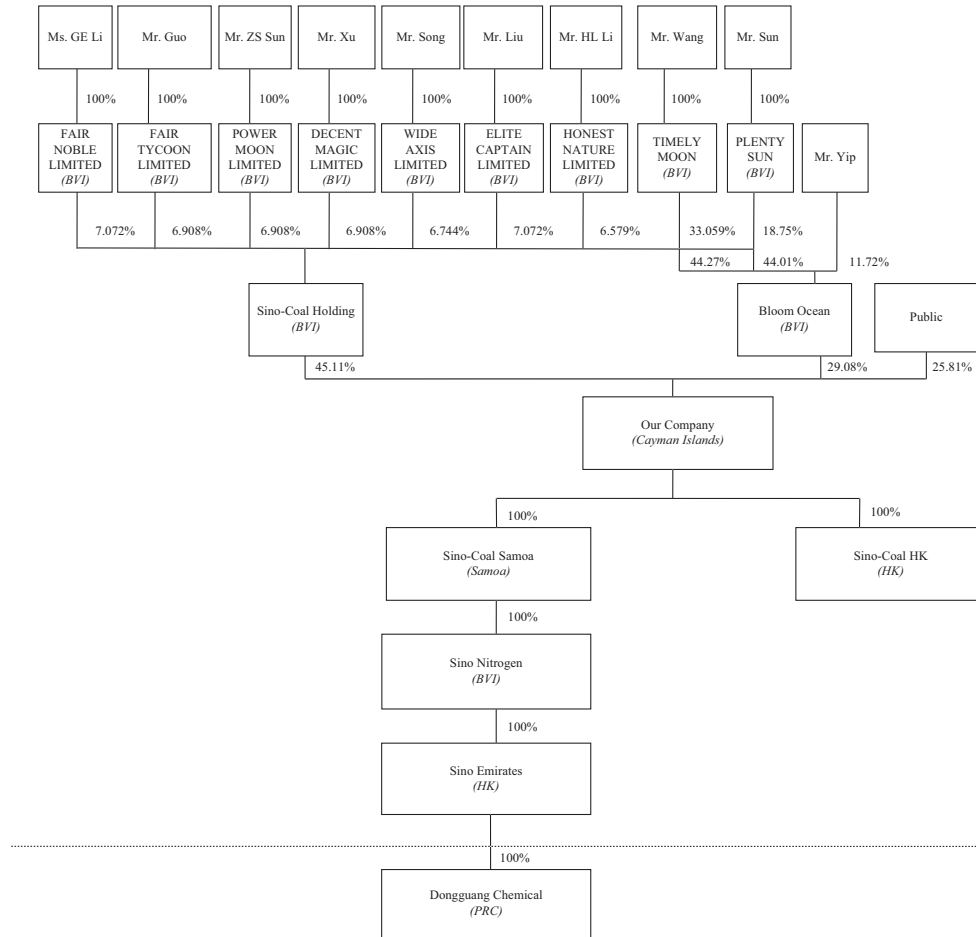
1. All percentages shown in this chart are approximate figures
2. The following table summarises the brief details of our Company and the major operating subsidiary of our Company as at the Latest Practicable Date:

	<u>Name of Group companies</u>	<u>Date of incorporation</u>	<u>Place of incorporation</u>	<u>Principal activities</u>
1.	Our Company	26 July 2013	Cayman Islands	Investment holding
2.	Dongguang Chemical	1 July 1998	PRC	Manufacture of coal-based urea

3. Please refer to Note 1(b) of Section II in the Accountants' Report in Appendix I to this prospectus for further information of our subsidiaries.
4. All of them are PRC natural persons. They are SCH Ultimate Shareholders and are parties acting in concert (within the meaning under the Takeovers Code) with each other. Please refer to the section headed "Relationship with our Controlling Shareholders" in this prospectus for further information.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets out the shareholding and corporate structure of our Group immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and taking no account of any Shares which may be taken up under the Global Offering and any Shares which may be allotted and issued pursuant to the exercise of options to be granted under the Share Option Scheme):



*Note:* All percentages shown in this chart are approximate figures.

### OVERVIEW

We are one of the major coal-based urea producers with annualised designed production capacity of approximately 1.1 million tonnes of urea in the PRC and with headquarters in Hebei Province. According to Frost & Sullivan, we ranked No. 9 among all urea production companies in the PRC in terms of both production capacity and revenue from sales of urea in 2016. In addition, we ranked No. 3 and No. 11 in terms of revenue from sale of urea for industrial use and agricultural use, respectively, among all urea production companies in the PRC in 2016. In 2016, in recognition of our high occupational and production safety standard and our strong financial performance in 2015, we were accredited as “Safety Production Standardisation Second-Class Enterprise” and “2015 National Top 20 Gross Profit Enterprise in Nitrogen Fertiliser Industry” by Safety Production Supervision and Management Bureau of Hebei Province and China Nitrogen Fertiliser Industry Association, respectively. For details of the awards, please refer to the sub-section headed “– Awards and Accreditations” in this section.

We have an operating history of over 40 years in Hebei Province. Our predecessor, Dongguang Huafei, was originally established in 1970 as a local state-owned enterprise and was later privatised and reorganised in July 1998. We have been operating in the urea industry since 2001. The early start in this growing industry had allowed us to develop into an experienced player in the region with long-term and established relationships with customers in the industry. Our long operating history has also allowed us to develop our production know-how and management which in turn enhances our production efficiency by maximising the quantity and quality of our products while minimising costs. Our management team has extensive experience and an in-depth understanding of the history and future trends of the urea industry in the PRC which is instrumental to our continued success.

Urea, our major product, accounted for approximately 90.7%, 92.5% and 89.8% of our total revenue for the years ended 31 December 2014, 2015 and 2016, respectively. For the year ended 31 December 2016, our actual annual urea production volume was approximately 1.21 million tonnes. Application of urea can be broadly categorised into agricultural and industrial uses. It is widely used as a source of nitrogen in fertilisers and it has wide industrial application, such as production of adhesives, coatings, plastics, and cosmetics. We also produce and sell by-products of urea, including methanol, liquid carbon dioxide and LNG. We commenced formal production of LNG by recycling gas emission created during the urea production process in April 2016 and we believe that the sale of LNG can supplement our Group’s business operations and source of profit in the foreseeable future.

Coal and electricity are the major cost components of our production. The aggregate costs of anthracite and bituminous coal, the two main types of raw materials we use in our production, were approximately RMB634.5 million, RMB702.6 million and RMB562.4 million, accounting for approximately 55.2%, 50.0% and 43.0% of our total cost of sales for the years ended 31 December 2014, 2015 and 2016, respectively. The costs of electricity were approximately RMB331.2 million, RMB455.4 million and RMB465.3 million, accounting for approximately 28.7%, 32.4% and 35.6% of our total cost of sales, for the years ended 31 December 2014, 2015 and 2016, respectively.

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As at the Latest Practicable Date, we had two active production plants, namely, Plant One and Plant Two, located at Dongguang County, Cangzhou City, Hebei Province. We utilise advanced production technologies and possess in-depth management skills which have enabled us to manage our costs effectively. As a result, we are able to use smaller pieces of and remnants coal which are cheaper, for our production process, thereby reducing our cost of production. Our production processes are also designed to ensure our compliance with PRC environmental laws and regulations and to enhance production efficiency by maximising the quantity and quality of our products while minimising costs. We have completed several technological upgrades to our production lines since 2010, which allow us to further enhance the energy saving features embedded in our production lines and production processes, including lowering our electricity consumption. As at the Latest Practicable Date, our annualised designed production capacity was approximately 1,095,000 tonnes of urea, 146,000 tonnes of methanol, 164,250 tonnes of liquid carbon dioxide and 5,414 tonnes of LNG. For the year ended 31 December 2016, we had achieved a production volume of approximately 1,209,844 tonnes of urea, 82,477 tonnes of methanol, 127,198 tonnes of liquid carbon dioxide and 3,530 tonnes of LNG. During the Track Record Period, all of our revenues had been generated by sales to customers located in the PRC.

Our production facilities are strategically located in close proximity to Beijing and Tianjin, as well as the Bohai Economic Rim (環渤海經濟圈). We have access to major national highways, railways, and major ports of North China including Tianjin international port and Huanghua domestic port. The proximity of these transportation has enabled us to obtain the supply of coal, and to deliver our products to our customers based in Beijing, Tianjin, Hebei Province and the nearby regions, including Heilongjiang Province, Inner Mongolia Autonomous Region, Jilin Province and Liaoning Province in a timely and cost-efficient manner. As a result of our proximity to our customers, we believe that we are able to react swiftly to the needs of different customers across different regions in the PRC. We have established a reputable brand in Hebei Province and nearby regions where our products are sold.

Our revenue amounted to RMB1,383.9 million, RMB1,859.3 million and RMB1,457.5 million, respectively for the years ended 31 December 2014, 2015 and 2016. Our net profit amounted to RMB89.2 million, RMB108.1 million and RMB18.8 million, respectively during the same periods.

### COMPETITIVE STRENGTHS

We believe we have the following competitive strengths that will enable us to enhance our leading position in the coal-based urea industry:

**We are a major and reputable coal-based urea producer in the PRC focusing on production efficiency, cost management, energy saving and occupational safety**

We are one of the major coal-based urea producers with annualised designed production capacity of approximately 1.1 million tonnes of urea in the PRC and with headquarters in Hebei Province. According to Frost & Sullivan, we ranked No. 9 among all urea production companies in the PRC in terms of both production capacity and revenue from sales of urea in 2016. In addition, we ranked No. 3 and No. 11 in the PRC in terms of revenue from sale of urea for industrial use and agricultural use, respectively, among all urea production companies in the PRC in 2016. Our Directors believe that while the demand of our urea products in PRC will be dominated by agricultural use, the industrial uses of urea are likely to continue to expand and develop in the near future. Accordingly, we believe that our urea supply for industrial use will increase in the future, which in turn will reduce our exposure to seasonality associated with agricultural uses of urea.

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Since our establishment, we have continued to grow and expand our urea production capacity. For the year ended 31 December 2016, we have achieved an annualised designed production capacity of 1,095,000 tonnes of urea. Our Directors believe that the scale of our production has enabled us to achieve economies of scale which allows us to produce our urea products at a competitive cost while ensuring that our urea's quality complies with industry standards. We believe that our long history and the consistent and stable quality of our products is instrumental in enhancing our branding and reputation among our customers.

Through our years of experience in the urea industry, we have acquired in-depth knowledge in and understanding of the operations of the production processes and technologies which increase our utilisation of coal, thereby reducing our consumption of coal. As a result of our in-depth know-how and the improvements made to our production processes, we are able to produce urea by utilising a variety of coal of different grades and sizes and do not rely on premium coal which are more costly. Through such capability, we are able to reduce our costs of production significantly without compromising the quality of our products. As a result, the percentage of our costs of anthracite and bituminous coal to our total cost of sales decreased from 55.2% in 2014 to 50.0% in 2015 and further to 43.0% in 2016. In recognition of our cost management skills and energy saving achievements, we were accredited as “The Advanced Unit on Energy Saving and Emission Control under the ‘12th Five-year Plan’” and “2015 Advanced Energy Saving Unit of Cangzhou City” by China Nitrogen Fertiliser Industry Association and People’s Government of Cangzhou City, respectively, in 2016. For the details of our awards, please refer to “– Awards and Accreditations” in this section.

Due to our efforts on effective cost management and stable sales of our products, we recorded net profit of RMB89.2 million, RMB108.1 million and RMB18.8 million for the years ended 31 December 2014, 2015 and 2016, respectively. For detailed information of our financial performance, please refer to the section headed “Financial Information” in this prospectus. Also, our production process is developed and reliable thereby allowing us to operate steadily over the years. During the Track Record Period, we had not experienced any material delays in our production cycles resulting from equipment or mechanical failure.

As a result of our long history of market position and geographical location, we have established a reputable brand in Hebei Province and nearby regions where our products are sold. In recognition of our high occupational and production safety standards and our strong financial performance in 2015, we were accredited as “Safety Production Standardisation Second-Class Enterprise” and “2015 National Top 20 Gross Profit Enterprise in Nitrogen Fertiliser Industry” by Safety Production Supervision and Management Bureau of Hebei Province and China Nitrogen Fertiliser Industry Association, respectively, in 2016. We are committed to offering products with consistent and good quality to our customers. We believe that our brand name has become synonymous with reliable products which consistently meet the requirements of our customers. As a result of our well-recognised brand name, we believe that we are able to maintain and further develop the market for our products compared to our competitors and thus increase our profitability.

**Early mover in the coal-based urea industry in Hebei Province and long-standing relationships with customers**

Our Group has an operating history of over 40 years in Hebei Province and has been operating in the urea industry since 2001. We believe that we were amongst the earliest companies to commence the production and sales of urea products in Hebei Province. The production of urea is capital intensive and requires an experienced management team to operate the sophisticated production technologies. In addition, the urea industry is heavily regulated by the PRC Government which has been tightening its policies in recent years. Based on the foregoing factors, potential competitors entering the urea market will face high entry barriers and may not be able to compete with us, especially in the regions where we operate. In addition, the urea industry is subject to the risks associated with the fluctuations in urea supply and demand which have significant impact on the prices of urea products. Compared to some of our competitors, we are able to withstand these cyclical trends due to various factors including our scale of operations, our established relationships with our customers and our in-depth understanding of the market trends as a result of our long operating history. Our Directors believe that we will be able to maintain our market position on the basis of our long-standing relationship with our customers, our market recognition and our extensive experience. Please refer to the section headed “Industry Overview” in this prospectus for further information on the PRC urea industry.

As at the Latest Practicable Date, our longest business relationship with our customers was 13 years. The long-standing relationship with our customers is crucial to our success as it has provided us with a steady demand of our products, thus enabling us to remain a major urea manufacturer in China. Our long operating history has also allowed us to develop production know-how and management skills which in turn enhances our production efficiency by maximising the quantity and quality of our products while minimising costs. Please refer to the paragraph under “Sales, Customers and Marketing – Customers and Sales Channel” and “Raw Materials, Storage, Energy and Suppliers – Suppliers” in this section for additional information.

**Strategic location of our production plants and extensive market coverage in the North China and Northeast China**

Our facilities are strategically located in close proximity to Beijing and Tianjin, as well as the Bohai Economic Rim (環渤海經濟圈), one of the most economically developed area in China. In addition, the road and marine transportation network, including Tianjin international port and Huanghua domestic port, has enabled us to obtain the supply of coal and to deliver our products to our customers, who are mostly based in Beijing, Tianjin, Hebei Province and the nearby regions, including Heilongjiang Province, Inner Mongolia Autonomous Region, Jilin Province and Liaoning Province in a timely and cost-efficient manner. As at the Latest Practicable Date, we had two active production plants, namely, Plant One and Plant Two, located at Dongguang County, Cangzhou City, Hebei Province. Outside the Hebei Province, we have established an extensive sales network with good reputation in the North China and Northeast China where significant agricultural and industrial productions are carried out. According to Frost & Sullivan, the combined production capacity and consumption volume of urea in the North China and Northeast

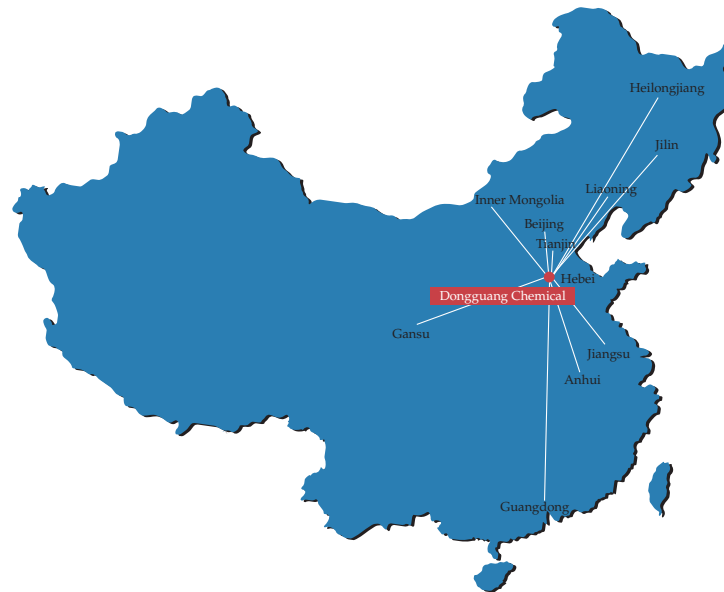


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China represents 30.3% of the overall national production capacity in 2016 and 45.6% of the overall national consumption volume in 2016. Since we are geographically close to Northeast China, we are able to capture demand of such market and compete with urea producers located in Shandong, Shanxi and Henan in terms of delivery time and transportation costs. The map below sets forth the locations of our production base and our major customers:



**We have an experienced and dedicated management and technical team and most of our executive Directors and senior management have been with us for over 20 years**

Our executive Directors and senior management team have extensive experience and an in-depth understanding of urea industry. Mr. Wang, the executive Director and chairman of our Board, is one of the founders of our Group and has over 38 years of experience in the operation, and 24 years of experience in the management of coal-based fertiliser manufacturing business. Mr. Sun, an executive Director and the vice chairman of our Company, is also one of the founders of our Group and has over 23 years of experience in the operation and management of coal-based fertiliser manufacturing business. In addition, most of our senior management have more than 20 years of experience in the management or operations of manufacturing of coal-based chemical products. Our management team works closely to formulate the business and growth strategies of our Group. They have fostered a dedicated, close and cohesive corporate culture which we believe is instrumental to our continued success. Most of our executive Directors, senior management and our technical team had been with our Group or Dongguang Huafei, the predecessor company of Dongguang Chemical, since their graduations, which we believe is indicative of our stability and collegiate working environment. For more details of our teams' experience, please refer to the section headed "Directors and Senior Management" in this prospectus. We believe the stability of our management team and technical team and their extensive experience will enable us to ride through the industry cycle and continue to capture future market opportunities and achieve our goal.

### **We are well positioned to benefit from the continued growth in our industries and the industrial consolidation driven by the implementation of strict industrial policies by the PRC Government**

As China is the most populous country in the world with a steadily growing economy, stable and adequate food supply is crucial for its social and economic development. According to Frost & Sullivan, China was the largest fertiliser consumption country in 2016, with approximately 40% of world total production capacity and production volume. In 2016, agricultural use of urea as fertilisers and for the production of fodder continues to be the major downstream application of urea products in China, accounting for approximately 76% of total domestic urea consumption. We believe that the continued urbanisation and industrialisation of China will lead to a decline in available farm land thus making it crucial for China to seek alternative methods to raise its agricultural products yield to ensure a steady supply of food. We believe that the foregoing factors have resulted in a steady and continued demand for fertilisers (and in turn our urea products) which is essential for agriculture. Over the past decades, the PRC Government has been implementing favourable policies to support the agricultural industry in China. Our business has benefited, and is expected to continue to benefit, from the PRC Government's policy support. As fertilisers are used frequently by farmers to enhance the crop yield, we believe that as long as the China's agricultural sector continues to develop under the support of the PRC Government, the demand for fertilisers will continue to increase. According to Frost & Sullivan, the total consumption volume of urea in China will have moderate growth from 2016 to 2021 with a CAGR of 2.1%. The demand for urea in industrial application has also been growing rapidly. According to Frost & Sullivan, the industrial sector in China is continuously expanding and developing and the demand for urea in this sector has increased as a result of the broad application of urea in the manufacture of, inter alia, adhesives for wood panel, the production of melamine for coatings and plastics, and in the nitrification process. According to Frost & Sullivan, industrial consumption of urea accounted for approximately 24% of total consumption volume of urea in China in 2016, and the percentage is expected to increase to approximately 32.0% in 2021. We believe that all the above factors will continue to drive demand for urea in the foreseeable future and we are well positioned to benefit from the resulting increase in demand for urea.

According to Frost & Sullivan, at the end of 2016, the total number of China's urea producers was close to 150, among which around 60 urea producers had an annual production capacity of more than 0.5 million tonnes of urea, while about 30 to 40 urea producers' annual production capacity was below 0.18 million tonnes of urea. We believe China's increasingly tight environmental laws and regulations will continue to phase out small-scale and technologically backward manufacturers and will promote consolidation within the industry.

In addition, in recent years, the PRC Government has imposed restrictions on the usage of natural gas as raw material in fertiliser production. As coal-based urea production lines have several material entry barriers such as heavy initial capital investments, the need for easy and stable accessibility to key raw materials, tight quality standard for advanced applications, and the need for an experienced management team who specialises in the coal-based urea production, our Directors believe it would not be easy for the natural gas-based urea production producers to switch to become coal-based urea production producers. It is therefore expected that the number of natural gas-based urea producers will decrease in the future. As we utilise coal to produce our products, we anticipate that such changes could enlarge our market share and further enhance our first-tier market status in the industry.

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Separately, the Ministry of Industry and Information Technology of China has implemented China National IV Emission Standard on 1 January 2015, which necessitates the adoption of selective catalytic reduction technology and system for heavy diesel cars. As urea is a key component of the selective catalytic reduction system, we believe that the implementation of this standard is likely to drive demand of urea for automobile exhaust purification. Furthermore, on 19 December 2016, the State Council promulgated the Tariff Adjustment Plan 2017 (2017年關稅調整方案) which came into effect on 1 January 2017, under which the flat export tariff of RMB80 per tonne for urea products was abolished. According to Frost & Sullivan, this is expected to enhance the price competitiveness of China's urea products in the export market and support the growth in the overall demand for urea from urea producers in China. Our Directors believe that such policy will benefit our Group in terms of its profitability.

### **BUSINESS STRATEGIES**

We intend to continue to strengthen and grow our current market and industry position while maximising shareholder value and pursuing a growth strategy that includes increasing our production capacity, improving our production quality and efficiency while expanding our value chain into urea related products, strengthening our relationships with key customers and diversifying our customer base, and pursuing strategic relationships and acquisition opportunities. To achieve our goals, we intend to pursue the following strategies:

#### **Continue to expand our urea product offering**

Until 2009, all our manufacturing activities were conducted in the Old Plant which had an annualised designed production capacity of 287,576 tonnes of urea. Since then, we had expanded our production facilities through the constructions and upgrade of new plants. As at the Latest Practicable Date, our two active production plants, Plant One and Plant Two, possessed an annualised designed production capacity of 730,000 tonnes and 365,000 tonnes of urea, respectively.

As one of major urea producers in the PRC, we observed a growing demand in large granular urea products. To this end, we introduced a new production line in 2014 and further expanded the production capacity of this production line in 2015 which in turn enabled us to transform our small granular urea products to large granular urea products (with a diameter normally ranging from 2.6 mm to 4.75 mm). As at the Latest Practicable Date, we achieved an annualised designed production capacity of 365,000 tonnes of large granular urea products.

Large granular urea is more effective as a fertiliser compared to the smaller granular urea since it can last longer and is harder. As a result, large granular urea products enjoy higher selling prices and have higher profit margin compared to smaller granular urea products during the Track Record Period. Furthermore, according to Frost and Sullivan, the total production volume of large granular urea in China was approximately 2.5 million tonnes, 6.0 million tonnes and is expected to be 9.2 million tonnes in 2011, 2016 and 2021, respectively, representing a CAGR of 19.5% from 2011 to 2016 and a CAGR of 9.1% from 2016 to 2021. In contrast, the CAGR of the production volume of small granular urea was only 0.3% from 2011 to 2016 and is forecasted to be -0.9% from 2016 to 2021. The total consumption volume, including domestic consumption and export, of large granular urea in China was approximately 2.5 million tonnes, 6.0 million tonnes and is expected to be 9.2 million tonnes in 2011, 2016 and 2021, respectively, representing a same CAGR of the production volume of large granular urea during the same periods and a production-to-sale ratio of approximately 100%. Please refer to the subsection headed "Industry Overview – Overview of the Urea Market in China – Large Granular Urea" in this prospectus for further details.

In order to better capture the expected growing demand of large granular products in the future, in the second half of 2017, we plan to commence the construction of the New Large Granular Urea Production Facility. We will continue to assess and effectively respond to the changes in market condition so as to maximise our profitability. Please refer to the subsection headed “– Production – Expansion Plan” in this section for further information on the construction plan of the New Large Granular Urea Production Facility and the subsection headed “– Production – Expansion Plan – Justification of the Expansion Plan” in this section for detailed information about the reasons and benefits relating to the construction of the New Large Granular Urea Production Facility.

### **Improving the quality and efficiency of our production process**

We intend to improve the efficiency of our production facilities by periodically assessing our manufacturing techniques and production processes for areas of improvement, as well as by implementing new technologies when required. We also intend to further reduce production costs by continuously monitoring the latest market developments and sourcing for new, more cost effective raw material suppliers and production facility models. We aim to further reduce production costs per unit through economies of scale by increasing our production capacity. We will continue to invest in developing new production technologies, enhancing our equipment and upgrading our production facilities to keep abreast with the growth and development of our industry. We will also continue to invest in and enhance our engineering skills to better manage our plants and equipment to achieve efficiency in our production process. Mr. Liu Jincheng, our independent non-executive Director, is a production and management expert with extensive experience in the urea industry, and his expertise and experience can assist us in reviewing and enhancing our production know-how and upgrading our machinery and equipment to meet our production needs from time to time. In 2014, we had introduced a new production line in Plant Two, following which we were able to produce large granular urea.

Production cost is one of the most critical competitive factors among urea manufacturers in the PRC. In order to maintain a leading position over our competitors, we utilise diverse technologies and equipment in our production process that are designed to ensure our compliance with environmental regulations and to create efficiencies by maximising the quantity and quality of our products while minimising costs. We intend to continue upgrading these technologies and equipment (as and when necessary) in order to increase our competitive position within our industry.

As a major urea producer in the PRC, we have been committed to fulfilling our corporate social responsibility in terms of environmental matters. On 25 December 2016, The SCNPC promulgated the PRC Environmental Protection Tax Law (which will come into effect from 1 January 2018). According to the PRC Environmental Protection Tax Law, the environmental protection tax payable by an enterprise shall be proportionate to the pollutant emissions of the enterprise. In addition, in the event that an enterprise’s level of taxable pollutant emission is lower than the national or local levels, the enterprise is able to enjoy favourable tax benefits. In order to better realise our corporate value, enhance our implementation standard of environmental protection and reduce our environmental protection tax costs, we plan to procure environmental protection facilities and install such facilities in conjunction with the exhaust stacks of our boilers supplying steam power for the ammonia synthesis and urea production (the “**Environmental Protection Project**”). The environmental protection facilities we plan to install will include

ammonia-based flue-gas desulfurization facilities, selective non-catalytic reduction (“SNCR”) denitrification facilities and composite electric-bag dust-collector. These facilities could further reduce the content of NO<sub>x</sub> to not above 100 mg per Nm<sup>3</sup>, sulfur dioxide to not above 35 mg per Nm<sup>3</sup> and dust to not above 10 mg per Nm<sup>3</sup> in the fuel gas of our boilers. The treatment capacity of these facilities is expected to be approximately 1.86 million cubic meter of fuel gas per hour. The total investment costs for the Environmental Protection Project is estimated to be approximately RMB52.5 million with estimated investment of RMB6 million on construction works, RMB30.5 million on equipment procurement and RMB16 million on installation works, respectively. As at the Latest Practicable Date, we had not incurred any cost in connection with the Environmental Protection Project as it was still under the planning stage. We plan to fund the Environmental Protection Project partially from the net proceeds of the Global Offering and partially from funds generated from our operating activities. Subject to the completion of the Global Offering, we plan to commence the construction of the Environmental Protection Project in the second half of 2017 and expect to complete the project at the end of 2017.

### **Expanding our value chain into downstream products**

We plan to continue to increase our production of high quality and high value-added downstream products of urea. For example, we had the trial production of LNG by recycling gas emitted during the urea production process in 2015. We successfully commenced the formal production in April 2016. Through the new system, we aim to maximise the use of air discharged during the production of urea, and develop an industrial chain of urea while at the same time reduce energy consumption, emission and environmental pollution.

According to Frost & Sullivan, the consumption of melamine, the major industrial downstream product of urea, recorded a CAGR exceeding 10% from 2011 to 2016 in the PRC. In view of the increasing market demand for downstream products of urea and with a view to maximising our long term profitability and enhance our competitiveness, we intend to expand our product offering by leveraging our integrated chemical manufacturing process to develop melamine, urea formaldehyde and other downstream products.

### **Strengthening our relationships with key customers and diversifying our customer base**

Our Group has an operating history in Hebei Province for over 40 years and have established long-standing relationships with our customers. We intend to strengthen our relationships with key customers while also expanding our customer base. Specifically, we plan to continue providing quality urea and methanol to our existing customers and to use our existing distribution network and strong industry reputation to expand into urea related products and to distribute our urea products for industrial use.

In addition, we are an award-winning company with large production capacities of urea and methanol. We plan to leverage on this advantage and develop production lines for their respective downstream products. As at the Latest Practicable Date, our production lines for two downstream products of urea, namely, melamine and compound fertilisers, and one downstream product of methanol, namely, methanol fuel, were in the research and planning stage. We believe these proposed downstream new products can diversify our customer base and mitigate potential seasonal fluctuations in the agricultural sector. We also completed the construction of new urea facilities in 2014 and 2015, which allowed us to produce large granular urea. The major customers

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of large granular urea are the compound fertilisers manufacturers as well as certain agricultural traders. Our Directors believe that the introduction of large granular urea to our customers will allow us to, in line with market norm, broaden our urea product offering for agricultural usage and increase our competitiveness in the market.

### **Expanding the business through targeted acquisitions, joint ventures and partnerships**

We intend to actively pursue opportunities to grow and enhance our businesses, products, applications and technologies. We intend to follow a disciplined approach to acquisitions which will increase value to our Group. As our alternative to acquisitions, we also intend to seek out partnerships and joint ventures which we believe can offer the highest growth potential and will lead to successful expansion and long-term strengthening of our market position. We may also establish joint ventures and partnerships with reputable enterprises or local government to expand into selected markets where appropriate. As at the Latest Practicable Date, we had not identified any acquisition or joint venture targets or entered into any legally binding agreement in respect of any potential acquisition.

### **SUSTAINABILITY OF OUR BUSINESS**

Our Directors believe that our business will continue to be sustainable amid the impact of current market and tax regulatory conditions in the PRC applicable to the urea industry based on the following reasons:

- i. Our leading position as a coal-based urea producer in the PRC**
  - a. We are one of the major coal-based urea producers in the PRC with an annualised designed production capacity of approximately 1.1 million tonnes of urea as at the Latest Practicable Date. According to Frost & Sullivan, we ranked No. 9 among all urea production companies in the PRC in terms of both production capacity and revenue from sales of urea in 2016. In addition, we ranked No. 3 and No. 11 in terms of revenue from sale of urea for industrial and agricultural uses, respectively, among all urea production companies in the PRC in 2016; and
  - b. We have throughout the years of our operations established a reputable brand which is associated with good quality urea products, which helped us secure consistently growing demand for our urea products as demonstrated from our increasing sales volume of urea, which were 823,892 tonnes, 1,173,509 tonnes and 1,211,208 tonnes for the years ended 31 December 2014, 2015, and 2016, respectively.
- ii. Our strategic location and we are a cost leader among competitors**
  - a. We are strategically located in close proximities to the coal suppliers and are well connected by major railways and national expressways, which allowed for lower transportation expenses and other ancillary costs; and
  - b. We are constantly improving our production process so as to increase our utilisation of coal and reduce electricity consumption. We also seek to strengthen our knowledge and know-how in the operations and the production of urea in order to maintain our cost-leadership position among the competitors.

**iii. Drivers of urea market in the PRC**

- a. The demand for urea in the PRC has maintained a relatively stable growth, primarily because urea consumption remains largely dominated by agricultural use which represented approximately 76% of total urea consumption in the PRC in 2016, and this downstream market is relatively mature and stable, according to Frost & Sullivan;
- b. The use of urea in China for industrial application lags behind those of developed countries. Hence, the increase in and broadening of industrial applications of urea in the PRC will increase China's urea production and consumption, which will in turn drive further development of China's urea market. According to Frost & Sullivan, industrial consumption of urea in the PRC observed a rapid growth from 2011 to 2016 at a CAGR of approximately 10%. In 2016, it accounted for approximately 24% of the total domestic urea consumption volume, and such proportion is expected to increase to 32% in 2021. Key applications include, amongst others, the manufacturing of adhesives for wood panels, the production of melamine for coatings and plastics and nitrification. Accordingly, we believe that the use of our urea products for industrial application will increase in the future, which in turn will reduce our exposure to seasonality associated with agricultural uses of urea. According to Frost & Sullivan, we also enjoy comparatively higher gross profit margin as compared with most of our competitors in 2015;
- c. According to Frost & Sullivan, the rebound in the market price of urea in the fourth quarter of 2016 continued in 2017. In addition, such trend is expected to continue in the next few years in the PRC as a result of the rapidly growing industrial applications of urea and preferential export policy adopted by the PRC Government on 1 January 2017. Such factors will also support the growth in the overall demand for urea in China; and
- d. China's urea industry is undergoing major transformation, primarily to reduce production capacity surplus, adjust industry structure, propel the upgrade in product quality and structure, and enhance innovation ability, according to Frost and Sullivan. Our Directors believe that these factors and the downturn of the urea market price in the PRC from 2012 to the first half year of 2016 will accelerate the consolidation of the urea industry and phase out outdated production capacity and smaller, less competitive players.

**iv. Long term commitment on our on-going business development**

We have plans to further diversify our product offerings, improve the quality of our products and improve the efficiency of our production process, and expand into higher margin downstream sectors. Our Directors expect that such diversification will further improve our Group's gross margin and create a healthy growth in the long-term.

**v. Measures to alleviate the risk of urea price fluctuation**

As a type of coal chemical commodity, the market price of urea is determined by various factors, including supply and demand status, the coal procurement prices and the relevant industrial policies, according to Frost & Sullivan. During the Track Record Period and up to the Latest Practicable Date, the urea product market has witnessed significant price fluctuations. To manage such price fluctuations and maintain our profitability, our Group mainly relies on the following attributes of our business operations:

- a. economies of scale attributed to our Group's stable and large scale urea production at high facility utilisation rates. This has enabled our Group to maintain a relatively low unit production cost with higher profit margins to cope with the decrease in urea price. Please refer to the subsection headed "Business – Production" in this prospectus for details;
- b. the ability to maintain the cost of coal at a competitive level in comparison with its competitors owing to our ability to use low-cost coal in our urea production process. Our Directors are of the view that we will be able to continue to maintain our cost advantages. Please refer to the subsection headed "Raw Materials, Storage, Energy and Suppliers – Raw Materials" in this prospectus for details;
- c. the active control of our cost of sales and operating costs by, among others, pursuing cost-saving projects, upgrading our production facilities and improving operation process. For example, we have established our own power generator systems which generate power from waste steam and heat produced during the production process, thereby reducing our electricity costs. Moreover, we had made new arrangement with our customers for them to bear the transportation expenses of our products since September 2015, which has considerably reduced our distribution expenses. Please refer to the subsections headed "Raw Materials, Storage, Energy and Suppliers – Storage" and "Raw Materials, Storage, Energy and Suppliers – Energy" in this prospectus for details. Additionally, we plan to purchase and install new environmental protection facilities to reduce the pollutant emissions of our boilers, which we expect, upon commence of operation, will reduce the content of gas pollutant in the fuel gas of our boilers and reduce our environmental protection tax costs. Please refer to the subsection headed "Business – Business Strategies – Improving the quality and efficiency of our production process" and the section headed "Future Plans And User Of Proceeds" in this prospectus for details; and
- d. production of high-gross-margin products such as large granular urea, as well as saleable by-products such as methanol, liquid carbon dioxide and LNG. This had enabled us to partially mitigate the depressed overall profit margins from sale of urea products without increasing additional raw materials or incurring significant production expenses. We plan to further expand our production capacity of large granular urea which we believe will enable us to better fulfill the strong demand of the large granular urea from agricultural end users during fertilising seasons. Please refer to the sub-sections headed "Business – Production – Expansion Plan" and "Business – Production – Production Facilities and Capacities" in this prospectus for further details.



### PRODUCTS

We are one of the major coal-based urea producers in the PRC with headquarters in Hebei. Our products include:

- urea;
- liquid carbon dioxide;
- methanol; and
- LNG.

Our principal product is urea, sales of which accounted for approximately 90.7%, 92.5% and 89.8% of our revenues for the years ended 31 December 2014, 2015 and 2016, respectively. Our other products include methanol, liquid carbon dioxide and LNG, all of which are by-products produced during the intermediate production phases of urea.

### Urea

Urea is a white crystalline solid organic compound with the chemical formula  $\text{CO}(\text{NH}_2)_2$  and is also known by the International Non-proprietary Name (which is established by the World Health Organization) as “carbamide”. It is odorless, water-soluble, and non-toxic. Urea is an effective neutral nitrogen fertiliser for agricultural use with approximately 46% of nitrogen content. Therefore, it has the lowest transportation costs per unit of nitrogen nutrient. As the use of urea does not result in soil hazards, urea is one of the most popular nitrogen nutrients for farmers. Urea products can be categorised based on particle size into granular urea (large granular) with particle diameters generally ranging from 2.00 mm to 4.00 mm and prilled urea (small granular) ranging from 1.00 mm to 2.80 mm. Granular and prilled urea contain the same amount of nitrogen, but granular urea is more resilient to crushing. Prilled urea’s softer and smaller particles make it more vulnerable to damage when handling and more apt to absorb moisture in humid environment. For agricultural application, granular and prilled urea products have similar fertilizing value, and end users’ preferences are primarily driven by habits and practices. Granular urea is used for crops such as coffee, corn, sugarcane and cotton.

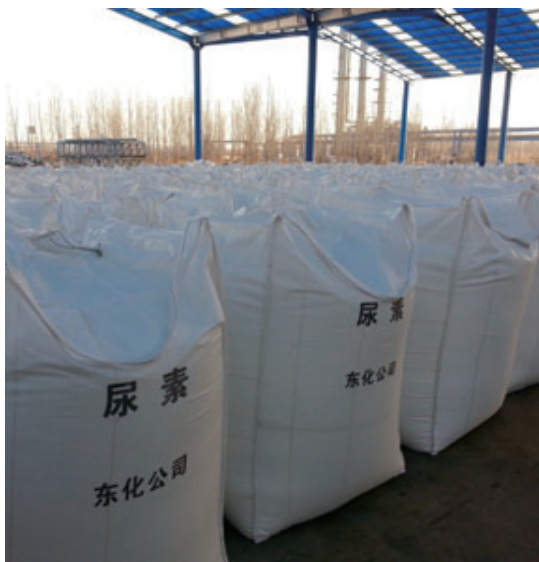
For industrial use, urea and its derivatives are necessary for the manufacturing of a wide range of products, such as adhesives, coatings, plastics and cosmetics. In addition, urea is an important raw material for the chemical industry and can be used for the production of urea-formaldehyde resins and urea-melamine-formaldehyde which are in turn used in marine plywood. It can also be added to livestock feed as a partial substitute for protein. Urea also has some pharmaceutical applications. For instance, it can be made into ointments for external use. It also functions similarly as sorbitol as osmotic diuretic, and it is commonly used in denaturing and solubilizing proteins. Urea has wide application which aids in environmental protection. It can be used to produce diesel exhaust fluid which, when used as a catalytic converter, reduces the level of nitrogen oxides emitted from truck engines and can be used in boiler flue gas desulfurisation and denitrification.

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The two major processes for urea production in China are the traditional aqueous urea solution and the advanced carbon dioxide stripping process. The latter is more popular globally, and it is also the major process for large- and medium-scale urea factories in China. For further information on our production process of urea, please refer to the sub-section headed “– Production – Production Process – Urea” in this section.



*(Our urea products in 900 kg packages)*



*(Our urea products being loaded onto trucks)*

### **Liquid Carbon Dioxide**

Liquid carbon dioxide is transparent, colourless and odorless. It is heavier than air, but is stable under normal circumstances. It can only exist in the form of liquid at a pressure above 7.38 MPa psi at the temperature of 32 degree Celsius.

Liquid carbon dioxide is used by many different industries, including but not limited to food and beverages, healthcare, environment, and agriculture. In food and beverages industry, it is mainly used for chilling and freezing food. It is also used for carbonation and dispensing of beverages, for food extraction, packaging, production of dry ice and in-transit refrigeration. It is also an ingredient for manufacturing beer. In agricultural and environmental industries, it is used to boost production in greenhouses, pest control, water treatment, waste water pH control and as a replacement for chlorofluorocarbon in foamed plastics production. In addition, it is a good solvent for many organic compounds, for example, it can be used to remove caffeine from coffee. It is widely used as an additive in the manufacturing process of machinery and the smelting process of metal. It can also be used for cleaning electronic devices, treating respiratory disorders and for surgical dilation.

The most common uses for liquid carbon dioxide are fire extinguishers, refrigerant and oil production. Because of its properties, it is used in fire extinguishers designed for small flammable liquid and electrical fires. It is also used as a refrigerant, particularly in automobile air conditioning. It is one of the major components in the oil production process.

### **Methanol**

Methanol, also known as methyl alcohol, wood alcohol, wood naphtha or wood spirits, is a chemical with the formula  $\text{CH}_3\text{OH}$  (often abbreviated  $\text{MeOH}$ ). It is the simplest alcohol and is a light, volatile, colourless, flammable liquid with a distinctive odor very similar to that of ethanol (drinking alcohol). However, unlike ethanol, methanol is highly toxic and unfit for human consumption.

Methanol is widely used in the chemical industry, pharmaceutical industry, energy industry, textile industry and others. At present, with the development of technology and increase in demand from the emerging chemical areas, chemical industry and energy industry can be regarded as two main larger and potential downstream of this industry. Methanol is one of the most important basic organic chemical materials used in the organic synthetic industry. Methanol is an ideal material for artificial protein synthesis as it leads to higher protein conversion rate and faster fermentation. It also has no toxicity and is low-cost. Methanol has a variety of applications, which mainly include the production of organic products such as formaldehyde, acetic acid, chloromethane, methylamine and dimethyl sulfate for the fine chemical industry and plastic industry. Moreover, it is an important raw material in agricultural and the pharmaceutical industry. After processing, methanol can be used as a fuel and blended with gasoline for combustion. Methanol is a clean fuel that is easy to transport and can be used as a vehicular fuel on its own or after blending with gasoline. When used as a gasoline additive, methanol reduces the use of aromatic hydrocarbons while raising the octane rating.

The production methods of methanol include gas-to-methanol, coal oven gas-to-methanol and coal-to-methanol. However, depending on the national energy structure, coal-to-methanol is the main method for manufacturing methanol. Due to the deficiency of natural gas resource, we produce methanol mainly by coal. For further information on the production process of urea, please refer to the sub-section headed “Business – Production – Production Process – Methanol” in this section.

### **LNG**

LNG is a natural gas which can be converted into a liquid by cooling it to  $-260^\circ$  Fahrenheit. This process reduces its volume by a factor of more than 600, similar to reducing the volume of a beach ball to the volume of a ping-pong ball. This allows the natural gas to be transported more efficiently. LNG comprises mostly of methane and a small percentage of ethane, propane and butane, and a trace amount of nitrogen. LNG is odourless, colourless, non-corrosive, and non-toxic. When LNG is returned to its gaseous state, it is used in residential, commercial and industrial sectors for diverse purposes such as heating, cooking and generating electricity. LNG is also used as a fuel in heavy-duty industry.

**PRODUCTION****Production Facilities and Capacities**

As at the Latest Practicable Date, we had two active production plants, namely Plant One and Plant Two, located at Dongguang County of Cangzhou City, Hebei Province.

Until 2009, all our manufacturing activities were conducted at the Old Plant which had an annualised designed production capacity of 287,576 tonnes of urea. Due to the increasing urbanisation of the area where our Old Plant was located in, the local PRC government had required industrial companies in certain urban areas to relocate to the industrial park of Dongguang County. As a result, in April 2014, we closed the Old Plant and commenced production in the Plant One in August 2014 with larger production capacity and higher production safety standards.

The construction of Plant Two commenced in May 2007 and was completed in July 2009. Plant Two has an annualised designed production capacity of 365,000 tonnes of urea. Following the completion and commencement of operation of Plant Two, we became one of the largest urea producers as in Hebei Province since 2009 in terms of production capacity.

We commenced the construction of Plant One in October 2012 which was completed in August 2014. Once completed, Plant One took over the operations and employees of Old Plant. Plant One has an annualised designed production capacity of 730,000 tonnes of urea.

For the year ended 31 December 2016, our total production volume were approximately 1,209,844 tonnes of urea, 127,198 tonnes of liquid carbon dioxide, 82,477 tonnes of methanol and 3,530 tonnes of LNG.

As a result of the growing popularity of large granular urea as a fertiliser, we introduced a new production line in December 2014 which enabled us to transform our small granular urea products to large granular urea products (with a diameter normally ranging from 2.6 mm to 4.75 mm). We completed the second the large granular urea production line in December 2015, and achieved an aggregate annualised designed production capacity of 365,000 tonnes of large granular products. The construction and operation of the large granular urea production facilities had no impact on the production capacity of small granular urea production facilities as the former only transform small granular urea products we produced into large granular urea products through re-granulation and re-crystallisation processes.

Large granular urea is more effective as a fertiliser (compared to the smaller granular urea) since it can last longer and is harder. To further enhance our competitiveness, we have been in collaboration with Beijing Dalike Technology Limited Company\* (北京達立科科技有限公司) to introduce fluidised drum bed dryers to our production technology which can produce large granular urea.

**BUSINESS**

The table below sets out various information for our Old Plant, Plant One, and Plant Two, during the Track Record Period.

	For the year ended 31 December											
	2014			2015			2016					
	Annualised designed production capacity <sup>(1)</sup> (tonnes)	Pro-rata production capacity <sup>(2)</sup> (tonnes)	Production volume (tonnes)	Utilisation rate <sup>(3)</sup>	Annualised designed production capacity <sup>(1)</sup> (tonnes)	Pro-rata production capacity <sup>(2)</sup> (tonnes)	Production volume (tonnes)	Utilisation rate <sup>(3)</sup>	Annualised designed production capacity <sup>(1)</sup> (tonnes)	Pro-rata production capacity <sup>(2)</sup> (tonnes)	Production volume (tonnes)	Utilisation rate <sup>(3)</sup>
<b>Old Plant<sup>(4)</sup></b>												
Urea	287,526	95,859 <sup>(4)</sup>	90,996	95%	-	-	-	-	-	-	-	-
Methanol	24,333	8,111 <sup>(4)</sup>	7,269	90%	-	-	-	-	-	-	-	-
<b>Plant One<sup>(5)</sup></b>												
Urea	730,000	304,167 <sup>(5)</sup>	281,342	92%	730,000	730,000	700,185	96%	730,000	730,000	726,914	100%
Methanol	73,000	30,417 <sup>(5)</sup>	22,832	75%	73,000	73,000	53,606	73%	73,000	73,000	51,432	70%
LNG <sup>(6)</sup>	-	-	-	-	5,412	451 <sup>(6)</sup>	248	55%	5,412	4,059 <sup>(6)</sup>	3,530	87%
<b>Plant Two</b>												
Urea	365,000	365,000	445,187	122%	365,000	365,000	480,691	132%	365,000	365,000	482,930	132%
Liquid carbon dioxide <sup>(7)</sup>	54,750	54,750	53,145	97%	164,250 <sup>(7)</sup>	164,250	118,095	72%	164,250	164,250	127,198	77%
Methanol	73,000	73,000	37,181	51%	73,000	73,000	33,858	46%	73,000	73,000	31,045	43%
<b>Total</b>												
Urea	1,382,526 <sup>(8)</sup>	765,026	817,525	107%	1,095,000	1,095,000	1,180,876	108%	1,095,000	1,095,000	1,209,844	110%
Liquid carbon dioxide <sup>(7)</sup>	54,750	54,750	53,145	97%	164,250 <sup>(7)</sup>	164,250	118,095	72%	164,250	164,250	127,198	77%
Methanol	170,333 <sup>(8)</sup>	111,528	67,282	60%	146,000	146,000	87,464	60%	146,000	146,000	82,477	56%
LNG <sup>(6)</sup>	-	-	-	-	5,412	451 <sup>(6)</sup>	248	55%	5,412	4,059 <sup>(6)</sup>	3,530	87%

Notes:

- (1) The annualised designed production capacities of our production facilities are calculated based on 365 working days per year, 24 hours per day operation.
- (2) The pro-rata production capacity of our production facilities in a given year is calculated based on the annualised designed production capacity divided by 12 and multiplied by the number of months the production facilities are in operation in a given year. In the event that the production facilities achieve full-year operation in a certain year, their pro-rata production capacities shall equal to their annualised designed production capacities.
- (3) Utilisation rate equals production volume divided by pro-rata production capacity multiplied by 100%.
- (4) Old Plant operated for approximately four months in 2014 and was closed in April 2014. Therefore, the pro-rata production capacity of Old Plant in 2014 is calculated based on the annualised designed production capacity divided by 12 and multiplied by four.
- (5) Plant One commenced operation in August 2014 and operated for approximately five months in 2014. Therefore, the pro-rata production capacity of Plant One in 2014 is calculated based on the annualised designed production capacity divided by 12 and multiplied by five.

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- (6) During the construction of the LNG production facility, some LNG was produced in the trial production stage for testing purpose, and the cost of which was recorded in our construction in progress before transferred into our fixed assets in September 2015 and was not calculated into our production volume in 2015. The LNG production facility continued operation in October 2015 for one month and was halted thereafter for production optimisation and technique adjustment. The production of LNG has been resumed since April 2016. As at 31 December 2016, our LNG production facility had operated for approximately nine months in 2016. Therefore, the pro-rata production capacities of our LNG production facility in 2015 and 2016 are calculated based on the annualised designed production capacity divided by 12 and multiplied by one and nine, respectively.
- (7) The annualised designed production capacity of our liquid carbon dioxide increased significantly in 2015 as a new production line of liquid carbon dioxide commenced trial production in January 2015 and formal production in March 2015.
- (8) The annualised designed production capacity of urea and methanol products in 2014 was derived by adding the annualised designed production capacities of the Old Plan, the Plant One and the Plant Two. Since the Old Plan and the Plant One only operated for approximately four months and five months respectively, our pro-rata production capacity of urea and methanol products was 765,026 tonnes and 111,528 tonnes in 2014, respectively.

Annualised designed production capacities are derived based on the prescribed operating conditions and environment, such as, among others, the chemical composition and volume of gas to be injected, the annual operational time and the temperature of the coolant water used during the production process. However, the actual operating conditions and environment adopted by our Group may differ from the prescribed operating conditions and environment. For example, while the prescribed temperature of the recycle coolant water used for determining the annualised designed production capacity is not more than 32 degree Celsius, our Group uses underground water at outdoor temperature as recycle coolant in our cooling system for the production process. As such, the temperature of the recycle coolant water used by our Group during the production process can be higher than the prescribed maximum temperature during the summer, and can be much lower than the prescribed maximum temperature during winter. As a result, our production volumes may deviate from, or even be higher than, the annualised designed production capacities.

Our production volumes have been improving throughout the Track Record Period. Such improvement was mainly attributable to the extensive experience and an in-depth understanding of urea production of our executive Directors and senior management team. Most of our senior management have more than 20 years of experience in the management or operations of manufacturing of coal-based chemical products. Mr. Wang, the executive Director and chairman of our Board, has over 38 years of experience in operating and managing the business of manufacturing coal-based chemical products. As a result of their expertise and experience, we have been maintaining and upgrading certain components of our production facilities. We are continuously training our front line staff as topics related to improved operating procedures and guideline from time to time with the aim of improving the production efficiency of our production facilities. As a result, the utilisation rates of our urea production facilities had continuously improved throughout, and had even exceeded 100% of the annualised designed production capacity, during the Track Record Period.

The utilisation rates of our production facilities for the production of methanol, liquid carbon dioxide and LNG were inversely correlated to that of urea, mainly because they are by-products of urea. As our production facilities of urea products achieved stable and high production efficiency in producing urea products during the Track Record Period, the production volume of these by-products and the utilisation rates for the production facilities of our by-products remained at a relatively low level for the same periods.

**Utilisation Rates of Small Granular and Large Granular Production Facilities**

The table below sets out an overview of the production information on our small granular and large granular production facilities during the Track Record Period.

	For the year ended 31 December					
	2014	2015	2016			
	Pro-rata production capacity <sup>(1)</sup> (tonnes)	Pro-rata production capacity <sup>(1)</sup> (tonnes)	Pro-rata production capacity <sup>(1)</sup> (tonnes)			
	Production volume (tonnes)	Production volume (tonnes)	Production volume (tonnes)			
	Utilisation rate <sup>(2)</sup>	Utilisation rate <sup>(2)</sup>	Utilisation rate <sup>(2)</sup>			
			Utilisation rate <sup>(2)</sup>			
Small granular urea	765,026	1,095,000	1,095,000	108%	1,209,844	110%
Large granular urea	-	117,742	39,588	34%	75,639	21%
- fertilising season	-	78,495	38,139	49%	75,639	31%
- non-fertilising season	-	39,247	1,449	4%	-	-

**Note:**

(1) The pro-rata production capacity of our production facilities is calculated based on the annualised designed production capacity divided by 12 and multiplied by the number of months the production facilities are in operation in a given year. In the event that the production facilities achieve full-year operation in a certain year, their pro-rata production capacities will equal to their annualised designed production capacities. The annualised designed production capacities of our production facilities are calculated based on 365 working days per year, 24 hours per day operation. For detailed information about the annualised production capacities and the pro-rata production capacities of our production facilities, please refer to the table of statistics of such information in the subsection headed "Business – Production – Production Facilities and Capacities" in this prospectus.

(2) Utilisation rate equals production volume divided by pro-rata production capacity multiplied by 100%.

As our large granular urea production facilities only transform our produced small granular urea products to large granular urea products, the construction and operations of large granular urea production facilities had no impact on the production capacity of our small granular urea production facilities. To this end, the production volume of our small granular urea products were same with the production volume of the production of our urea products since only part of the produced small granular urea products have been transformed to large granular urea products without changing our overall product production volume. Please refer to above paragraphs for a detailed explanation of the high utilisation rates of our urea production facilities during the Track Record Period.

The utilisation rate for the large granular urea is calculated by using the total production volume during the fertilising seasons (normally from January to May and from October to December) and non-fertilising seasons (normally from June to September), divided by the pro-rata production capacity for the respective periods. It only reflects the average utilisation rate for the respective years or period, but not the production volume and utilisation rates during some peak days. Please refer to the sub-section headed “– Production – Expansion Plan” in this section for further justification and information on the new large granular urea production facility that we plan to construct.

Generally, we only accept the customer orders if we expect our customer’s prescribed delivery time can be met by our production plan. Nevertheless, in the event the production capacities of our production facilities cannot meet the confirmed orders for a short period, our sales and marketing department will try its best to negotiate with the customers for an extended delivery schedule.

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### Production Equipment and Technology

Our production facilities are configured with innovative equipment and utilise technology developed in the PRC that we believe are of the highest quality in urea and methanol production among our competitors. We utilise machinery and equipment in our production processes that are designed to ensure our compliance with environmental regulations and to create efficiencies by maximising the quantity and quality of our products while minimising costs.

Our major production equipment include, among others, boilers, carbon dioxide condensers, nitrogen and hydrogen condensers and urea synthesis tower. As at the Latest Practicable Date, the major production equipment utilised in our production were either owned by us or leased back by us from financial institutions. We did not have plan for material replacement of these major production equipment. Our major production equipment, when properly maintained, can be used for up to around 20 years. During the Track Record Period, in line with the normal practice of coal-based urea industry and based on the useful life of our major production equipment as well as our internal policies on equipment maintenance and replacement, the replacement cycle of our major production equipment ranged from 15 years to 20 years. As at 31 December 2016, the estimated remaining useful life of our major production equipment ranged from approximately 8 years to 18 years.

The following table sets out the breakdown of the type, replacement cycle and remaining useful life of our major production equipment as at 31 December 2016:

	<u>Type of production equipment</u>	<u>Replacement cycle (years)</u>	<u>Remaining useful life (years)</u>
1.	Boilers	15	Ranging from 12.5 to 14
2.	Carbon dioxide condenser	15	12.5
3.	Nitrogen and hydrogen condenser	15	12.5
4.	Urea synthesis tower	20	17.5
5.	Transformer	15	7.5
6.	Transformation boilers	15	7.5
7.	Gas tank	15	12.5

We conduct regular inspections and maintenance for our production plants to ensure that they can function properly and at full capacity. Inspections and maintenance are conducted on an hourly basis, by staff from the Equipment Department and by those who operate at the production plants. During the Track Record Period, we did not experience any material or prolonged suspension of production at our facilities due to any equipment malfunctions or other failures. Our Plant One and Plant Two had achieved a record of 365 days of full scale production in 2016.



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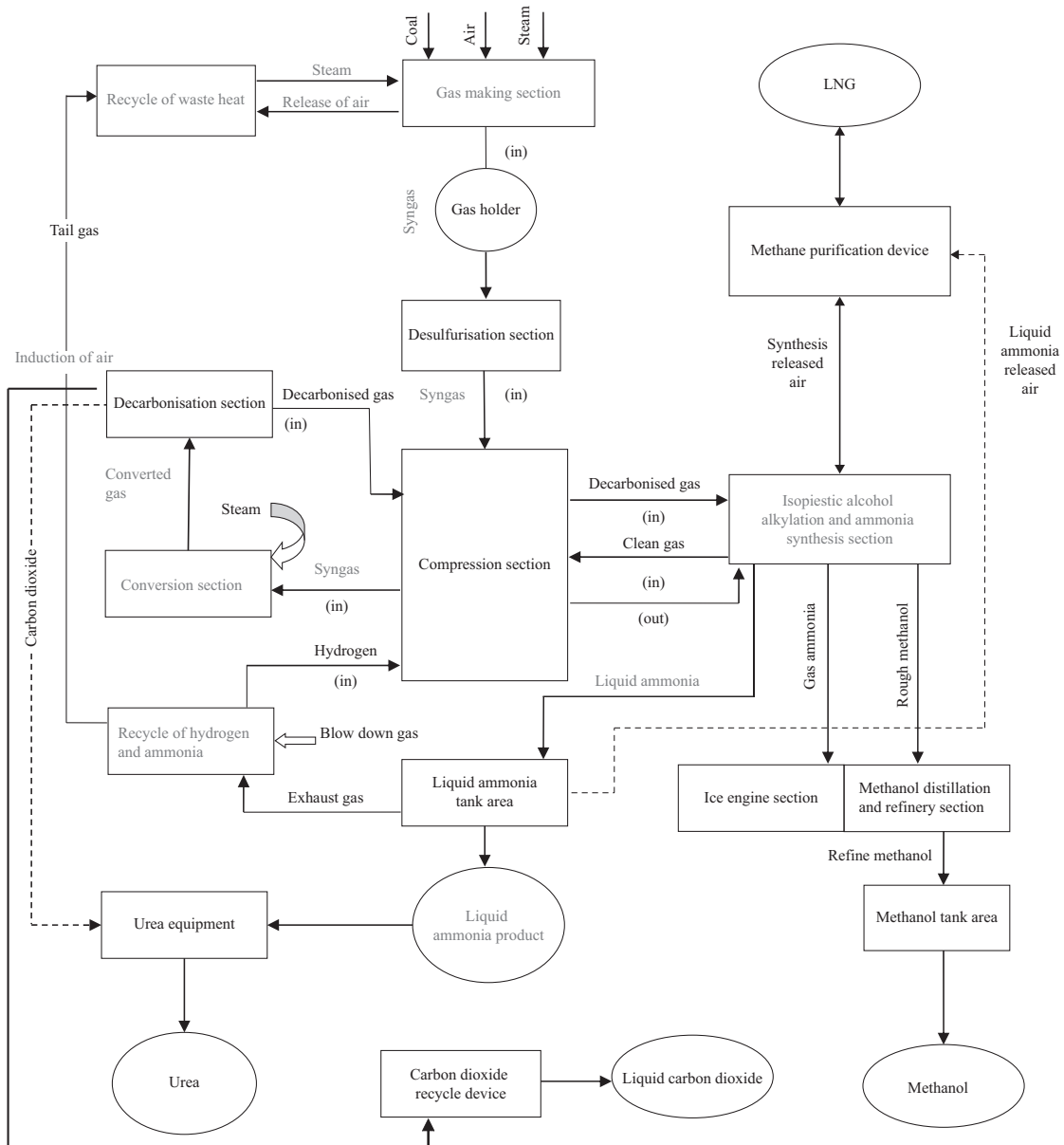
We have implemented or installed the following advanced technologies or equipment in our production lines, which have effectively enhanced our production capacity, decreased our production costs and improved our compliance with environmental laws and regulations:

	<b>Technology/Equipment</b>	<b>Function</b>
1.	Enhanced synthesis technique for aqueous urea solution	increase production capacity and energy saving
2.	Methanol rectification technology	reduce production costs and energy saving
3.	Heat type lithium bromide absorption refrigeration unit	environmental protection and energy saving
4.	Gas heat recovery technology	environmental protection and energy saving
5.	Circulating fluid bed boiler	environmental protection, energy saving and reduction of production costs
6.	Pressure swing adsorption carbon dioxide remover	energy saving
7.	Evaporative condenser	energy saving
8.	Isopiestic autothermal alcohol alkylation system	energy saving
9.	Energy saving buck system for double ammonia synthesis converters arranged in series and in parallel	energy saving
10.	Unpowered ammonia recovery	environmental protection and energy saving
11.	Dust recycle for urea prilling tower	environmental protection and energy saving
12.	Low temperature shift	energy saving
13.	Liquid carbon dioxide	environmental protection and energy saving

**Production Process**

Our production process involves various steps, including gas making, purification, compression, methanol and ammonia synthesis, urea synthesis, vaporizing, circulation and absorption, packing and storage. The basic steps involved in the production process of our products are as follows:

*Production Process Chart*



### *Urea*

Urea is produced from synthetic ammonia and carbon dioxide. The basic steps involved in the production process of urea are as follows:

- Step 1: Gas making (造氣): The primary raw material, anthracite coal, is put into a gas making furnace to react with air and steam, thereby producing the syngas for the synthesis of ammonia, which is mainly composed of CO, CO<sub>2</sub>, H<sub>2</sub>, N<sub>2</sub> and a trace amount of noble gases including methane. Bituminous coal is burned in the circulation fluidised bed boiler and the released energy produces steam, which powers the reaction.
- Step 2: Purification (淨化): The syngas is purified, and impurities and harmful gases are removed by various processes, yielding hydrogen and nitrogen which comply with the industrial standards required for ammonia synthesis.
- Step 3: Ammonia synthesis (氨合成): Hydrogen and nitrogen are synthesised into pure liquid ammonia under high temperature and high pressure with a catalyst. The liquid ammonia is then placed in a storage tank for storage.
- Step 4: Urea synthesis (尿素合成): Liquid ammonia from the ammonia storage tank reacts with the carbon dioxide produced during the purification of the ammonia which results in the creation of urea solution.
- Step 5: Vapourising and making granules (蒸發造粒): The urea solution is extracted and purified to obtain molten urea, which forms granular urea in the prilling tower, and is sent for packing.
- Step 6: Packing (成品包裝): The urea is weighed and packed then sent to the finished products warehouse.

### *Methanol*

The basic steps involved in the production process of methanol are as follows:

- Step 1: Gas making (造氣): The primary raw material, anthracite coal, is put into a gas making furnace to react with air and steam, thereby producing a semi-liquid coal gas. Bituminous coal is burned in the circulation fluidized bed boiler and the released energy produces steam, which powers the reaction.
- Step 2: Purification (淨化): The syngas gas is purified, and impurities and harmful gases are removed, yielding carbon monoxide, carbon dioxide and hydrogen which comply with the industrial standards required for methanol synthesis.
- Step 3: Methanol synthesis (甲醇合成): The carbon monoxide and carbon dioxide in the synthesised gas react with hydrogen in the methanol synthesis tower to produce crude methanol.
- Step 4: Refining (精製): The crude methanol is extracted and refined to remove impurities and to derive methanol.
- Step 5: Storage (儲存): The refined methanol is stored in a storage tank.

### *Other Products*

Liquid carbon dioxide is produced when vent gas from the decarbonisation process undergoes purification, compression, purifying and distillation and cooling. The synthesised liquid carbon dioxide is stored in a storage tank.

Liquid ammonia is a substance that is manufactured during the intermediate production phase of urea.

LNG is produced when natural gas undergoes purification and compression during the production phase of urea.

### **Expansion Plan**

In the second half of 2017, subject to the completion of the Global Offering, we intend to commence the construction of the New Large Granular Urea Production Facility which will further expand our production capacity of large granular urea products. The total investment costs for the New Large Granular Urea Production Facility is estimated to be approximately RMB63 million. As at the Latest Practicable Date, we had not incurred any cost in connection with the New Large Granular Urea Production Facility as it was still under the planning stage. For the detailed reasons of our expansion plan, please refer to “– Business Strategies – Continue to expand urea product offering” in this section.

We are not expected to incur any expenditure for the acquisition of lands as we plan to construct the New Large Granular Urea Production Facility on the premise of our Plant One. We anticipate that the trial operations of the New Large Granular Urea Production Facility will commence in the first half of 2018. We plan to purchase new equipment and machinery for the expansion of our existing production lines.

We plan to use the net proceeds from the Global Offering and cash flow generated from our operating activities to fund the acquisition of new machinery and equipment and the construction and installation of the new production facility. For details on the use of proceeds, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus. Once our New Large Granular Urea Production Facility is completed, it is expected to achieve an annualised designed production capacity of 365,000 tonnes of large granular urea. Assuming the New Large Granular Urea Production Facility is utilised during the eight-month fertilising season for each year and taking into account the prevailing market price of large granular urea, the payback period required for recouping the estimated capital expenditure of the New Large Granular Urea Production Facility is expected to be approximately two to three years.

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The following table sets out a breakdown of our use of proceeds and capital expenditure plan for the construction, installation and relevant equipment and machinery acquisition of our New Large Granular Urea Production Facility for the years ending 31 December 2017 and 2018. Please refer to the section headed “Future Plans and Use of Proceeds” for further details.

	<b>2017</b>	<b>2018</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Equipment and machinery acquisition <sup>(1)</sup>	–	38,000	38,000
Construction <sup>(2)</sup>	19,000	–	19,000
Installation <sup>(3)</sup>	–	6,000	6,000
<b>Total</b>	<b>19,000</b>	<b>44,000</b>	<b>63,000</b>

*Notes:*

- (1) It is expected that the equipment and machinery will mainly consist of rotary granulator for the transformation of small granular urea to large granular urea, melt pump for the spraying of urea solution and fans for controlling heating or cooling air.
- (2) We plan to use construction costs for the construction of the main plant, equipment foundation and other utilities infrastructure.
- (3) We plan to use installation costs to fund our expenses of materials, labour, ancillary materials and installation machinery in connection with the installation of the New Large Granular Urea Production Facility.

### ***Justification for the Expansion Plan***

Firstly, as one of the major urea producers in the PRC, our Group observed a growing demand for large granular urea products in the PRC. We introduced a new production line in December 2014 and further expanded the production capacity in 2015 which enabled our Group to transform small granular urea products to large granular urea products to take advantage of the growing market. We believe that our proposed expansion plan for the production of large granular urea products is justifiable based on the following:

- i. Large granular urea is more effective as a fertiliser compared to the smaller granular urea since it can last longer and is harder. As a result, large granular urea products enjoy higher selling prices and have higher profit margin compared to smaller granular urea products.
- ii. According to Frost & Sullivan, the total production volume of large granular urea in China was approximately 2.5 million tonnes, 6.0 million tonnes and is expected to be 9.2 million tonnes in 2011, 2016 and 2021, respectively, representing a CAGR of 19.5% from 2011 to 2016 and a CAGR of 9.1% from 2016 to 2021. In contrast, the CAGR of the production volume of small granular urea was only 0.3% from 2011 to 2016 and is expected to be -0.9% from 2016 to 2021.

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- iii. The total consumption volume, including domestic consumption and export, of large granular urea in China was approximately 2.5 million tonnes, 6.0 million tonnes, and is expected to be 9.2 million tonnes in 2011, 2016 and 2021, respectively, representing a same CAGR of 9.1% for the production volume of large granular urea during the same periods and a production-to-sale ratio of approximately 100%.

Please refer to the subsection headed “Industry Overview – Overview of the Urea Market in China – Large Granular Urea” in this prospectus for details.

Furthermore, as the demand for large granular urea is particular strong in the fertilising season, normally from January to May, and from October to December, our existing large granular urea production capacity is unable to fulfill significant surges in market demand on certain days during the fertilising seasons based on the following:

- On the supply side, in order to ensure better product quality, our Group has opted for maintaining a higher-than-designed manufacturing pass rate during the production process, which requires longer processing time on per unit output basis. As a result, the actual daily output rates of our large granular urea production facilities are lower than the designed daily production capacity. The first large granular production facility with the annual production capacity of 100,000 tonnes based on a design annual operating time of 310 days (the “**100,000 tonne Facility**”) which commenced operation in December 2014 has a daily production capacity of approximately 323 tonnes. The second large granular production facility with the annual production capacity of 200,000 tonnes based on a design annual operating time of 300 days (the “**200,000 tonne Facility**”) which commenced operation in December 2015 has a daily production capacity of approximately 666 tonnes.
- On the demand side, during the Track Record Period, both our sales volume of large granular urea products and the number of customers who purchased our large granular urea products have experienced steady growth. The following table sets forth such sales volume and number of customers of our large granular urea products based on our management accounts for the periods indicated:

	For the year ended 31 December		For the three months ended 31 March	
	2015	2016	2016	2017
Total sales volume				
(tonne)	38,192	74,142	34,925	39,607
Number of Customers	76	124	56	79

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While the significant growth in the total sales volume of large granular urea products from 2015 to 2016 was primarily due to the commencement of operation of the 200,000 tonne Facility in December 2015, such growth also demonstrated the strong demand for large granular urea products in our regional market. Moreover, during the peak season of the Track Record Period and up to the Latest Practicable Date, our Group continuously experienced over demand of large granular urea products. For example, for the total 181 days during the six months ended 30 April 2017, there were 14 days on which the daily production utilisation rate exceeded 90%, including 10 days when the daily production utilisation rate exceeded 100% of the design daily production capacity. We had therefore experienced difficulties in accepting orders for large volumes of large granular urea products required to be delivered over a short period of time due to our limited daily production capacity. Hence, we would not be able to accept orders which require us to deliver an amount of large granular urea over a short period of time, or in the circumstance where our daily production capacity has already been exceeded as a result of confirmed orders, even if our facilities are not fully utilised. As a result, the utilisation rate of our large granular urea production capacity had remained low during the Track Record Period. To this end, we believe that an additional production facility can significantly increase our daily production capacity which will in turn enable us to capture business opportunities from urgent large-volume orders during the fertilising periods.

- During some peak days, despite the limitation of our production capacity for large granular urea products, we managed to take and fulfill some additional orders by negotiating for an extended delivery period with our customers.

Thirdly, given that large granular urea is only produced on a made-to-order basis during the peak season, its production facilities have a relatively low utilisation rates. This is also primarily due to:

- As at the Latest Practicable Date, our 100,000 tonne Facility is designed to only produce 50 kg large granular urea products per package (the “**50 kg Package**”); and our 200,000 tonne Facility is able to produce both the 50 kg Package and a tonne large granular urea products per package (the “**Tonne Package**”).
- As a result of the above designs of the two existing large granular urea production facilities, when over 200,000 tonne facility is partially occupied for some committed customer orders for 50 kg Package, we are unable to switch our production lines to fulfil new Tonne Package orders at the same time. This has in turn prevented us from further accepting certain high-volume and large package orders, in particular those orders which require deliveries within a short period of time.
- Our Group therefore experienced an under-utilisation of the two production facilities during the peak season as our production facilities designs led to our inability to produce different packaging of large granular urea products. According to Frost & Sullivan, Northeastern China and North China together account for 50% to 55% in terms of the consumption of large granular urea in China, and are major agricultural regions in China with great amounts of farms that are large in scale and more advanced in farming technology. Among these major agricultural end users,

large-packaging large granular urea is highly popular, primarily owing to its convenience and efficiency to be used in sizable and advanced modern farming. For the year ended 31 December 2016, we had sold 15,339 tonnes of Tonne Package out of total 74,142 tonnes of large granular urea products. For the three months ended 31 March 2017, we had sold 18,359 tonnes of Tonne Package out of total 39,607 tonnes of large granular urea products, demonstrating a significant growth during the relevant periods. We believe that the demand of Tonne Package from our customers will remain strong and may continue to increase given their preference. In view of this, we believe the New Large Granular Urea Production Facility, which is able to produce both 50 kg Package and the Tonne Package, will significantly improve our production capacity and flexibility, resulting in improved overall utilisation rate of the three large granular urea production facilities. In addition, we believe that we will be in a better position to fulfil our customers' demands for different types of packaged products in the future.

The overall annual average utilisation rates of large granular urea production facilities were approximately 34% and 21% for the years ended 31 December 2015 and 2016, respectively, and 49% and 31% for the fertilising seasons during same periods, respectively. As the demand of large granular urea is weak in non-fertilising season (which are normally from June to September), the utilisation rates were approximately 4% and nil during the non-fertilising seasons for the years ended 31 December 2015 and 2016, respectively. Please refer to the subsection headed “– Production – Utilisation Rates of Small Granular and Large Granular Production Facilities” in this section for detailed information of the utilisation rates of our large granular urea production facilities during the Track Record Period.

The production of large granular urea products does not affect or change our annualised designed production capacity (namely, approximately 1.1 million tonnes of urea per year) and the production utilisation rate of small granular urea products as the large granular urea production facilities are add-ons to the existing small granular urea production facilities in Plant Two where we transform small granular urea products into large granular urea products. These add-on facilities have provided our Group with a flexibility to cater to made-to-order basis production mode of the large granular urea products whenever the orders occur (typically during the fertilising seasons) and at the same time allow us to maintain the maximum urea production line utilisation rate for the small granular urea products throughout a year.

Given the limitations of our existing large granular urea production facilities, which limited the utilisation rates of our production facilities during the Track Record Period, in order to capture this growing demand for large granular urea products, especially during the fertilising seasons, we plan to commence the construction of the New Large Granular Urea Production Facility in the second half of 2017.

### *Directors' view*

Notwithstanding the relatively low average utilisation rates of our large granular urea production facilities during the Track Record Period, which is primarily due to the abovementioned technical limitations and our inability to accept urgent large-volume orders, our Directors believe it is necessary for our Group to construct the New Large Granular Urea Production Facility to capture the seasonal market opportunity of large granular urea products



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during the fertilising season. In order to achieve this purpose a urea producer is required to possess a sizeable daily production capacity to cope with any surges in demand during the peak season. In our view:

- a dedicated large granular urea production line is considered less efficient as there will be a period from June to September during which lower demand of this product will arise; and
- as the add-on large granular urea production facilities only transform a portion of the produced small granular urea products into large granular urea products, it has no impact on the production capacity of the small granular urea products.

Our Directors are of the view that an add-on facility for large granular urea products will enable us to capture the seasonal demand of the such product whilst keeping the investment at a minimal level.

Our Directors are of the view that the New Large Granular Urea Production Facility will not only double the overall daily production capacity but will also provide considerable flexibility to switch production among the three production facilities according to the placed orders and specific package requests. Our Group will also be able to take up more high-volume and large package orders which we are unable to do at the moment due to our limited daily production capacity for certain types of packaged products. Additionally, the New Large Granular Urea Production Facility (to be constructed in Plant One) will also provide a standby large granular urea production facility in case Plant Two, where our existing large granular urea production facilities are located, undergoes routine maintenance. This will result in further diversification of urea product portfolio, increased production flexibility, enhanced profit margins and increase market share of our Group.

In conclusion, after considering the factors that (i) the higher price premium and higher gross profit margins of large granular urea products; (ii) with the increased production capacity, we would be able to improve our market share as we would have the capacity to capture the business opportunities arising from the surge in demand during the peak season; and (iii) we would be able to achieve the financial breakeven for all large granular urea production facilities (including the New Large Granular Urea Production Facility) with an annual production volume of approximately 39,000 tonnes. Such breakeven point is derived on the basis of the average selling prices, the average cost of the large granular urea products per tonne in the first quarter of 2017 and an annual depreciation rate of 8.33%, which is consistent with the accounting policies adopted by us in relation to the depreciation of plant and machinery. Our Directors are of the view that the investment for the New Large Granular Urea Production Facility is made on a prudent basis and can achieve financial breakeven in a short period of time after completion.

### QUALITY CONTROL

We believe that strict quality control is essential for us to maintain sustainable growth in the urea industry. Accordingly, we have implemented a quality control system in the production process of urea and methanol to ensure that the quality of our products meet our customers' expectations. As at 30 April 2017, our Quality Control Centre, which consists of 10 employees (with an average of five years of experience in implementing quality control measures), is responsible for overseeing and maintaining the quality of our products.

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On 11 January 2013, we obtained from Beijing Zhongjing Quality Certification Co., Ltd. (北京中經科環質量認證有限公司) a Quality Management System Certification of GB/T 19001-2008/ ISO 9001: 2008 standard in relation to our production and service of urea, and an Environmental Management System Certification of GB/T 24001-2004/ ISO 14001: 2004 standard for our environmental management activities of production and service of urea.

We have adopted the following quality management and control systems:

- Raw materials: we perform quality control inspections on the raw materials and purchase from the pre-selected suppliers who are able to provide us with quality coal that enables us to achieve optimal extraction of coal gas used for our production.
- Process control: we have well-trained management and operating personnel to optimise operation efficiency and stabilise the production output and quality.
- Testing and inspection: we have testing appliances at every stage of our production process. Our quality inspection team performs random tests on both intermediate and finished products on a sample basis to ensure that the products comply with the required standards. Testing processes include checking the physical appearance and composition of nutrients.
- Packaging and storage: we adopt systematic package and storage procedures in order to ensure proper packaging and avoid any damages to our fertiliser products during storage in our warehouses.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material sales returns by customers, any product liability or other legal claims arising from allegations relating to the quality of our products.

### SALES, CUSTOMERS AND MARKETING

#### Customers and Sales Channel

Our Sales Department is responsible for the sales of our products. During the Track Record Period and up to the Latest Practicable Date, we sold all of our products domestically in China. Most of our customers are based in Beijing, Tianjin, Hebei Province and the nearby regions, including Heilongjiang Province, Inner Mongolia Autonomous Region, Jilin Province and Liaoning Province.

We sell our urea products to our customers whom we believe are end-users in the agricultural and manufacturing industries, and trading customers. These trading customers will then sell the urea to:

- farmers who use urea as fertiliser;
- fertiliser trade corporations which sell urea directly to farmers;
- compound fertiliser enterprises which use urea in producing compound fertiliser; or
- chemical enterprises which use urea in the production of melamine and cyanuric acid.

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The following table sets forth the number and types of our customers for urea products sold by us and for the periods indicated:

	For the year ended 31 December		
	2014	2015	2016
End-users	56	102	110
Trading customers	660	763	633

The following table sets forth the breakdown of our Group's revenue derived from sales of urea products by customer type during the Track Record Period:

	For the year ended 31 December					
	2014		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
End-users	173,439	13.8%	229,957	13.4%	213,356	16.3%
Trading customers	1,081,754	86.2%	1,489,714	86.6%	1,095,631	83.7%
Total	1,255,193	100.0%	1,719,671	100.0%	1,308,987	100.0%

These trading customers were not our distributors, and (i) we did not enter into any distribution agreement with our trading customers during the Track Record Period, and all such trading customers purchased our products by way of purchase orders; (ii) we had no ownership, managerial or contractual control over any of such trading customers or on their sales, credit or pricing policies, and marketing activities; (iii) we did not accept any return or exchange of our products sold to the trading customers; (iv) we had no restrictions or requirements on the trading customers regarding their geographical coverage, sales target, minimum purchase requirements, target customers or avoidance of competition policies; (v) our trading customers did not provide us, and they were not required to provide us with, any information regarding their sales, inventory levels and customers' demands of our products. As such, our Directors consider that all such trading customers were end-customers of our Group and that we did not adopt any distributorship business models in selling our urea products.

Apart from our urea products, we believe these trading customers also sell urea products produced by other manufacturers.

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In respect of each transaction with our customers (including trading customers), we will enter into a standard legally binding agreement with our customers. The table below sets forth the principal terms of such agreement:

i.	Rights and obligations of parties involved	We shall provide the products in accordance with the required quality and criteria.  The customer shall pay the consideration in full prior to actual delivery.
ii.	Obsolete stock arrangements	Not applicable.
iii.	Goods return arrangement	Depending on the terms of the contract and subject to the satisfaction of certain requirements, the customer can raise a dispute relating to the quality of the products within a stipulated period.
iv.	Unsold goods arrangements	Not applicable.
v.	Sales and expansion targets	Not applicable.
vi.	Sales and inventory reports and estimates	Not applicable.
vii.	Minimum purchase amounts	Not applicable.
viii.	Conditions for terminating and renewing the agreements	The contract will automatically terminate upon completion.

During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, all of these trading customers were Independent Third Parties. During the Track Record Period, we also sold our liquid carbon dioxide to trading customers.

For the years ended 31 December 2014, 2015 and 2016, sales to our largest customer accounted for 4.7%, 9.1% and 14.2%, respectively, of our total revenue. For the same periods, sale to our top five customers accounted for 19.6%, 29.1% and 27.9%, respectively, of our total revenue. While we value our relationship with each of our customers, we believe that the loss of any particular customer, including our major customers, would not materially impact our business in the long-term. None of our Directors, their respective associates or any shareholder (which to the best knowledge of our Directors owns 5% or more of our Company's issued share capital) held any interest in any of our five largest customers during the Track Record Period. To the best knowledge of our Directors, none of our major customers during the Track Record Period are our suppliers.

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## BUSINESS

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The following table sets forth certain information with respect to our five largest customers during the Track Record Period.

### Year ended 31 December 2014

Rank	Five largest customers	Customer type/ Business scope	Headquarters	Credit period (days) <sup>(1)</sup>	Approximate percentage to our total revenue	Length of relationship with our Group as at 31 December 2014
1	Customer A	Trading company/ domestic sales and exportation of agricultural products	Shandong Province	Nil	4.7%	1 year
2	Customer B	Individual urea trader/trading of urea	Hebei Province	Nil	4.3%	7 years
3	Customer C	Individual urea trader/trading of urea	Hebei Province	Nil	4.3%	6 years
4	Customer D	Individual urea trader/trading of urea	Hebei Province	Nil	3.3%	10 years
5	Customer E	End-user company/ manufacturer of medium-density fibreboard and high-density fibreboard	Hebei Province	Nil	3.0%	3 years

*Note:*

- (1) Full advanced payment shall be made prior to delivery of our products and no credit period is given to customers.

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## BUSINESS

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**Year ended 31 December 2015**

<u>Rank</u>	<u>Five largest customers</u>	<u>Customer type/ Business scope</u>	<u>Headquarters</u>	<u>Credit period (days)<sup>(1)</sup></u>	<u>Approximate percentage to our total revenue</u>	<u>Length of relationship with our Group as at 31 December 2015</u>
1	Customer A	Trading company/ domestic sales and exportation of agricultural products	Shandong Province	Nil	9.1%	2 years
2	Customer F	Trading company/trading of agricultural fertiliser	Hebei Province	Nil	8.3%	3 years
3	Customer G	Individual agricultural products trader/trading of urea for industrial use and agricultural products	Tianjin	Nil	5.1%	8 years
4	Customer B	Individual urea trader/trading of urea	Hebei Province	Nil	3.8%	8 years
5	Customer H	Individual urea trader/trading of urea	Hebei Province	Nil	2.7%	8 years

*Note:*

- (1) Full advanced payment shall be made prior to delivery of our products and no credit period is given to customers.

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## BUSINESS

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**Year ended 31 December 2016**

<u>Rank</u>	<u>Five largest customers</u>	<u>Customer type/ Business scope</u>	<u>Headquarters</u>	<u>Credit period (days)<sup>(1)</sup></u>	<u>Approximate percentage to our total revenue</u>	<u>Length of relationship with our Group as at 31 December 2016</u>
1	Customer A	Trading company/ domestic sales and exportation of agricultural products	Shandong Province	Nil	14.2%	3 years
2	Customer B	Individual urea trader/ trading of urea	Hebei Province	Nil	4.3%	9 years
3	Customer G	Individual agricultural products trader/trading of urea for industrial use and agricultural products	Tianjin	Nil	3.3%	9 years
4	Customer C	Individual urea trader/ trading of urea	Hebei Province	Nil	3.1%	8 years
5	Customer I	Trading company/operation of agricultural production materials	Hebei Province	Nil	3.0%	8 years

*Note:*

- (1) Full advanced payment shall be made prior to delivery of our products and no credit period is given to customers.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material disputes with our customers or any material claim relating to our product liability.

### **Pricing, Settlement Terms and Credit Control**

The prices of our products are agreed between our customers and us with reference to our purchase price of raw coal and the prevailing market prices of our products. We are generally able to pass on increases in cost of raw materials of our products to our customers. To manage fluctuation of raw material prices, we have introduced a number of measures, such as efficient cost management to reduce the raw materials consumption for urea production and the recycling and utilisation of materials and substance emitted during the urea production process to produce by-products.

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## BUSINESS

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For our large granular urea products, which are generally produced upon customers' orders, the average lead time from the confirmation of sales orders and delivery of products normally ranges from one to four days. Generally, there is no lead time for our small granular urea products because we produce small granular urea products continuously, instead of upon customers' orders. As we have a solid relationship with our customers and a stable customer base and the demand for urea normally exceeds its supply in the North China and Northeast China, we are able to ensure that there are sufficient purchase orders for our small granular urea products.

All of our customers are required to make advanced full payment prior to delivery of products and no credit would be granted to customers. We recognise the revenue from the sales to our customers at the time of delivery of the products to our customers. Such payments will include the cost of transportation which is fully borne by the customers. We will arrange for delivery of our products to the customers within 15 days of receiving payment. Title and risks of our products will pass to the respective customers once these products are delivered to our customers. Payment by the customers is mainly made by way of cash or bank telegraphic transfer before delivery of our products to those customers and in some cases, our customers make payment by the issuance of "bank acceptance bills" to us which can be cashed from the issuing bank after delivery. Therefore, all our revenues are contributed by cash instead of account receivables.

According to the Frost & Sullivan Report, urea production companies in the PRC usually negotiate with their customers in respect of the payment and delivery terms according to the customer relationship, product purchase volume, transportation distance and other factors affecting these terms. It is not uncommon for customers to agree payment in advance for the purchase of urea in the PRC.

As at the Latest Practicable Date, we had not experienced any material issues in respect of the doubtful debts from our sales.

### **Marketing**

The Sales Department is responsible for our marketing activities. Our staff visit different places of the country to secure new customers from time to time. We visit our customers to discuss the quality of our products and service and their future purchases. Our Company has expanded in the past few years and production volume has exceeded one million tonnes. Whilst consolidating our advantageous status in Northeast China, we also actively explore new market by cooperating closely with exporters and leveraging the short transport distance we enjoyed to the Tianjin international port. Our market expansion strategy is supported by strong demand from industrial fertiliser customers and our brand effect in agricultural fertilisers.



**RAW MATERIALS, STORAGE, ENERGY AND SUPPLIERS**

**Raw Materials**

Coal is the primary raw material used for the manufacture of our products. We utilise two types of coal, namely, anthracite and bituminous coal. Anthracite, which constituted approximately 46.3%, 43.4% and 36.0% of our total cost of sales for the years ended 31 December 2014, 2015 and 2016, respectively, is used as raw material in the production of urea and methanol. Bituminous coal, which constituted approximately 8.9%, 6.6% and 7.0% of our total cost of sales for the years ended 31 December 2014, 2015 and 2016, respectively, is used to generate power for the production process and steam for the gasification process.

As a result of our extensive experience in the urea industry, and our in-depth know-how of the production processes and advanced technologies, we are able to increase our utilisation of coal, thereby reducing our consumption of coal per unit of urea product output. Additionally, due to the continuous improvements made to our production processes, we are able to produce urea products (which meets the national quality) by using cheaper small-sized coal, rather than relying on premium coal with higher procurement costs. As a result, we enjoyed a cost advantage which led to higher profitability during the Track Record Period and up to the Latest Practicable Date. Since 31 December 2016 and up to the Latest Practical Date, no policy change has been observed in the PRC which may have a material adverse impact on our coal procurement costs. Moreover, according to the Frost & Sullivan Report, close proximity to raw materials for urea production can reduce transportation costs of the urea production companies. Our location, being adjacent to the major coal output provinces, has resulted in lower operating costs including but not limited to the transportation and storage. The following table sets forth the average purchase prices of anthracite of our Group and the average retail prices of small sized anthracite in the PRC for the periods indicated:

	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(RMB/tonne)</i>		
<b>Anthracite prices</b>			
Average purchase price of anthracite of our Group	782	627	510
Average retail price of small-sized <sup>(1)</sup> anthracite in the PRC	849	732	625

\* *Source: Company, Frost & Sullivan Analysis*

*Note:*

(1) Small-sized anthracite with particle diameter ranges from 10mm to 40mm.

Taking into account the above reasons, our Directors are of the view that our Group will be able to maintain its advantages on its relatively low purchase price of coal going forward.

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For the years ended 31 December 2014, 2015 and 2016, we have used approximately 814,129 tonnes, 1,128,842 tonnes and 1,147,449 tonnes of coal in our production plants respectively, and the total cost of coal amounted to approximately RMB634.5 million, RMB702.6 million and RMB562.4 million, respectively.

### **Storage**

We own four storage warehouses which include one finished product warehouse, one production equipment component warehouse, one labour protective equipment warehouse and one raw material warehouse. The raw material warehouse stores all our raw materials.

### **Energy**

Electricity is the primary source of energy for our daily operation and production at our plants. We purchase electricity used in our production and our business operations. During the Track Record Period, we have entered into agreement with Cangzhou Power Supply Company (滄州供電公司) pursuant to which we are guaranteed uninterrupted supply. For the years ended 31 December 2014, 2015 and 2016, we purchased approximately 798 million kWh, 1,110 million kWh, and 1,095 million kWh of electricity for the operation of our production plants, respectively.

In respect of the electricity costs, we were able to achieve competitive unit electricity cost during the Track Record Period and up to the Latest Practicable Date. Our unit electricity cost was approximately RMB405.2, RMB385.6 and RMB384.6 per tonne of urea output for the years ended 31 December 2014, 2015 and 2016, respectively, whereas the average unit electricity cost of the other nine of top 10 urea producers by revenue in the PRC was approximately RMB410.5, RMB392.4 and RMB462.2 per tonne of urea, respectively for the same periods, according to the Frost & Sullivan Report. Since 31 December 2016 to the Latest Practicable Date, no policy change has been observed in the PRC which may have a material adverse impact on our applicable electricity tariff. Our Directors believe that our Group will be able to continue to maintain such competitive electricity cost, and our own power generator systems will continue to operate and save additional energy costs going forward.

We also own power generator systems which generate power from waste steam and heat produced during the production process to provide electricity for our operations, thereby reducing our electricity costs. For the years ended 31 December 2014, 2015 and 2016, the amount of electricity generated by our power generator systems contributed to approximately 10.6%, 9.8% and 13.5% of our total electricity consumption of the relevant periods.

We have not experienced any material shortages of electricity, except for occasional stoppages of power of limited duration caused by severe weather conditions which did not materially impact our production. Please refer to the section headed “Risk Factors” in this prospectus for further details.

## **Suppliers**

We obtain coal from coal suppliers based in the PRC. During the Track Record Period, several top five suppliers had cooperated with us from 10 to 20 years. We subsequently changed from these individual suppliers to the trading companies for VAT invoices. Please refer to the sub-section headed “– Raw Materials, Storage Energy and Suppliers – Changes in Five Largest Suppliers During the Track Record Period” in this section. Our main criterion for selecting coal suppliers are the product quality and the selling prices they can offer.

Typically, we purchase coal from one to two months in advance of the actual production. The amount purchased will be determined based on the existing inventory and estimated production requirement. We are not required to purchase a minimum quantity of coal. The coal suppliers are responsible for transporting the coal to us and paying the related transportation costs.

We negotiate pricing with our coal suppliers on an arm’s length basis prior to the delivery of the coal to us, based upon the prevailing market prices at such time, and pay the coal suppliers after delivery. We make payments after inspecting that the coal is up to standard in terms of types and weights. We believe this is beneficial to our operation because it offers us timely delivery with guaranteed quality and quantity without any advanced payment which gives us the flexibility of using our capital. All of our major coal suppliers have deposited a sum of money with us as security for the timely delivery and quality of the coal. During the Track Record Period, we did not enter into any framework agreements with any suppliers.

We have adopted stringent policies on the selection of our suppliers of production equipment. When we select new suppliers, we will review the supplier’s reputation, the quality of materials supplied, the duration of the supplier’s business relationship with us, pricing and delivery reliability.

For the years ended 31 December 2014, 2015 and 2016, the number of coal suppliers was 19, 21 and 19, respectively. We are not dependent on any one of our suppliers, as we are able to source raw materials from alternative suppliers should the need arise. As a result of which, we do not enter into long-term agreements with any raw material suppliers.

For the years ended 31 December 2014, 2015 and 2016, purchases from our largest supplier accounted for approximately 11.6%, 13.3% and 9.6% of our cost of sales, respectively. For the same periods, purchases from our five largest suppliers accounted for approximately 44.2%, 40.6% and 31.7% of our cost of sales, respectively, and purchases from our top five suppliers accounted for less than 30% of our total revenue. During the Track Record Period, our five largest suppliers were coal traders who will source for coal from various coal mines and arrange for delivery of coal to us. Save as disclosed below, none of our Directors, their respective associates or any shareholder (which to the knowledge of our Directors owns 5% or more of our Company’s issued share capital) held any interest in any of our five largest suppliers during the Track Record Period.

The following table sets forth certain information with respect to our five largest suppliers during the Track Record Period.

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## BUSINESS

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**Year ended 31 December 2014**

<u>Rank</u>	<u>Five largest suppliers</u>	<u>Supplier type/ Business scope</u>	<u>Headquarters</u>	<u>Credit period (days)<sup>(1)</sup></u>	<u>Approximate percentage to our total cost of sales</u>	<u>Length of relationship with our Group as at 31 December 2014</u>
1	Supplier A <sup>(2)</sup>	Individual coal trader/trading of coal	Hebei Province	Nil	11.6%	4 years
2	Supplier B	Individual coal trader/trading of coal	Hebei Province	Nil	11.3%	11 years
3	Supplier C	Individual coal trader/trading of coal	Hebei Province	Nil	11.2%	19 years
4	Supplier D	Individual coal trader/trading of coal	Hebei Province	Nil	5.5%	5 years
5	Supplier E <sup>(2)</sup>	Individual coal trader/trading of coal	Hebei Province	Nil	4.6%	15 years

*Note:*

- (1) We generally agree to make payment to our suppliers after delivery of goods and our satisfactory inspection of the types and weights of goods. Therefore, there was no applicable credit period between our top five suppliers and us during the Track Record Period.
- (2) Supplier A and Supplier E are associates of our executive Director, Mr. Wang. Please refer to the section headed “Financial Information – Related Party Transactions” in this prospectus for detailed information.

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**Year ended 31 December 2015**

<u>Rank</u>	<u>Five largest suppliers</u>	<u>Supplier type/ Business scope</u>	<u>Headquarters</u>	<u>Credit period (days)<sup>(1)</sup></u>	<u>Approximate percentage to our total cost of sales</u>	<u>Length of relationship with our Group as at 31 December 2015</u>
1	Supplier B	Individual coal trader/trading of coal	Hebei Province	Nil	13.3%	12 years
2	Supplier A <sup>(2)</sup>	Individual coal trader/trading of coal	Hebei Province	Nil	11.9%	5 years
3	Supplier D	Individual coal trader/trading of coal	Hebei Province	Nil	6.3%	6 years
4	Supplier C	Individual coal trader/trading of coal	Hebei Province	Nil	4.6%	20 years
5	Supplier F	Individual coal trader/trading of coal	Hebei Province	Nil	4.5%	2 years

*Note:*

- (1) We generally agree to make payment to our suppliers after delivery of goods and our satisfactory inspection of the types and weights of goods. Therefore, there was no applicable credit period between our top five suppliers and us during the Track Record Period.
- (2) Supplier A is an associate of our executive Director, Mr. Wang. Please refer to the section headed “Financial Information – Related Party Transactions” in this prospectus for detailed information.

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## BUSINESS

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**Year ended 31 December 2016**

<u>Rank</u>	<u>Five largest suppliers</u>	<u>Supplier type/ Business scope</u>	<u>Headquarters</u>	<u>Credit period (days)<sup>(1)</sup></u>	<u>Approximate percentage to our total cost of sales</u>	<u>Length of relationship with our Group as at 31 December 2016</u>
1	Supplier G	Trading company/ trading of coal	Hebei Province	Nil	9.6%	15 months
2	Supplier H	Trading company/ trading of coal	Inner Mongolia Autonomous Region	Nil	6.4%	12 months
3	Supplier I	Trading company/ trading of coal	Hebei Province	Nil	6.4%	4 months
4	Supplier J	Trading company/ trading of coal	Hebei Province	Nil	5.3%	15 months
5	Supplier K	Trading company/ trading of coal	Tianjin	Nil	4.0%	3 months

*Note:*

- (1) We generally agree to make payment to our suppliers after delivery of goods and our satisfactory inspection of the types and weights of goods. Therefore, there was no applicable credit period between our top five suppliers and us during the Track Record Period.

We have not experienced any material disruption or dispute in the supply of raw materials during the Track Record Period.

### **Changes in Five Largest Suppliers During the Track Record Period**

The five largest suppliers of our Group for the years ended 31 December 2014 and 2015 were individual coal traders (“**Top 5 Individual Coal Traders**”), while all of our five largest suppliers for the year ended 31 December 2016 were coal trading companies (“**Top 5 Coal Trading Companies**”). To the best knowledge of our Directors, the Top 5 Individual Coal Traders are local residents who were mainly engaged in coal trading in Hebei Province. These individuals primarily purchased coal from coal mining companies and coal trading companies in Shanxi Province and Inner Mongolia Autonomous Region and such coal would then be sold to coal users in Hebei Province. The Top 5 Coal Trading Companies mainly procured coal from Shanxi Province and Inner Mongolia Autonomous Region and such coal would then be sold to coal users in Hebei Province and Inner Mongolia Autonomous Region. Each of our top five suppliers during the Track Record Period was able to supply sufficient coal to meet our demand for normal production and we believe that a significant portion of coal was sold by them to other coal users.

During the Track Record Period, we changed our suppliers from the Top 5 Individual Coal Traders to the Top 5 Coal Trading Companies as a result of changes to the PRC rules and regulations relating VAT policies. Prior to 1 September 2015, chemical fertiliser producers, including our Group, were entitled to full VAT exemption on the sales of urea products. Pursuant to the Notice on the Policies on Resuming the VAT Levy on Fertilisers (關於對化肥恢復征收增值稅政策的通知) (which came into effect on 1 September 2015) (the “**New Policy**”), we are subject to 13% VAT on our sales of chemical fertilisers. According to Interim Regulation on Value Added Tax of the PRC (中華人民共和國增值稅暫行條例), (the “**Interim Regulation**”), entities and individuals selling goods or providing processing, repairing or replacement services and importing goods into China are required to pay VAT. Moreover, according to the Interim Regulation, the VAT payable is calculated based on the difference between the output VAT charged on the goods sold and/or services rendered by an entity and the input VAT paid by the supplier who sells and/or renders the raw materials and/or services to such entity. Input VAT only affects whether output VAT can be deducted accordingly. If the goods sold and/or services rendered are not subject to VAT, no input VAT can be claimed for deduction.

After 1 September 2015, the VAT payable by us can be calculated by deducting the input VAT in connection with our purchase of raw materials, which is payable by our suppliers, from the output VAT payable by us on the sales of our products. In order to make such deductions, our suppliers must issue VAT invoices to us. None of the Top 5 Individual Coal Traders is able to issue the requisite VAT invoices to us to facilitate such deductions. As a result of this, we changed our suppliers from the Top 5 Individual Coal Traders to the Top 5 Coal Trading Companies which are able to issue the requisite VAT invoices to us.

In terms of the obligation of declaring and paying VAT, an entity is only obligated to declare and pay VAT for its sales of goods, provision of services or importation of goods into China (the “**Taxable Outputs**”), rather than for its purchase of raw materials or procurement of services. In other words, the entity that realises sales by providing the Taxable Outputs shall be responsible for the VAT declaration and payment. As a purchaser of coal, our Group does not have any obligation to declare or pay VAT for the coal purchased. It is the coal suppliers who are obligated to declare and pay VAT and issue VAT invoices to customers, such as our Group, in relation to their sales of coal. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, to the extent that the coal suppliers charged VAT-inclusive prices to us, we had always paid such invoiced amount.

Prior to the implementation of New Policy on 1 September 2015, our Group, like other fertiliser producers, was fully exempted from the declaration and payment of VAT. As we were prohibited from issuing output VAT invoice to our customers, the input VAT invoices issued by our suppliers, if any, could not be used by us to offset any output VAT.

After 1 September 2015, all fertiliser producers in the PRC, including our Group, are no longer exempted from the declaration and payment of VAT. Consequently, we have been able to use the invoices of input VAT to offset our output VAT. Following such policy change, we have started to declare and pay VAT since September 2015.

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Dongguang Local Taxation Bureau (東光縣地方稅務局) issued confirmation letters on 5 July 2016 and 13 April 2017, respectively, and Dongguang State Taxation Bureau (東光縣國家稅務局) issued confirmation letters on 5 July 2016, 18 April 2017 and 3 May 2017, respectively. According to abovementioned confirmation letters, Dongguang Chemical was in compliance with all material respects with applicable PRC laws and regulations with regard to PRC taxation during the Track Record Period. As advised by our PRC Legal Adviser, the above taxation bureaus are the competent government authorities to issue such confirmation letters. For further information on the laws and regulations on the VAT applicable to us, please refer to the section headed “PRC Regulations – Legal Supervision Over Taxation in China – Value-added Tax” in this prospectus.

According to Frost & Sullivan, such change from individual coal suppliers to coal trading companies is common among urea manufacturers under the New Policy and it is an industry norm to have a mix of individual coal traders and coal trading companies in the region. Our Group has not experienced any difficulties in switching to other suppliers to fulfill our procurement needs and such change from individual coal suppliers to coal trading companies did not have any material impact on our Group’s liquidity, quality of coal procured and lead time for delivery based on following reasons:

- (i) *Liquidity*: the payment terms agreed between our Group and the coal suppliers typically follow the prevailing market practices in the region, which will not differ significantly among suppliers. According to the agreement terms with our coal suppliers and as a normal business practice, we normally paid our coal suppliers upon the delivery and satisfactory inspection of coal during the Track Record Period. However, the PRC Government adopted policy to restrict coal mining capacities in 2016, which limited coal supply. In response to the change of market conditions, we agreed to make prepayments to certain coal suppliers before the delivery of coal to ensure undisrupted supply of coal. The prepayment commitment is made against each order of coal. The prepayments to coal suppliers in 2016 did not have any material impact on our Group’s liquidity, and our Directors believe such prepayments will not have any material impact on our Group’s liquidity going forward, after taking into account (i) such prepayment only accounted for approximately 4% of total cost of coal in 2016 and it was normally within one week between the prepayment and the delivery of the procured coal; (ii) our inventory turnover days remain short and our operating cash inflow remains at a surplus position; and (iii) as the prepayment is made on a rolling basis, such amount is not expected to vary substantially given the relatively stable procurement from each of the coal suppliers going forward.
- (ii) *Quality of coal*: as a commodity, the coal products under each category are homogeneous. Therefore, coal products offered by different coal suppliers in North China and nearby regions are largely similar in terms of physical composition and other characteristics of coal quality.
- (iii) *Lead time*: the Top 5 Coal Trading Companies are located in close proximity to Cangzhou City, Hebei Province where our production plants are located. Therefore, the delivery time of coal supplied by the Top 5 Coal Trading Companies has no material difference compared with that of the Top 5 Individual Coal Traders. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any delay in delivery of coal as a result of the change of suppliers.



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## BUSINESS

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We believe the change of our suppliers did not, and will not have a material negative impact on our business operations or financial conditions, primarily because:

- (i) the procurements of coal has always been determined at the transparent prevailing market prices. Accordingly, the change of coal suppliers will not likely result in any material increase in the procurement costs of coal; and
- (ii) the material procurement terms of the agreements entered into between our Group and either the then individual coal traders, or the coal trading companies are not different in any material aspect. Such terms include, among others, the delivery and transportation cost, credit period and payment methods.

### Seasonality

As a certain portion of our revenues were generated by sales of urea products for agricultural use, our business is exposed to potential seasonal fluctuations in demand for nitrogen fertiliser products, which varies depending on soil conditions, weather patterns and the types of crops planted. However, as at the Latest Practicable Date, we had generally succeeded in mitigating the risks associated with seasonality of the agricultural industry by selling our products to customers in different regions in the PRC that have different weather conditions and by selling products to customers in other industries.

Coal prices fluctuate seasonally. Prices tend to remain more stable between March and October, and typically peak from November through February. During the winter months, the PRC Government has historically required coal production enterprises to guarantee supply to meet the requirements of heating supply institutions. Therefore, the coal available for, inter alia, chemical manufacturing enterprises is reduced during the winter months.

### COMPETITION

We face intense competition in the urea and methanol industry in the PRC. Our competitors include state-owned enterprises, private-owned enterprises and foreign-invested enterprises based in China. Please refer to the section headed “Industry Overview – Competitive Landscape” in this prospectus for further information about the competitive landscape of the urea and methanol industry in the PRC.

### AWARDS AND ACCREDITATIONS

Up to the Latest Practicable Date, the following major awards and accreditations had been granted to us:

<u>Year awarded</u>	<u>Award/Accreditation</u>	<u>Awarding authority</u>
2016	Safety Production Standardization Second-Class Enterprise (安全生產標準化二級企業)	Safety Production Supervision and Management Bureau of Hebei Province (河北省安全生產監督管理局)

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**BUSINESS**

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<u>Year awarded</u>	<u>Award/Accreditation</u>	<u>Awarding authority</u>
	2015 No. 9 among National Top 20 Gross Profit Enterprise in Nitrogen Fertiliser Industry (2015年全國氮肥企業利潤總額20強第九名)	China Nitrogen Fertiliser Industry Association (中國氮肥工業協會)
	The Advanced Unit on Energy Saving and Emission Control under the “12th Five-year Plan” (「十二五」期間氮肥、甲醇行業節能減排先進單位)	China Nitrogen Fertiliser Industry Association (中國氮肥工業協會)
	2015 Advanced Energy Saving Unit of Cangzhou City (滄州市2015年度節能工作先進企業)	People’s Government of Cangzhou City (滄州市人民政府)
2014	Enterprise of Integrity of Hebei Province (河北省誠信企業)	Office of Committee for Selection of Enterprise of Integrity of Hebei Province (河北省誠信企業評選委員會辦公室)
2013	2011-2012 Nitrogen Fertiliser and Methanol Industrial Technology Advanced Enterprise Honor Award (2011-2012年氮肥、甲醇行業技術進步先進企業獎)	China Nitrogen Fertiliser Industry Association (中國氮肥工業協會)
2012	2011 National Top 50 in Nitrogen Fertiliser Industry (2011年全國氮肥行業50強)	China Nitrogen Fertiliser Industry Association (中國氮肥工業協會)
	Famous Trademark of Hebei Province (河北省著名商標)	Administration for Industry & Commerce of Hebei Province (河北省工商行政管理局)
2011	2010 National Top 50 in Nitrogen Fertiliser Industry (2010年全國氮肥行業50強)	China Nitrogen Fertiliser Industry Association (中國氮肥工業協會)

### **PRODUCTION TECHNOLOGY AND MANAGEMENT**

While the general manufacturing technologies of urea are in the public domain, we believe improvement of production technology and management is of great importance to our industry, as the level of competition in respect of production costs and processes has increased considerably over the past years.

Our Engineering Department, which is managed by our Chief Engineer, comprised 17 employees as at 30 April 2017. It is responsible for our production technology and management of our equipment. Specifically, our Engineering Department researches, proposes and introduces new projects appropriate for the development of our Group and oversees their implementations. Over the years, we have improved our existing production processes through incorporation of new equipment and techniques into our existing production processes. We have also utilised various advanced production technologies and equipment in our production lines to improve our production efficiency and quality. Please refer to “– Production – Production Equipment and Technology” in this section for detailed information.

As at the Latest Practicable Date, the Engineering Department was researching on the development of possible downstream products, including melamine and compound fertilisers, both of which require urea as raw material, and methanol gasoline, which requires methanol as raw material.

### **INVENTORY CONTROL**

Our inventory comprised primarily coal and finished goods. We generally maintain inventory of coal for one to two months, and inventory of our finished products for two to three days on average. We monitor the movement of our inventory regularly to ensure the quality of our products, and we align our inventory levels with market demand and ordered sales volume.

We perform regular reviews of our inventory provisions. Based on these reviews, provision for impairment of inventories can be made if and when the carrying amounts of inventories decline below their estimated net realizable value. We did not experience any material impairment to our inventory, such as slow moving or otherwise obsolete inventory, during the Track Record Period.

### **INSURANCE AND PRODUCT LIABILITY**

We have procured insurance policies that cover our production plants, machines and equipment. We also provide social welfare insurance and occupational accident damages insurance for our full-time employees in accordance with the relevant PRC laws and regulations.

We have not maintained any product liability insurance for our products, as we are not legally required to have such insurance under the PRC laws. Our Directors believe that it is not a common practice in our industry to procure product liability insurance. We did not experience any material claim relating to our product liability during the Track Record Period. After taking into consideration the costs and benefits of purchasing such insurance, our Directors believe that such product liability insurance is not necessary. We would consider procuring product liability insurance in the event that events or market practice are to deem such procurement appropriate.

### ENVIRONMENTAL AND SAFETY REGULATIONS

We value our corporate social responsibilities and have been, and intend to continue to be, committed to observing environmental protection and safety regulations in all of our business activities to ensure our operations are in compliance with those regulations. According to PRC environmental laws and regulations, urea producers in China must comply with environmental laws and regulations stipulated by the State and the local environmental protection agencies. For further information about the applicable PRC laws and regulations, please refer to the section headed “PRC Regulations” in this prospectus. During our production process, waste water, waste gas and coal slag are regularly discharged. Our operations are therefore subject to numerous national and provincial environmental laws and regulations governing the discharge of waste water, gas emission, hazardous chemicals and waste management.

We are committed to environmental protection. In order to comply with the relevant laws and regulations in the PRC, we have established the Safety and Environmental Department (consisting of 22 staff members as of 30 April 2017 based on ISO 14001) which is in charge of the preparation and implementation of our environmental, health and safety (“EHS”) policies in our daily operations. The EHS policies cover various aspects of our operations, including production, storage and transportation of our products and raw materials, prevention of pollution, training and protection of employees’ health.

Our EHS policies focus on ensuring that our urea and methanol production emission control, treatment of waste water and treatment of coal slag dissemination are in compliance with the relevant regulations and policies of national and local governments. In addition, we have installed waste treatment facilities on our production plants to handle such discharges.

Due to our research and development efforts, we have developed a management system to minimise any negative impact on the environment, and to recollect the waste gas, liquid or solid waste, such as coal slag, from the manufacturing of urea in order to further process and sell them as our other by products. We have obtained Environment Management System ISO 14001 certificate, which is an international certificate of assurance that (i) we have minimised our operation’s negative effect on the environment, (ii) we are in compliance with applicable laws, regulations and certain other environmentally oriented requirements, and (iii) we have continued improving in this aspect.

During the Track Record Period and up to the Latest Practicable Date, we had produced the following waste materials, which have been dealt with through the implementation of corresponding EHS measures:

#### **Carbon dioxide**

Carbon dioxide is generated during the production process of urea. We have installed carbon dioxide recollecting device at our production facilities which have the capacity to absorb in aggregate 150,000 tonnes of carbon dioxide per year. The carbon dioxide absorbed is then sold for recycling purpose.

### **Waste water**

We have installed water treatment facilities at Plant One and Plant Two which have the respective daily capacities of treating 1,920 tonnes and 600 tonnes of waste water, respectively to treat all waste water generated during the production process of our products. Such treated waste water is recycled and used for the production process of products.

### **Waste gas**

Waste gas is generated during the production process. We have adopted processes to reuse the waste gas generated from the production process for furnace fuel and also installed a wet scrubber to remove dust. The waste gas generated from boilers is purified by electrostatic precipitators, denitration and desulphurisation equipment. We are equipped with online monitoring facilities to control the dust and sulphur dioxide emissions from boilers.

### **Solid waste**

We generate a large amount of coal slag in our production process and boiler, as compared to urea producers using natural gas as raw material. We reuse part of the slag as fuel for our boilers and sell other dreg, such as powder collected from dust removers and sludge from waste water treatment to companies for use in construction.

According to the environmental impact assessment report and the confirmation letter issued by the relevant PRC environmental authorities, and as advised by our PRC Legal Adviser, we are in compliance in all material respects with applicable PRC EHS laws and regulations with regard to environmental protection, as we did not produce any hazardous materials during the Track Record Period. All of our products meet the relevant environmental requirements under PRC laws and we were not subject to any fines or legal action involving non-compliance with any relevant environmental regulation, nor are we aware of any threatened or pending action, including by any environmental regulatory authority during the Track Record Period. We have passed the inspection for the completion of environmental protection for Plant One and Plant Two as required by the applicable PRC laws and regulations.

The Hebei Provincial Safety Production Supervision and Management Bureau issued a Safety Production Permit to us on 3 January 2017 which is valid until 2 January 2020, for the production of hazardous chemical products. The National Registration Centre for Chemicals of State Administration of Work Safety and the Hebei Provincial Registration Office of Hazardous Chemicals also issued a registration certificate to us on 28 November 2016 which is valid until 27 November 2019, for the production of ammonia, methanol, sulfur, natural gas and liquid carbon dioxide. Our PRC Legal Adviser had advised that as at the Latest Practicable Date, we were in full compliance with applicable safety regulations.

We have also developed a series of internal policies and programs for environmental risk prevention to ensure compliance with requirements of applicable national, industrial and local standards, laws, regulations and policies. Such policies include report on the emission level of gas pollutants, wastewater and solid waste from our employees to our Safety and Environmental Department and evaluation of such emission levels by our employees on a daily basis. In recognition of our strict adherence to environmental protection standards, we were accredited with

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“Authentication Certificate of Environmental Management System (環境管理體系認證證書)” by Beijing Zhongjing Quality Certification Co., Ltd. in 2015. If we notice any deviation from applicable emission standards, we will investigate the causes for such deviation and will take rectification measures accordingly. Furthermore, our discharge of waste water and solid waste and emission of gas pollutant is also monitored by the local environmental monitoring centre. During the Track Record Period, the discharge of each key pollutant remained within its respective prescribed regulatory limits.

Our environmental compliance expenses from repairs and sewage charges incurred for the years ended 31 December 2014, 2015 and 2016 were RMB4.7 million, RMB8.4 million and RMB15.0 million, respectively. Going forward, we expect our annual cost of compliance with applicable environmental matters in the near future will not experience significant changes from that during the Track Record Period, subject to any future changes in applicable environmental laws and regulations which may arise.

During the Track Record Period, we received government subsidies for an aggregate amount of RMB19.2 million from local governmental agencies and a significant portion of which were used for purposes in connection with environmental protection and energy saving. We were entitled to these subsidies because we installed equipment designed to generate steam that is usable for power generation by recycling the waste residue, coal slurry and coal slime that is generated in the production process.

In view of our efforts to reduce pollution and protect the environment as detailed above, our Directors believe that our business operation does not have a material adverse impact on the environment.

As at the Latest Practicable Date, we did not receive any notifications or warnings and were not subject to any fines or penalties in relation to any breach of any applicable environmental laws or regulations that could have a material adverse effect on our production. As of the Latest Practicable Date, we had obtained all permits, licences and approvals relating to environmental protection and safety production.

### **OCCUPATIONAL HEALTH AND SAFETY**

We consider occupational health and safety as one of our important social responsibilities. To this end, we have implemented a system of occupational health and safety measures, details of which are set out below.

Our business operations involve the use and production of chemicals that are potentially dangerous, including urea, methanol and ammonia. These chemicals could result in damage to, or destruction of, properties or production facilities, personal injury, environmental damage, business interruption and possible legal liability. Urea, which is our main product, may cause irritation to the skin and eyes upon contact. Methanol, which we also produce, is highly poisonous and may result in blindness, metabolic acidosis, or damage to the central nervous system and liver if ingested or inhaled. Ammonia, a product of natural gas used for urea manufacture, may cause irritation and caustic burns if ingested or severe eye damage upon contact. Please refer to the section headed “Risk Factors – Risks relating to our business – We are subject to risks in relation to the operation of our production facilities” for details of these related risks.

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On 27 April 2014, a fire broke out in our Old Plant while we were in the process of closing the Old Plant and shutting down or relocating the equipment therein. Two of our employees were injured and suffered minor burns on their arms as a result of this accident. According to the Investigation Report issued by the Fire Department of Dongguang County, the fire was caused by a gas leak which resulted from a fracture to a part of the equipment when it was being shut down. After proper medical treatment, the injured employees both returned to work. According to the results of injury examination from the local labour bureau, the injury suffered by one of the affected employees was recognised as employment injury. The relevant employee had received a compensation of RMB34,775.2 from the local insurance company. No penalties or fines were imposed by the PRC Government against our Group in respect of this accident. For further information on the related risk, please refer to the section headed “Risk Factors – Risks relating to our business – Personal injury may occur in the course of our manufacturing processes, which may result in personal injury claims, cessation of our business or civil and criminal penalties”.

We have implemented various measures relating to occupational health and safety. Specifically, we have established a team of 17 officers as at 30 April 2017, to oversee safety management, among whom seven have obtained the necessary qualification certificates issued by the relevant authorities, and are responsible for the management of production safety. We have also set up a system to ensure safe production. Under the system, we have defined clearly the responsibilities of each of the members in the team, the rules and procedures required for ensuring safety in our operation. We have also implemented accident reporting procedures and accident investigation procedures.

We have further implemented emergency measures to manage, report and investigate any potential incident related to fire, personal injuries, vehicular accidents, environmental pollution and equipment malfunction. Our emergency management measures follow similar procedures established by relevant government agencies. Our production team organises emergency drills every quarter and analyzes the effectiveness of the emergency plans following these drills.

We also engaged ERM (Shanghai) Ltd. (“ERM”), an Independent Third Party to conduct a high-level health and safety assessment of our production facilities, to review our health and safety performance against applicable key national and international standards. ERM is an international institution which specialised in providing environmental, health, safety, risk and social consulting services. ERM issued the “High-level Health and Safety Due Diligence Assessment Report” (the “**Due Diligence Report**”) to us in August 2016. The Due Diligence Report was commissioned by us, and we paid a consulting fee in the amount of RMB100,000 to ERM for its services. Our Directors are of the view that the payment of the consulting fee does not affect the fairness of the conclusions drawn in the Due Diligence Report. The Due Diligence Report sets out the results ERM’s evaluation of the health and safety performance at our production facilities, including identification of material issues and deficiencies, in accordance with applicable material PRC health and safety laws and regulations and applicable key international standards. The Due Diligence Report did not reveal any material issues at the facilities with respect to the health and safety management systems, health and safety permits, firefighting and emergency preparedness, enforcement actions, industrial hygiene and personal protective equipment, medical surveillance, hazardous substances, accident records and outstanding compensation claims.

Our Group’s safety standards have satisfied the secondary benchmark set by Cangzhou Municipal Administration of Production Safety. We have also filed our emergency rescue plan with the Cangzhou Administration for records and have completed the necessary procedure.

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According to the confirmation letter issued by the Safety Production Supervision and Management Bureau of Dongguang County (東光縣安全生產監督管理局), and after due and careful consideration, our Directors are of the view that we have complied with the applicable environmental laws and regulations of the PRC during the Track Record Period and up to the Latest Practicable Date in all material respects. During the Track Record Period and up to the Latest Practicable Date, save as disclosed, we had not had any major accidents, claims or complaints relating to work safety which had materially and adversely affected our operation.

In respect of the safety protection matters, our expense incurred for the years ended 31 December 2014, 2015 and 2016, respectively, were approximately RMB2.6 million, RMB3.1 million and RMB7.3 million. We expect our annual cost of compliance with applicable safety protection matters in the near future will not experience significant changes from that of the Track Record Period, subject to any future changes in applicable laws and regulation on occupational health and safety which may arise.

### EMPLOYEES AND STAFF TRAINING

As at 30 April 2017, we had 1,304 full-time employees. Except for our company secretary, all of our employees are based in the PRC. We do not hire our employees through any employment agency. The following table shows the breakdown in numbers and percentages of employees by department:

<u>Functions</u>	<u>Number of employees</u>	<u>% of total</u>
Manufacturing	1,110	85.1
Technology	15	1.1
Quality Control	10	0.8
General Administration	104	8.0
Procurement	13	1.0
Sales and Marketing	16	1.2
Warehousing	36	2.8
Total	<u>1,304</u>	<u>100.0</u>

We have not experienced any significant labour disputes during the Track Record Period and consider our relationship with our employees to be good. Our employees are not covered by any collective bargaining agreement.

We offer competitive salaries to our staff and make contributions to various government sponsored employee benefit funds, which include social insurance funds, basic pension insurance fund and maternity and work related insurance funds in accordance with applicable PRC laws and regulations. During the Track Record Period, we failed to make contribution to the employee injury insurance, to register the account for housing provident fund contribution and also failed to make such contribution for our employees as required by PRC laws and regulations. For detailed information on such non-compliance incidents, please refer to the subsection headed “– Legal Non-compliance and Proceedings – (1) Failure to make employment injury insurance for



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employees; and (2) Failure to register housing provident fund account and make housing provident fund contributions for employees” in this section. As at the Latest Practicable Date, we had implemented an employee welfare plan in accordance with the relevant PRC laws and regulations. Our total expenses for this plan were approximately RMB20.2 million, RMB28.6 million and RMB28.4 million for the years ended 31 December 2014, 2015 and 2016, respectively.

Most of our Directors and senior management have been working for our Group for more than 20 years. We believe their experience and loyalty may help our Group grow steadily and continuously.

As we continue to expand our business, we believe it is critical to hire and retain top talent, especially in the areas of marketing, technology and manufacturing. We believe we have the ability to attract and retain high quality engineering talent in China based on our competitive salaries, annual performance-based bonus system, and equity incentive program for senior employees and executives.

Furthermore, we provide them with continuing education, in-service training and encourage their career development through accumulating on-the-job experience. Specifically, we have a training program for entry-level engineers that allows them to work closely with an experienced mentor to gain valuable hands-on experience and provide other professional development opportunities, including seminars where experienced engineers give lectures on specific engineering topics and new methods that can be applied to various projects.

In the future, we will continue to provide on-the-job and external training to our employees, including management skills, recent technology updates, occupational safety skills and other skills to help ensure that our employees are equipped with the relevant expertise to perform their respective duties and to enhance our competitiveness by increasing the efficiency of our production and encouraging a cooperative and collaborative work environment. We also intend to adopt a more efficient and effective internal control management system (which will be updated regularly) to ensure our production processes comply with the relevant internal and external rules and regulations and better manage our internal process.

### INFORMATION TECHNOLOGY SYSTEMS

Our production plants are equipped with advanced information system which enhances the effectiveness and efficiency of our business operation and production. We have adopted a reliable information system for financial management, which we believe will enable us to make more informed decisions on budgeting, cost control and production planning matters. In addition, our production processes as well as our usual business operation are assisted by automatic-control system.

### PROPERTIES

As at the Latest Practicable Date, except for two office units in Beijing which were owned by us, all of our owned or leased properties were located in Dongguang County, Cangzhou City, Hebei Province. Please refer to the property valuation report as set out in Appendix III to this prospectus for additional information.

## **Land Use Rights**

Under PRC law, land is owned by the PRC Government, and parcels of land in rural areas, known as collectively-owned land, is owned by the rural collective economic organization. “Land use rights” are granted to an individual or entity after payment of a land use right fee is made to the applicable state or rural collective economic organization. Land use rights allow the holder the right to use the land for a specified long-term period.

### *Owned Land*

As at the Latest Practicable Date, we held land use rights for nine parcels of land with an aggregate site area of approximately 736,917 sq.m. As advised by our PRC Legal Adviser, we are entitled to legally occupy, use, transfer, lease, mortgage or dispose of these nine parcels of land within the scope of use specified in the relevant land use right certificates and in accordance with relevant PRC laws and regulations regarding the use of land.

### *Leased Land*

As at the Latest Practicable Date, we leased one parcel of land with an aggregate site area of approximately 10,590 sq.m. from Dongguang Industrial District Management Committee (東光縣工業區管理委員會) for 30 years commencing from 10 June 2007.

### *Lands with Defective Titles*

The abovementioned leased land is collectively-owned land and according to the Land Administration Law of the PRC (中華人民共和國土地管理法), the rights to the use of collectively-owned land shall not be assigned, transferred or leased to non-rural collective economic organisation for non-agriculture use. Please refer to “– Legal Non-Compliance and Proceedings – (4) Lease of collectively-owned land for non-agricultural use” in this section for detailed information.

## **Buildings**

### *Owned Buildings*

Our buildings are mainly utilised for production, administration, dormitory and ancillary purposes. As at the Latest Practicable Date, we owned buildings with an aggregate gross floor area of approximately 102,693 sq.m. Save for those building disclosed in the paragraphs headed “Buildings with Defective Titles” below with an aggregate gross floor area of approximately 3,380 sq.m., we held all building ownership certificates for our owned buildings, according to which we are entitled to occupy and use these buildings.

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### *Buildings with Defective Titles*

The table below summaries our buildings with defective titles as at the Latest Practicable Date:

Details of properties and nature of the title defects	Reasons for the title defects and maximum potential liabilities	Primary use of the property and percentage of total revenue attributable to the property	Remedial actions and relocation plan
<p>As at the Latest Practicable Date, we had not obtained the building ownership certificates for our buildings with a gross floor area of approximately 3,380 sq.m., erected on a piece of our leased land, which represents approximately 3.29% of the aggregate gross floor area of our buildings (the “<b>Buildings on Leased Land</b>”).</p>	<p>During the Track Record Period and up to the Latest Practicable Date, the leased land on which the relevant building were erected was collectively-owned land and the use of which for non-agricultural purpose is prohibited under the Land Administration Law of the PRC. Unless and until such leased land is converted into state-owned land, we are unable to obtain the land use right of the leased land and the necessary construction permits for the building erected thereon, which are preconditions for the obtaining of the relevant building ownership certificates.</p> <p>As advised by our PRC Legal Adviser, we will not be subject since there is no applicable penalty or fine for the lack of building ownership certificates in the applicable PRC laws and regulations, to penalties or fines due to our lack of building ownership certificates for the Buildings on Leased Land. For the potential maximum liabilities concerning our use of collectively-owned land for non-agricultural purpose and our lack of construction permits before the commencement of certain of our building constructions, please refer to the subsections headed “– Legal Non-Compliance and Proceedings – (3) Lack of construction permits before the commencement of building construction; and (4) Lease of collectively-owned land for non-agricultural use” in this section.</p>	<p>We use the Buildings on Leased Land for coal storage, domestic and ancillary purposes.</p> <p>The Buildings on Leased Land did not contribute to any revenue of our Group during the Track Record Period.</p>	<p>On 10 June 2015, we obtained confirmations from Dongguang Land and Resources Bureau (東光縣國土資源局) confirming that: (i) the usage of leased land by us was in accordance with the land use planning; (ii) no dispute or disagreement on the ownership of the leased land was identified; and (iii) Dongguang Land and Resources Bureau will not impose any penalties for our leasing and use of the leased land. We plan to continue to negotiate with Dongguang Industrial District Management Committee, as the lessor of our leased land, and Dongguang Land and Resources Bureau for the conversion of the leased land to state-owned land and to obtain the land use right for the leased land once it has been converted into state-owned land.</p> <p>Once we have obtained the land use right of leased land, we will apply for the relevant construction permits and inspection and acceptance procedures for the Buildings on Leased Land.</p> <p>In the event that the local land and resources authority orders us to relocate from the leased land and the building erected thereon, we will be able to relocate our ancillary facilities and coal stored thereon to other parts of our production plants and our existing coal storage fields. Our estimated costs of demolishing and relocating the Buildings on Leased Land is approximately RMB0.2 million. Taking into account the estimated cost and as the Buildings on Leased Land do not account for any of the revenue of our Group, we will not experience any material adverse impact on the business operation or financial performance of our Group due to such demolition and relocation.</p> <p>Based on the above reasons, our PRC Legal Adviser is of the view that there will be no significant legal impediment for us to obtain the building ownership certificates for the Buildings on Leased Land after the conversion of the Leased Land to state-owned land and our obtaining of the relevant land use right and construction permits.</p>

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Considering that the operations carried out on our properties with defective titles did not account for any of our revenue during the Track Record Period, our Directors are of the view that our properties with defective titles are, individually and collectively, not crucial to our business operations.

According to the relevant PRC laws and regulations and as advised by our PRC Legal Adviser, our rights as owner or occupant of these buildings may be adversely affected due to the absence of the relevant building ownership certificates. Accordingly, certain rights including our rights to transfer or lease the buildings and/or to mortgage the buildings may be restricted.

During the Track Record Period and up to the Latest Practicable Date, we had not been penalised by any government authority over safety conditions concern in respect of our buildings with defective titles for which we have not obtained the relevant building ownership certificates or construction permits as required under the relevant PRC laws and regulations. Our Directors confirm that the safety condition of the buildings with defective titles is in compliance with the relevant fire safety requirements in material respects during the Track Record Period and up to the Latest Practicable Date.

### *Leased Buildings*

As at the Latest Practicable Date, we had no leased building.

## INTELLECTUAL PROPERTY

We rely on a combination of a trademark, trade secrets and confidentiality agreements to protect our intellectual property. For further information relating to the trademarks of our Group, please refer to the section headed “Statutory and General Information – Further Information About the Business of our Company – 11. Intellectual Property Rights of our Group” set out in Appendix V of this prospectus.

With respect to proprietary know-how that is not patentable and processes for which patents are difficult to enforce, we rely on, among other things, trade secret protection and confidentiality agreements to safeguard our interests. All of our research and development personnel have entered into confidentiality and proprietary information agreements with us. These agreements address intellectual property protection issues and require our associates to assign to us all of the inventions, designs and technologies they develop during the course of employment with us. We are not aware of any material infringement of our intellectual property rights.

During the Track Record Period, we were not involved in any dispute or litigation relating to infringement of trademarks and patents nor to the best of our knowledge did we infringe any trademarks and patents belonging to other parties.

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### Licences and Permits

We are subject to laws, regulations and supervision by different levels of regulatory authorities and are required to maintain various licences, permits, approvals and certificates in order to operate our facilities and conduct our business. A summary of such relevant PRC laws and regulations which our business operations are subject to is set out in the section headed “PRC Regulations” in this prospectus. As advised by our PRC Legal Adviser, we had obtained all necessary licences, permits, approvals and certificates for our business operations in the PRC and such licences, permits, approvals and certificates are valid and remain in effect as at the Latest Practicable Date. We did not experience any difficulties in renewing the necessary licences, permits, approvals and certificates during the Track Record Period, and we do not expect to have any material difficulty in renewing them when they expire. The following table sets forth details of our material licences and permits for our operation:

<u>Licence and permit</u>	<u>Issuing authority</u>	<u>Date of issue</u>	<u>Date of expiry</u>	<u>Recipient</u>
Water Procurement Permit (取水許可證)	Dongguang Water Supply Bureau (東光縣水務局)	29 June 2016	16 July 2017	Dongguang Chemical
The Safety Production Permit (安全生產許可證)	Hebei Provincial Safe Production Supervision and Management Bureau (河北省安全生產監督管理局)	3 January 2017	2 January 2020	Dongguang Chemical
Certificate of Safe Production Standardisation (安全生產標準化證書)	Hebei Provincial Safe Production Supervision and Management Bureau (河北省安全生產監督管理局)	17 February 2016	16 February 2019	Dongguang Chemical
Pollutant Discharge Permit of Hebei Province (河北省排放污染物許可證)	Dongguang Environmental Protection Bureau (東光縣環境保護局)	9 December 2016	10 December 2017	Dongguang Chemical
Authentication Certificate of Environmental Management System (環境管理體系認證證書)	Beijing Zhongjing Quality Certification Co., Ltd. (北京中經科環質量認證有限公司)	21 December 2015	20 December 2018	Dongguang Chemical

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Licence and permit	Issuing authority	Date of issue	Date of expiry	Recipient
Authentication Certificate of Quality Management System (質量管理體系認證證書)	Beijing Zhongjing Quality Certification Co., Ltd. (北京中經科環質量認證有限公司)	21 December 2015	20 December 2018	Dongguang Chemical
The National Production Licence for Industrial Products (全國工業產品生產許可證)	Hebei Provincial Quality and Technology Supervision Bureau (河北省質量技術監督局)	29 June 2016	28 June 2021	Dongguang Chemical
Registration Certificate of Hazardous Chemicals (危險化學品登記證)	National Registration Centre for Chemicals of State Administration of Work Safety (國家安全生產監督管理總局化學品登記中心); and  Hebei Provincial Registration Office of Hazardous Chemicals (河北省危險化學品登記註冊辦公室)	28 November 2016	27 November 2019	Dongguang Chemical
The National Production Licence for Industrial Products (全國工業產品生產許可證)	Hebei Provincial Quality and Technology Supervision Bureau (河北省質量技術監督局)	29 June 2016	28 June 2021	Dongguang Chemical
Registration Certificate of Major Hazards of Hebei Province (河北省重大危險源備案證)	Hebei Provincial Safe Production Supervision and Management Bureau (河北省安全生產監督管理局)	2 November 2015	1 November 2018	Dongguang Chemical

**LEGAL NON-COMPLIANCE AND PROCEEDINGS**

The table below sets out summaries of certain incidents of historical non-compliance with applicable laws or regulations during the Track Record Period and up to the Latest Practicable Date. Our Directors believe that these incidents of non-compliance, whether individually or collectively, will not have a material operational or financial impact on us.

Historical non-compliance	Reasons for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status	Enhanced internal control measures
<p>(1) <b>Failure to make employment injury insurance for employees:</b> In 2014 and up to March 2015, Dongguang Chemical failed to make full contributions to the employment injury insurance, being one category of the social insurance scheme, for all of its employees in an amount of approximately RMB3.3 million, which was in contravention of the Social Insurance Law of the PRC (中華人民共和國社會保險法) (the "Social Insurance Law").</p>	<p>The non-compliance is mainly caused by (i) our staff delegated in ensuring compliance at the relevant time being not familiar with the relevant regulatory requirements concerning employment injury insurance; (ii) different levels of acceptance of the social insurance scheme by Dongguang Chemical's employees; and (iii) inconsistent implementation or interpretation by local authorities in the PRC of the relevant regulations.</p>	<p>According to the Social Insurance Law, the relevant PRC authorities may demand Dongguang Chemical to pay the shortfall in employment injury insurance contributions (calculated based on the actual wages of employees) within a stipulated deadline and (i) in respect of the total amount of difference that had accumulated prior to 1 July 2011, if such payment is not made prior to the stipulated deadline, we may be liable to a penalty of 0.2% of the outstanding amount calculated daily from the date the employment injury insurance contributions became payable; and (ii) in respect of the difference that accumulated after 1 July 2011, we may be liable to a penalty equal to 0.05% of the outstanding amount calculated daily from the date the employment injury insurance contributions became payable and, if we fail to make such payments in arrears, we may be subject to a fine of one to three times of the total amount of the difference.</p>	<p>In April 2015, Dongguang Chemical had duly made full supplemental payment of the employment injury insurance to the local social insurance scheme authorities in an amount of approximately RMB3.3 million. Since April 2015, Dongguang Chemical has made contributions of employment injury insurance for all of its employees on a required basis under the relevant PRC laws and regulations.</p> <p>We obtained written confirmations from the Dongguang social insurance scheme authority on 21 July 2016 and renewed such confirmations on 10 April 2017. The confirmations state that: (i) no administrative penalty had been imposed on Dongguang Chemical up to the date of this written confirmation; and (ii) the amount of social insurance scheme funds paid by Dongguang Chemical are in compliance with the relevant laws and regulations in relation to the social insurance scheme. On 14 September 2016, our PRC Legal Adviser had an interview with an officer of the Dongguang social insurance scheme authority, during which the responsible officer verbally confirmed that we would not be fined by reason of the historical shortfall in employment injury insurance contributions. We are advised by our PRC Legal Adviser that Dongguang social insurance scheme authority is competent to give such confirmations.</p>	<p>As an annual compliance measure following the Listing, we will continue to communicate with our employees with regard to the employee social insurance schemes and contribute to the employee social insurance schemes for our employees in line with the standards stipulated under the applicable PRC laws and regulations or the standards set by the social insurance schemes authorities. We have also improved the human resource administration for employees, amongst the others, (i) making personal employment records for each of the employees; (ii) making detailed pay slip available to employees after the review and approval by human resource manager, finance manager and vice president; (iii) timely publication of the relevant performance review requirements; (iv) Finance Department being responsible for timely payment of social insurance for employees each month; and (v) Internal employee manual and the relevant human resource administrative policies have been implemented.</p>

Our Director and other responsible staff of our Group attended a training in November 2016 with respect to the applicable PRC laws and regulations to prevent the recurrence of such non-compliance incident.

Historical non-compliance	Reasons for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status	Enhanced internal control measures
	<p data-bbox="316 421 427 974">As at 31 December 2014, 2015 and 2016, the total outstanding amount payable by us in relation to employment injury insurance was approximately RMB2.5 million, nil and nil, respectively.</p> <p data-bbox="459 421 730 974">The maximum amount of late charges which may potentially be imposed on our Group as a result of non-compliance with the requirements of employment injury insurance is estimated to be RMB0.9 million, nil and nil, as at 31 December 2014, 2015 and 2016, respectively. In April 2015, we have duly paid the late charges in full together with the outstanding amount of the employment injury insurance.</p>		<p data-bbox="316 1570 571 1940">Furthermore, as at the Latest Practicable Date, we had not received any notification from the relevant PRC authorities alleging that we had not fully contributed to the social insurance and demanding payment of the same before a stipulated deadline, nor had we been aware of any employees' complaints or demands for payment of social insurance contributions, nor had we received any legal documentation from the labour arbitration tribunals or the PRC court regarding disputes of social insurance contributions.</p> <p data-bbox="603 1570 730 1940">Based on the above reasons, our PRC Legal Adviser is of the view that the likelihood that the relevant social insurance authorities will impose late charge or penalty on us is remote. Nevertheless, in the event that we receive requests from the relevant authorities, we intend to immediately pay the late charge or penalty accordingly.</p>	<p data-bbox="316 1940 571 2110">We, under the supervision of Mr. Sun, our executive Director, will monitor the procedures of staff salary calculation and making monthly social insurance contributions by our Human Resource Department and Finance Department ensure that our social insurance contributions have been fully and timely made in accordance with the applicable PRC laws and regulations.</p> <p data-bbox="603 1940 730 2110">For general enhanced internal control measures to prevent recurrence of non-compliance incidents, please refer to the paragraph headed "Internal Control Measures to Prevent Recurrence of Non-Compliance Incidents" below.</p>
			<p data-bbox="762 1570 1050 1940">Furthermore, in the event that the local authorities impose any penalties or fines on us due to such non-compliance, our Controlling Shareholders have also provided an indemnity against all claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered or incurred by us due to our non-compliance with the social insurance contribution regulations.</p> <p data-bbox="1050 1570 1249 1940">Our Directors are of the view that, based on the government confirmation, the advice of our PRC Legal Adviser and the indemnities provided by our Controlling Shareholders, such non-compliance incident will not materially and adversely affect our business operations or financial condition. As a result, no provision has been made in our consolidated financial statements.</p>	



Historical non-compliance	Reasons for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status	Enhanced internal control measures
<p>(2) <b>Failure to register housing provident fund account and make housing provident fund contributions for employees.</b> In 2014 and up to March 2015, Dongguang Chemical failed to register with the relevant housing provident fund authority and did not make housing provident fund contributions for all of its employees, which was in contravention of the Regulation on the Administration of Housing Provident Fund of the PRC (住房公積金管理條例) (the "Housing Provident Fund Regulations").</p>	<p>The non-compliance is mainly caused by (i) our staff delegated in ensuring compliance at the relevant time being not familiar with the relevant regulatory requirements; (ii) different levels of acceptance of the social insurance scheme by Dongguang Chemical's employees; and (iii) inconsistent implementation or interpretation by local authorities in the PRC of the relevant regulations.</p> <p>None of our Directors or senior management was involved in this non-compliance incident as our staff in the PRC were delegated in ensuring compliance in this regard.</p>	<p>According to the Housing Provident Fund Regulations, the relevant housing provident fund authorities may order Dongguang Chemical to register and establish an account for housing provident fund for its employees within a prescribed time period. If Dongguang Chemical fails to do so at the expiration of the prescribed time period, a penalty ranging from RMB10,000 to RMB50,000 may be imposed. The relevant housing provident fund authorities may order Dongguang Chemical to pay the outstanding amounts of the housing provident fund within the prescribed time period. If Dongguang Chemical fails to do so, the relevant housing provident fund authorities may apply to the relevant PRC court for the enforcement of the unpaid amounts. Other than the outstanding amounts of the housing provident fund, there is no additional late charge for the late payment of employment injury insurance as provided in the Housing Provident Regulations.</p>	<p>In March 2015, Dongguang Chemical had duly registered with the relevant housing provident fund authority and opened its account for housing provident fund. Since then, Dongguang Chemical had made housing provident fund contributions for all of its employees in accordance with the relevant PRC laws and regulations.</p> <p>We obtained written confirmations from Dongguang housing provident fund authority on 21 July 2016 and renewed such confirmations on 11 April 2017. The confirmations state that: (i) Dongguang Chemical had been duly registered with the relevant housing provident fund authority and established its account for housing provident fund; and (ii) the amount of housing provident funds paid by Dongguang Chemical are in compliance with the respective laws and regulations in relation to the housing provident fund since March 2015. On 14 September 2016, our PRC Legal Adviser had an interview with an officer of the Dongguang housing provident fund authority, during which the responsible officer verbally confirmed that (i) we had duly made housing provident fund contributions for our employees since March 2015; (ii) we would not be required to make supplemental contributions for our historical non-payment of housing provident fund contributions; and (iii) we would not be fined by reason of the historical non-registration of housing provident fund account or non-payment of housing provident fund contributions. We are advised by our PRC Legal Adviser that Dongguang housing provident fund authority is competent to give such confirmations.</p>	<p>As an on-going compliance measure following the Listing, we will continue to communicate with our employees with regard to the housing provident fund contributions and contribute to the housing provident fund for our employees in line with the standards stipulated under the applicable PRC laws and regulations or the standards set by the relevant housing provident fund authorities.</p> <p>We have also improved the human resource administration for employees, amongst the others, (i) making personal employment records for each of the employees; (ii) making detailed pay slip available to employees after the review and approval by human resource manager, finance manager and vice president; (iii) timely publication of the relevant performance review requirements; (iv) Finance Department being responsible for timely payment of housing provident fund for employees each month; and (v) internal employee manual and the relevant human resource administrative policies have been implemented.</p> <p>Our Director and other responsible staff of our Group attended a training in November 2016 with respect to the applicable PRC laws and regulations to prevent the recurrence of such non-compliance incident.</p>

Historical non-compliance	Reasons for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status	Enhanced internal control measures
		<p>As at the Latest Practicable Date, we had not received any notification from the relevant PRC authorities alleging that we had not fully contributed to the housing provident fund and demanding payment of the same before a stipulated deadline. We were also not aware of any employee's complaints or demands for payment of housing fund contributions, nor had we received any legal documentation from the labour arbitration tribunals or the PRC courts regarding disputes of housing fund contributions.</p> <p>Based on the above reasons, our PRC Legal Adviser is of the view that the likelihood that the relevant housing provident fund authorities will order us to pay the outstanding housing provident fund or apply for a court order from the relevant PRC courts is remote and as a result, no provision has been made in our consolidated financial statement. Nevertheless, in the event that we receive requests from the relevant authorities, we intend to immediately pay the outstanding housing provident funds accordingly.</p> <p>We believe that the outstanding housing provident fund contribution and potential fine will not have material adverse impacts on our Group's business and operations.</p> <p>Furthermore, in the event that the housing provident fund authorities require us to pay the outstanding housing provident fund contribution, our Controlling Shareholders have agreed to indemnify us for all claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered or incurred by us due to our non-compliance with the housing provident fund contribution regulations.</p> <p>Our Directors are of the view that, based on the government confirmation, the advice of our PRC Legal Adviser and the indemnities provided by our Controlling Shareholders, such non-compliance incident will not materially and adversely affect our business operations or financial condition.</p>	<p>We, under the supervision of Mr. Sun, our executive Director, will monitor the procedures of staff salary calculation and making monthly housing provident fund contributions by our Human Resource Department and Finance Department to ensure that our housing provident fund contributions have been fully and timely made in accordance with the applicable PRC laws and regulations.</p> <p>For general enhanced internal control measures to prevent recurrence of non-compliance incidents, please refer to the paragraph headed "Internal Control Measures to Prevent Recurrence of Non-Compliance Incidents" below.</p>	

Historical non-compliance	Reasons for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status	Enhanced internal control measures
<p>(3) <b>Lack of construction permits before the commencement of building construction:</b> During the Track Record Period, we did not obtain the construction land use planning permit (建設用地規劃許可證) for four pieces of lands in Plant Two and the construction project planning permit (建設工程規劃許可證) and construction project commencement permit (建築工程施工許可證) for certain of our buildings with gross floor areas of approximately 8,119 sq.m. and 11,981 sq.m., which represents approximately 7.9% and 11.7% of the aggregate gross floor area of our buildings, respectively, (the “<b>Relevant Buildings</b>”) before the relevant construction works commenced. To commence construction works prior to the obtaining of aforementioned construction permits was in contravention with the Urban and Rural Planning Law of the PRC (中華人民共和國城鎮規劃法) (the “<b>Urban and Rural Planning Law</b>”) and Measures for the Administration of Construction Permits for Construction Projects (建築工程施工許可管理辦法) (the “<b>Construction Permits Measures</b>”).</p>	<p>The non-compliance was mainly due to (i) we did not obtain the construction land use planning permit as the responsible government authority confirmed us that we would not be required to obtain the construction land use planning permit for these four pieces of lands; (ii) the unfamiliarity with the regulatory requirements for building construction of our staff responsible for monitoring and managing permits and procedures for the construction works of Dongguan Chemical; (iii) the processing time required for our application for construction project planning permits and construction project commencement permits by the responsible government authority.</p>	<p>As to our failure to obtain construction land use planning permit, according to the Urban and Rural Planning Law, if a company is authorised to use the land for construction and fails to obtain a construction land use planning permit, the PRC Government at or above the county level may withdraw such authorisation and seize the land. As we have already obtained the land use rights for the four pieces of lands of our Plant Two and that the competent government authority has confirmed us that it is not necessary for us to apply for the construction land use planning permit, our Directors are of the view that we will not be subject to the aforesaid legal consequences.</p>	<p>On 11 October 2016, we obtained written confirmations from Dongguan Housing and Urban Planning &amp; Construction Bureau (東莞縣住房和城鎮規劃建設局) (the “<b>Housing &amp; Construction Bureau</b>”) confirming that (i) we had applied for the construction land use planning permits, construction project planning permits, construction project commencement permits for the Relevant Buildings as required by relevant PRC laws and regulations and the Housing &amp; Construction Bureau was in the process of processing our application of the construction project planning permits, construction project commencement permits (“<b>Required Permits</b>”). However, due to the time and procedure required for processing our application, we had not obtained the Required Permits; (ii) as we had already obtained the land use rights for the four pieces of lands of our Plant Two, we would not be required to obtain the construction land use planning permits for such lands; (iii) there would not be any impediment for us to obtain the Required Permits; (iv) the Housing &amp; Construction Bureau had not required us to return the land where the Relevant Buildings are erected on or required the Relevant Buildings to be demolished and would not make such requests in the future. In addition, the Housing &amp; Construction Bureau had not and would not confiscate the Relevant Buildings or any income derived from the Relevant Buildings and had not and would not impose any fines on us or on our management or our responsible employees; and (v) we would be entitled to use the Relevant Buildings during the period when the Housing &amp; Construction Bureau is processing our aforesaid application for the Required Permits. We are advised by our PRC Legal Adviser that the Housing &amp; Construction Bureau is competent to give such confirmations.</p>	<p>We have policies in connection with the three construction permits for building and project construction works in place and also have maintained a checklist of the related permits to ensure that the construction works will comply with construction-related laws and regulations. We will also ensure that we will prepare and proper reference the master file for all documents and keep updating for new documents obtained.</p> <p>Our Director and other responsible staff of our Group attended a training in November 2016 with respect to the applicable PRC laws and regulations to prevent the reoccurrence of such non-compliance incident.</p> <p>We have designated Mr. Sun, our executive Director, who was not involved in this historical non-compliance incident, to oversee the implementation of such policies.</p> <p>For general enhanced internal control measures to prevent recurrence of non-compliance incidents, please refer to the paragraph headed “Internal Control Measures to Prevent Recurrence of Non-Compliance Incidents” below</p>

Historical non-compliance	Reasons for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status	Enhanced internal control measures
		<p>As to our failure to obtain construction project commencement permit, according to the Construction Permits Measures, if a company carries out construction work without a construction project commencement permit, it may be ordered to cease construction and to rectify within a certain time limit. A fine of not less than 1% but not more than 2% of the contractual price of the construction work (工程合同价款) may be imposed. Accordingly, based on the gross floor area of 11,981 sq.m. of the buildings concerned, we may subject to a fine up to approximately RMB0.2 million for our lack of construction project commencement permits prior to the commencement of construction of the Relevant Buildings.</p>	<p>Based on the above reasons, our PRC Legal Adviser is of the view that the risks relating to us being subject to the aforementioned legal consequences is remote and there will be no significant legal impediment for us to obtain the construction permits for the Relevant Buildings.</p> <p>Furthermore, in the event that the government authorities impose any fines or penalties on us, our Controlling Shareholders have agreed to indemnify us for all claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered or incurred by us due to our non-compliance with the Urban and Rural Planning Law and Construction Permits Measures.</p> <p>Our Directors are of the view that, based on the government confirmations, the advice of our PRC Legal Adviser and the indemnities provided by our Controlling Shareholders, such non-compliance incident will not materially and adversely affect our business operations or financial condition. As a result, no provision has been made in our consolidated financial statements.</p>	

Historical non-compliance	Reasons for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status	Enhanced internal control measures
<p>(4) <b>Lease of collectively-owned land for non-agricultural use:</b> During the Track Record Period and up to the Latest Practicable Date, We leased collectively-owned land for non-agricultural use. Part of the lease agreement was that the lessor, Donggang Industrial District Management Committee (東光縣工業區管理委員會), would assist us in converting such leased land into state-owned land, thus granting us land use rights. However, as at the Latest Practicable Date, leased land with a site area of approximately 10,590 sq.m. had yet to be converted to state-owned land (the “<b>Collectively-Owned Area</b>”).</p>	<p>Such non-compliance was mainly due to: (i) the Collectively-Owned Area was administrated by Donggang Industrial District Committee and it is not uncommon for companies to lease lands and properties in this area for non-agricultural purpose as they were located in industrial district; and (ii) our staff delegated in ensuring compliance at the relevant time being not familiar with the relevant rules and regulations and leased the Collectively-Owned Land without seeking legal advice.</p> <p>None of our Directors or senior management was involved in this non-compliance incident as our staff in the PRC were delegated in ensuring compliance in this regard.</p>	<p>Our PRC Legal Adviser has advised us that: (i) the lease of the Collectively-Owned Area (the “<b>Lease</b>”) may be deemed to be null and void under PRC laws due to the violation of the Land Administration Law and we will not be able to enforce the Lease; if the lessor does not perform its obligations under the Lease; and (ii) the PRC Government may require the non-compliance to be rectified, confiscate the illegal income derived from the Collectively-Owned Area and impose fines. As a result, we may be ordered to relocate from the Collectively-Owned Area. Our PRC Legal Adviser further advises us that, due to the uncertainty for the interpretation and implementation of the applicable law, it is unsure that whether as a lessee, we will be subject to aforesaid confiscation of income or fines.</p>	<p>On 10 June 2015, we obtained written confirmations from Donggang Land and Resources Bureau (東光縣國土資源局) confirming that: (i) the usage of the Collectively-Owned Area by us was in accordance with the land use planning; (ii) there was no dispute or disagreement on the ownership of the Collectively-Owned Area; and (iii) Donggang Land and Resources Bureau would not impose any penalties for our leasing and use of the Collectively-Owned Area. We are advised by our PRC Legal Adviser that the Donggang Land and Resources Bureau is competent to give such confirmations.</p>	<p>We have adopted the relevant procedures to ensure all properties leased is in compliance with applicable laws and regulations. Before entering into future lease agreements, we will investigate any restriction imposed on the purpose of use through review of title certificates, necessary land search and on-site investigation. We will engage legal adviser to review our lease agreements and advise us on potential legal issues.</p>
<p>The Collectively-Owned Area and buildings with a gross floor area of approximately 3,380 sq.m. erected thereon (the “<b>Buildings on Leased Land</b>”) are used for coal storage, domestic and ancillary purposes. However, the Land Administration Law of the PRC (中華人民共和國土地管理法) (the “<b>Land Administration Law</b>”) provides that the rights to the use of collectively-owned land shall not be assigned, transferred or leased to non-rural collective economic organisations (非農村集體經濟組織) for non-agricultural use.</p>	<p>Under the Lessor’s assistance, we plan to continue to negotiate with Donggang Land and Resources Bureau for the conversion of the Collectively-Owned Area to state-owned land and to obtain the land use right for the Collectively-Owned Area once the conversion is completed. Based on (i) the undertaking from the lessor to assist in the conversion of the Collectively-Owned Area into state-owned land under the Lease; and (ii) the confirmations from competent government authority, our Directors are of the view that there will no significant legal impediment for us to obtain the land use right of the Collectively-Owned Area and the relevant construction permits and building ownership certificates for the Buildings on Leased Land.</p>	<p>In addition, our Construction Department will also ensure that the designated usage of all properties leased is consistent with the purpose of our use. Immediate reporting to the Board should be made in the event that the lease properties are used beyond the designated usage.</p> <p>For general enhanced internal control measures to prevent recurrence of non-compliance incidents, please refer to the paragraph headed “Internal Control Measures to Prevent Recurrence of Non-Compliance Incidents” below</p>	<p>Under the Lessor’s assistance, we plan to continue to negotiate with Donggang Land and Resources Bureau for the conversion of the Collectively-Owned Area to state-owned land and to obtain the land use right for the Collectively-Owned Area once the conversion is completed. Based on (i) the undertaking from the lessor to assist in the conversion of the Collectively-Owned Area into state-owned land under the Lease; and (ii) the confirmations from competent government authority, our Directors are of the view that there will no significant legal impediment for us to obtain the land use right of the Collectively-Owned Area and the relevant construction permits and building ownership certificates for the Buildings on Leased Land.</p>	<p>Our Director and other responsible staff of our Group attended a training in November 2016 with respect to the applicable PRC laws and regulations to prevent the recurrence of such non-compliance incident.</p> <p>In addition, our Construction Department will also ensure that the designated usage of all properties leased is consistent with the purpose of our use. Immediate reporting to the Board should be made in the event that the lease properties are used beyond the designated usage.</p> <p>For general enhanced internal control measures to prevent recurrence of non-compliance incidents, please refer to the paragraph headed “Internal Control Measures to Prevent Recurrence of Non-Compliance Incidents” below</p>

Historical non-compliance	Reasons for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status	Enhanced internal control measures
			<p>According to the Land Administration Law and the Provisions on the Transfer of the Right to Use of State-Owned Land through Bidding, Auction or Listing and as advised by our PRC Legal Adviser, we will be required to pay the land premium for obtaining the land use right of the converted Collectively-Owned Areas after its conversion into state-owned land. Assuming the grant of the land use right of the converted Collectively-Owned Area occurred in January 2017, the land premium payable for the Collectively-Owned Area is estimated to be between approximately RMB2.8 million to RMB2.9 million as advised by our Property Valuer, which made such estimation with reference to the sale transactions of comparable granted industrial lands as available in the relevant market with adjustments on the differences in location, size and other characteristics between the comparable lands and the Collectively-Owned Area. We were further advised by our Property Valuer that due to the uncertainties in connection with the expected long complicated process for the conversion of Collectively-Owned Area, the estimated amount of land premium payable is for reference purpose only.</p>	
			<p>We are not aware of any difference in land or rental cost which we would otherwise have to pay if the leased properties with defective title disclosed above did not have the said title defects.</p>	

Historical non-compliance	Reasons for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status	Enhanced internal control measures
<p>For the above reason, we did not obtain the relevant construction land use planning permit, construction project planning permits, construction project commencement permits and building ownership certificates for the Buildings on Leased Land. For detailed information regarding the defective titles of these buildings, please refer to “- Properties - Buildings - Owned Buildings - Buildings with Defective Titles.” in this section.</p>	<p>For the legal consequences and potential liabilities concerning the lack of Construction Land use planning permit, construction project planning permits and construction project commencement permits, please refer to “- Legal Non-Compliance and Proceedings - (3) Lack of construction permits before the commencement of building construction” in this section.</p> <p>According to the Urban and Rural Planning Law and the Construction Permit Measures and as advised by our PRC Legal Adviser, the government may order us to return the Collectively-Owned Land, to demolish our buildings erected thereon or confiscate our illegal income derived from the Buildings on Leased Land. In addition, we may subject to fines of up to approximately RMB270,000 and RMB540,000 for the lack of construction project planning permits and construction project commencement permit prior to the commencement of construction of the Buildings on Leased Land, respectively.</p>	<p>The Collectively-Owned Area, together with the Buildings on Leased Land, did not contribute to any revenue of our Group during the Track Record Period.</p> <p>Based on the above reasons, our PRC Legal Adviser is of the view that the likelihood that the risks relating to us being subject to the aforementioned legal consequences is remote and there will be no significant legal impediment for us to obtain the construction permits and building ownership certificates for the Buildings on Leased Land after the conversion of the Leased Land to state-owned land and our obtainment of the relevant land use right.</p> <p>In the event that the local land and resources authority orders us to relocate from the Collectively-Owned Area and the Buildings on Leased Land, we are able to proceed the relocation without material adverse effect on our operations and financial conditions. For detailed information, please refer to “- Properties - Buildings - Owned Buildings - Buildings with Defective Titles” in this section.</p> <p>Furthermore, in the event that the local authorities require us to relocate from the Collectively-Owned Area and the Buildings on Leased Land, our Controlling Shareholders have agreed to indemnify us for all claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered or incurred by us due to our non-compliance with the Land Administration Law.</p>	<p>The Collectively-Owned Area, together with the Buildings on Leased Land, did not contribute to any revenue of our Group during the Track Record Period.</p> <p>Based on the above reasons, our PRC Legal Adviser is of the view that the likelihood that the risks relating to us being subject to the aforementioned legal consequences is remote and there will be no significant legal impediment for us to obtain the construction permits and building ownership certificates for the Buildings on Leased Land after the conversion of the Leased Land to state-owned land and our obtainment of the relevant land use right.</p> <p>In the event that the local land and resources authority orders us to relocate from the Collectively-Owned Area and the Buildings on Leased Land, we are able to proceed the relocation without material adverse effect on our operations and financial conditions. For detailed information, please refer to “- Properties - Buildings - Owned Buildings - Buildings with Defective Titles” in this section.</p> <p>Furthermore, in the event that the local authorities require us to relocate from the Collectively-Owned Area and the Buildings on Leased Land, our Controlling Shareholders have agreed to indemnify us for all claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered or incurred by us due to our non-compliance with the Land Administration Law.</p>	

Historical non-compliance	Reasons for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status	Enhanced internal control measures
			<p>Considering that (i) the Collectively-Owned Area, including the Buildings on Leased Land, are used for coal storage, domestic and ancillary purposes and not related to our urea production, which is the Group's major source of revenue; (ii) during the Track Record Period and up to the Latest Practicable Date, the operations carried out on the Collectively-Owned Area including the Buildings on Leased Land did not contribute any revenue; (iii) the relocation costs for these ancillary facilities and coal storage facilities are estimated to be RMB0.2 million, which is minimal and without material adverse effect on our operations and financial conditions; and (iv) the Collectively-Owned Area has a site area of approximately 10,590 sq.m., which represents approximately 1.42% of the aggregate total site area of our lands and the Buildings on Leased Land has a gross floor area of approximately 3,380 sq.m., which represents approximately 3.29% of the aggregate gross floor area of our buildings, our Directors are of the view, and the Sole Sponsor concurs with the view of the Directors, that the Group's Collectively-Owned Area including the Buildings on Leased Land are, individually and collectively, not material to the Group.</p>	
			<p>Our Directors are of the view that, based on the government confirmations, the advice of our PRC Legal Adviser and the indemnities provided by our Controlling Shareholders, such non-compliance incident will not materially and adversely affect our business operations or financial condition. As a result, no provision has been made in our consolidated financial statements.</p>	



Historical non-compliance	Reasons for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status	Enhanced internal control measures
<p>(5) <b>Acting as a lender in inter-company loan:</b> Donggeguang Chemical entered into an agreement with Modern Tianfeng Agricultural Group Co., Ltd. (現代天豐農業集團有限公司) (the “<b>Borrower</b>”), an Independent Third Party for a period of 40 days, pursuant to which we made an advance in an amount of RMB16.0 million (“<b>Advance</b>”) to the Borrower on 20 November 2014. The Advance is in contravention of the lending general provisions (貸款通則) (the “<b>Lending General Provisions</b>”). The Advance was unsecured, interest-free and non-trade in nature. As at 31 December 2014 and 31 December 2015, the outstanding balance of the Advance to the Borrower was RMB16.0 million and nil, respectively.</p>	<p>The Advance was made (i) for the purpose of meeting the general working capital needs of the Borrower, which is one of our long-term customers, upon its request; and (ii) because of the unfamiliarity of Mr. Wang and our relevant management personnel with the prohibition as prescribed under the Lending General Provisions. Mr. Wang was involved in this non-compliance incident by approving the Advance.</p>	<p>As advised by our PRC Legal Adviser, in view of the Lending General Provisions and the Official Reply of the Supreme People’s Court on How to Deal with the Failure to Repay the Loan by the Borrower of the Loan Contract between Enterprises (Fa Fu [1996] No. 15) (最高人民法院關於對企業借款合同借款方逾期不歸還借款應如何處理的批覆 法覆[1996]15號) (the “<b>Supreme Court Reply</b>”), where unauthorised loans or receivables in disguised form take place among non-financial enterprises, the PBOC shall restrain such illegality and impose upon the lending party a fine ranging from 100% to 500% of the illegal income. However, given (i) the validity of inter-company loan agreements which are for the needs of production and operation should be generally supported by the people’s courts pursuant to Provisions of the Supreme People’s Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases Fa Shi [2015] No. 18 (最高人民法院關於審理民間借貸案件適用法律若干問題的規定 (法釋[2015]18號)); and (ii) the Advance was interest-free. Our PRC Legal Adviser advised us that it is expected that no monetary penalty will be imposed on us for such non-compliance.</p>	<p>The Advance was fully repaid by the Borrower in March 2015 pursuant to the relevant agreement.</p> <p>On 20 September 2016, our PRC Legal Adviser had an interview with an officer of the Dongguang branch of PBOC (中國人民銀行東光縣支行), during which the responsible officer verbally confirmed that we had not been penalised for the Advance and would not be subject to penalties for the Advance as there is no clear legal basis for penalty to interest-free inter-company loans. According to our PRC Legal Adviser, the Dongguang branch of PBOC is the appropriate regulatory authority with competent jurisdiction over such Advance and that the responsible officer has competent authority to provide such confirmation.</p>	<p>We have adopted following enhanced internal control measures to prevent the recurrence of inter-company loans in the future:</p> <p>(i) Our audit committee is responsible for overseeing the implementation of internal control measures relating to inter-company loans and compiling reports or proposals regarding our compliance with such internal control measures. Such reports and proposals will be submitted by the audit committee to our Board for their consideration and record.</p> <p>A regular review meeting is held by the members of the audit committee. After each of these meetings, the reports or proposals mentioned above are submitted to our Board immediately. Our Company’s Internal Audit Department assists the audit committee in overseeing the implementation of the internal control measures and ensures compliance on a continuous basis.</p>
				<p>(ii) We established a system which expressly prohibits inter-company loans in any form in contravention of the Lending General Provisions.</p>

Historical non-compliance	Reasons for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status	Enhanced internal control measures
			<p>Our PRC Legal Adviser is of the view that, based on the fact that the Advance had been fully repaid in March 2015 and the confirmations from the competent authority during the interview with the responsible officer of Dongguang Branch of PBOC, the risk of us being penalised for the non-compliance with the Lending General Provisions is remote.</p> <p>Furthermore, in the event that the local branch of PBOC impose any fines or penalties on us, our Controlling Shareholders have agreed to indemnify us for all claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered or incurred by us due to our non-compliance with the Lending General Provisions.</p> <p>Our Directors are of the view that, based on the advice from our PRC Legal adviser, the government confirmations and the fact that all amounts due in connection with the Advance have been fully repaid and the indemnities provided by our Controlling Shareholders, such historical non-compliance incident will not materially and adversely affect our business operations or financial condition. As a result, no provision has been made in our consolidated financial statements.</p>	<p>(iii) We will not make payments to third parties without obtaining approvals from relevant department managers, finance manager, chief financial officer, our president/chairman in accordance with the corresponding authorisation.</p> <p>(iv) The Internal Review Department is responsible for conducting an annual inspection regarding compliance with this system. The annual inspection is part of the internal review work and a joint inspection may be conducted with the Finance Department. The results of such annual inspection will be reported to our Board.</p> <p>(v) we have also centralised the treasury management for cash disbursement and recipient prepared budget for cash flow management effectively and timely and performed monthly reconciliation between our records and bank details.</p> <p>(vi) Our Director and other responsible staff of our Group attended a training in November 2016 with respect to the applicable PRC laws and regulations to prevent the recurrence of such non-compliance incident.</p>
				<p>For general enhanced internal control measures to prevent recurrence of non-compliance incidents, please refer to the paragraph headed "Internal Control Measures to Prevent Recurrence of Non-Compliance Incidents" below</p>

Historical non-compliance	Reasons for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status	Enhanced internal control measures
<p>(6) <b>Acting as a borrower in inter-company loan:</b> Dongguang Chemical borrowed from Zhaohe in an amount of RMB64.0 million on 31 October 2009 (the “<b>Borrowing</b>”). The Borrowing was unsecured and non-trade in nature, with an interest rate ranging from 8.0% to 10.0% from 2009 to 2014. As the Borrowing was fully repaid by us in December 2014, as at 31 December 2014, 2015 and 2016, the outstanding balance of the Borrowing was nil, nil and nil, respectively. In addition, for the years ended 31 December 2014, 2015 and 2016, the interest expense from us to Zhaohe arising out of the Borrowing amounted to RMB34.6 million, nil and nil.</p>	<p>The Borrowing was made (i) as a part of our plan of restructuring of our borrowing from our employees, retired employees and family members and relatives of the employees and retired employees since 1999 (the “<b>Employees’ Loans</b>”). The outstanding amount of which was amounted to approximately RMB164 million as at 31 October 2009. To restructure the Employees’ Loan so to reduce the administrative works of our Group in handling the Employees’ Loans in handling multiple lenders for different loan amounts and maturity dates, the Employees’ Loans were novated to Zhaohe, and Dongguang Chemical obtained the Borrowing from Zhaohe for the same amount as that of the Employees’ Loans; and (ii) because of the unfamiliarity of Mr. Wang and our relevant management personnel with the prohibition as prescribed under the Lending General Provisions (貸款通則), Mr. Wang was involved in this non-compliance by approving the Borrowing and as the then sole shareholder of Zhaohe. For detailed information on the Employees’ Loans, please refer to the sub-section headed “Financial Information – Indebtedness – Bank and other borrowings” in this prospectus.</p>	<p>As advised by our PRC Legal Adviser, in view of the Lending General Provisions and the Supreme Court Reply, acting as a borrower, we will not be subject to penalty.</p>	<p>The Borrowing was fully repaid by us in December 2014.</p> <p>On 20 September 2016, our PRC Legal Adviser had an interview with an officer of the Dongguang branch of PBOC (中國人民銀行東光縣支行), during which the responsible officer verbally confirmed that we had not been penalised for the Borrowing and would not be subject to penalties for the Borrowing as the Lending General Provisions do not stipulate any applicable penalties for borrowers of inter-company loans. According to our PRC Legal Adviser, the Dongguang branch of PBOC is the appropriate regulatory authority with competent jurisdiction over such Borrowing and that the responsible officer has competent authority to provide such confirmation.</p>	<p>We have adopted enhanced internal control measures to prevent the recurrence of illegal inter-company loans in the future. Please refer to the enhanced internal control measures as mentioned above.</p> <p>Our Director and other responsible staff of our Group attended a training in November 2016 with respect to the applicable PRC laws and regulations to prevent the recurrence of such non-compliance incident.</p> <p>For general enhanced internal control measures to prevent recurrence of non-compliance incidents, please refer to the paragraph headed “Internal Control Measures to Prevent Recurrence of Non-Compliance Incidents” below</p>
<p>(7) <b>Acting as a borrower in inter-company loan:</b> Dongguang Chemical borrowed from Zhaohe in an amount of RMB64.0 million on 31 October 2009 (the “<b>Borrowing</b>”). The Borrowing was unsecured and non-trade in nature, with an interest rate ranging from 8.0% to 10.0% from 2009 to 2014. As the Borrowing was fully repaid by us in December 2014, as at 31 December 2014, 2015 and 2016, the outstanding balance of the Borrowing was nil, nil and nil, respectively. In addition, for the years ended 31 December 2014, 2015 and 2016, the interest expense from us to Zhaohe arising out of the Borrowing amounted to RMB34.6 million, nil and nil.</p>	<p>The Borrowing was made (i) as a part of our plan of restructuring of our borrowing from our employees, retired employees and family members and relatives of the employees and retired employees since 1999 (the “<b>Employees’ Loans</b>”). The outstanding amount of which was amounted to approximately RMB164 million as at 31 October 2009. To restructure the Employees’ Loan so to reduce the administrative works of our Group in handling the Employees’ Loans in handling multiple lenders for different loan amounts and maturity dates, the Employees’ Loans were novated to Zhaohe, and Dongguang Chemical obtained the Borrowing from Zhaohe for the same amount as that of the Employees’ Loans; and (ii) because of the unfamiliarity of Mr. Wang and our relevant management personnel with the prohibition as prescribed under the Lending General Provisions (貸款通則), Mr. Wang was involved in this non-compliance by approving the Borrowing and as the then sole shareholder of Zhaohe. For detailed information on the Employees’ Loans, please refer to the sub-section headed “Financial Information – Indebtedness – Bank and other borrowings” in this prospectus.</p>	<p>As advised by our PRC Legal Adviser, in view of the Lending General Provisions and the Supreme Court Reply, acting as a borrower, we will not be subject to penalty.</p>	<p>The Borrowing was fully repaid by us in December 2014.</p> <p>On 20 September 2016, our PRC Legal Adviser had an interview with an officer of the Dongguang branch of PBOC (中國人民銀行東光縣支行), during which the responsible officer verbally confirmed that we had not been penalised for the Borrowing and would not be subject to penalties for the Borrowing as the Lending General Provisions do not stipulate any applicable penalties for borrowers of inter-company loans. According to our PRC Legal Adviser, the Dongguang branch of PBOC is the appropriate regulatory authority with competent jurisdiction over such Borrowing and that the responsible officer has competent authority to provide such confirmation.</p>	<p>We have adopted enhanced internal control measures to prevent the recurrence of illegal inter-company loans in the future. Please refer to the enhanced internal control measures as mentioned above.</p> <p>Our Director and other responsible staff of our Group attended a training in November 2016 with respect to the applicable PRC laws and regulations to prevent the recurrence of such non-compliance incident.</p> <p>For general enhanced internal control measures to prevent recurrence of non-compliance incidents, please refer to the paragraph headed “Internal Control Measures to Prevent Recurrence of Non-Compliance Incidents” below</p>

### **Legal Proceedings**

As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim was known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our business, financial conditions or results of operations. We may from time to time become a party to various litigation, arbitration or claims arising in the ordinary course of our business.

### **Internal Control Measures to Prevent Recurrence of Non-Compliance Incidents**

Our Directors are responsible for monitoring our internal control system and for reviewing its adequacy and effectiveness. In order to continuously enhance our corporate governance and to prevent recurrence of the non-compliance incidents as set out in “– Legal Non-Compliance and Proceedings” in this section:

- we have maintained a list of certificates, licences, permits and procedures that are required in order for us to use lands and construct buildings for production and daily operations and will update this list at least every quarter or when the relevant regulations are changed based on requirements of the local authorities and advice given to us by our external legal adviser;
- as an internal control measure, we will monitor the attainment of licences and filings against the list referred to above and ensure that all relevant permits, certificates and licences are obtained and filings are completed prior to the construction, occupation and usage of such lands and buildings;
- training were provided by our PRC Legal Adviser to our executive Directors, Mr. Ng Sai Leung (our independent non-executive Director) and other responsible staff of our Group with respect to applicable PRC laws and regulations regarding social insurance schemes, housing provident funds, land leasing and uses, major PRC laws and regulatory requirements for building constructions and inter-company loans;
- we will engage Tian Yuan Law Firm as our external legal adviser upon Listing to provide timely legal advices to our Board and other relevant staff on applicable PRC laws, rules and regulations concerning the non-compliance matters occurred in our operations;
- we have appointed KGI Capital Asia Limited to act as our compliance adviser upon Listing;
- we plan to designate Mr. Ng Sai Leung, an independent non-executive Director to assist our Board to perform internal review of our operations, and identify, assess and manage the risks associated with our operations from time to time to ensure due compliance with laws, rules and regulations in the PRC. Please refer to the section headed “Directors and Senior Management” in this prospectus for the details of Mr. Ng Sai Leung’s experience. As indicated in Mr. Ng’s biographical details, Mr. Ng has vast experience in matters of companies’ internal control. Mr. Ng’s familiarity with compliance requirements would greatly assist the Company in ensuring compliance with the relevant rules and regulations. Mr. Ng will also be appointed as the chairman of the audit committee. Although he would not be involved in the day-to-day management of the Company, the Company will set up procedures for regular reporting of material issues that arise from its daily operations to him in order that he can follow up on and monitor these issues in a timely manner;

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## BUSINESS

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- we have established an audit committee with written terms of reference in compliance with Code C.3 of the Corporate Governance Code and Corporate Governance Report (the “CG Code”) set out in Appendix 14 to the Listing Rules. The audit committee (which is led by Mr. Ng Sai Leung, an independent non-executive Director) and Mr. Sun, one of our executive Directors, will supervise our internal control measures in order to better monitor our daily operations from the perspective of compliance with applicable rules and regulations;
- we have established a set of policies and procedures for operational processes, including production, investment and financial management;
- we have established a corporate governance policy and will, from time to time, review the internal guidelines and policies by taking into account of laws and regulations applicable to our Group and make any amendment to our corporate governance policy as necessary;
- we will conduct regular internal training to our relevant employees and management on our compliance policy and engage external professionals, including our Hong Kong legal advisers and PRC legal advisers, to conduct training on our on-going compliance and obligations under the Listing Rules and all other applicable Hong Kong and PRC regulations annually to ensure awareness and compliance of the policies; and
- our internal audit department will review and monitor our major business activities on a regular basis, conduct random checking and report its findings to our audit committee.

### **Internal Control Review by Independent Internal Control Consultant**

In December 2014, we have engaged BDO China as our independent internal control consultant to perform compliance procedures review on our internal control policies related to, among others, the historical non-compliance events. The scope of work covers, inter alia, the historical non-compliance incidents including (i) failure to make full payment of social insurance and housing provident fund; (ii) lack of relevant construction permits before the commencement of construction for certain of our buildings; (iii) lease and use of collectively-owned land for non-agricultural purpose; and (iv) provision of inter-company loans.

BDO China performed a compliance procedures review on the historical non-compliance incidents, in accordance with the scope of work set out above in January 2015. Based on its findings, BDO China had put forward its recommendations, namely, (i) improvement on human resource administration; (ii) improvement on inter-company fund transfer supervision; (iii) improvement on permanent file management; and (iv) hiring of professional legal adviser or compliance officer, all of which were adopted and implemented by us in February 2015.

BDO China conducted a series of follow-up reviews on the status of the implementation of the enhanced internal control measures in March and December 2015, and April 2016. Based on the follow-up reviews conducted, BDO China confirmed that we have commenced the implementation of the enhanced internal control measures in February 2015 and satisfactorily completed the relevant internal control improvement and rectification through the enhanced internal control measures in December 2015. Based on the abovementioned reviews, BDO China is of the view that the enhanced internal control measures are adequate and effective to prevent future recurrences of historical non-compliance incidents.

For further information on our implementation of the recommendations from BDO China, please refer to the enhanced internal control measures in the subsection headed “– Legal Non-Compliance and Proceedings” in this section.

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## BUSINESS

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Mr. Sun is responsible for actions taken or to be taken to implement the enhanced internal control measures in response to our non-compliance incidents during the Track Record Period, and to monitor and ensure our future compliance with the relevant laws and regulations.

### **View of our Directors and the Sole Sponsor**

Considering (i) the nature, reasons, and consequences of the non-compliances; (ii) the rectification measures we have undertaken; (iii) the Legal advice from our PRC Legal Adviser; (iv) the various confirmations from the relevant competent government authorities and the indemnities of our Controlling Shareholders we have obtained; (v) the fact that we have not been subject to any fines or penalties for the non-compliances during the Track Record Period and up to the Latest Practicable Date; (vi) the enhanced internal control measures adopted by us pursuant to the recommendations made by BDO China, our independent internal control consultant; (vii) there were no recurring of similar non-compliance incidents since the implementation of such enhanced measures; (viii) the training sessions attended by our Directors and/or the responsible staff of our Group in relation to their obligations and duties as directors of a listed company from a Hong Kong law perspective and the applicable PRC laws and regulations regarding social insurance schemes, housing provident funds, land leasing and uses, major regulatory requirements for building constructions and inter-company loans; (ix) the non-compliance incidents were unintentional, did not involve any dishonesty or fraudulent act on the part of our executive Directors, and did not raise any question as to the integrity of our executive Directors, our Directors are of the view that the enhanced internal control measures adopted by us are adequate and effective and that these historical non-compliance incidents do not affect the suitability of our Directors to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules, and the suitability for listing of our Company under Rule 8.04 of the Listing Rules. The Sole Sponsor concurred with such view of our Directors on the same basis as described above.

Save as disclosed in this prospectus, to the best knowledge of our Directors, our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had complied with all relevant laws and regulations applicable to us in all material respects concerning our operations.

Our Controlling Shareholders have undertaken to indemnify our Group against, among others, any penalty that may be imposed on our Group as a result of the non-compliance with the applicable PRC laws and regulations disclosed herein. Please refer to the section headed “Appendix V – Statutory and General Information – Other Information – 17. Estate duty, tax and other indemnity” in this prospectus for details of the indemnity.

### **RISK MANAGEMENT**

We are exposed to various risks during our operations. For more details about these risks, please refer to the section headed “Risk Factors” in this prospectus. We have implemented various policies and procedures to ensure effective risk management at each aspect of our operations, including the production and sales of products, administration of daily operations, financial reporting and recording, fund management, compliance with applicable laws and regulations on environmental protection, production safety and product safety. Our Board oversees and manages the overall risks associated with our operations. We had established an audit committee to review and supervise the financial reporting process and internal control system of our Group. For the qualifications and experience of these committee members as well as a detailed description of the responsibility of our audit committee, please refer to the section headed “Directors and Senior Management – Board Committees – Audit Committee” in this prospectus.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, we will be owned as to (i) approximately 45.11% by Sino-Coal Holding; and (ii) approximately 29.08% by Bloom Ocean. Each of Sino-Coal Holding and Bloom Ocean is an investment holding company.

Sino-Coal Holding is a company whose shareholders are the SCH Corporate Shareholders. Their respective shareholdings in Sino-Coal Holding and their attributable shareholdings in our Company immediately following the completion of the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme are as follows:

<u>Name of SCH Corporate Shareholders (Note 1)</u>	<u>Name of SCH Ultimate Shareholder and his/her respective shareholdings in the relevant SCH Corporate Shareholder</u>	<u>Approximate percentage of shares in Sino-Coal Holding</u>	<u>Approximate percentage of Shares attributable to the respective SCH Corporate Shareholders</u>
1. Fair Noble Limited	Ms. GE Li (100%)	7.072	3.19
2. Fair Tycoon Limited	Mr. Guo (100%)	6.908	3.12
3. Power Moon Limited	Mr. ZS Sun (100%)	6.908	3.12
4. Decent Magic Limited	Mr. Xu (100%)	6.908	3.12
5. Wide Axis Limited	Mr. Song (100%)	6.744	3.04
6. Elite Captain Limited	Mr. Liu (100%)	7.072	3.19
7. Honest Nature Limited	Mr. HL Li (100%)	6.579	2.97
8. Timely Moon	Mr. Wang (100%)	33.059	27.79 (Note 2)
9. Plenty Sun	Mr. Sun (100%)	18.75	21.26 (Note 2)

*Notes:*

1. Each of the SCH Corporate Shareholders is an investment holding company.
2. This percentage of Shares included the Shares attributable to such SCH Corporate Shareholder through its interest in Sino-Coal Holding and Bloom Ocean.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Bloom Ocean is owned as to approximately 44.27% by Timely Moon, 44.01% by Plenty Sun and 11.72% by Mr. Yip. Each of Timely Moon and Plenty Sun is wholly owned by Mr. Wang and Mr. Sun, respectively. The SCH Ultimate Shareholders had been acting in concert (within the meaning under the Takeovers Code) with each other by actively cooperating with each other to consolidate control of our Group, and they agreed to restrict their ability to exercise direct control over our Company by holding their interests through Sino-Coal Holding. Furthermore, Mr. Wang, Mr. Sun and Mr. Yip had been acting in concert (within the meaning under the Takeovers Code) with each other by actively cooperating with each other with an aim to achieve consensus and concerted action on all major affairs relating to our Group, including matters required to be approved by the then Shareholders under the Articles, and they agreed to restrict their ability to exercise direct control over our Company by holding their interests through Bloom Ocean. As (i) the SCH Ultimate Shareholders (including Mr. Wang and Mr. Sun) had been acting in concert and jointly control the exercise of 30% or more of the voting power at our general meeting through Sino-Coal Holding; (ii) Mr. Wang and Mr. Sun, being two of the SCH Ultimate Shareholders, had also been acting in concert with Mr. Yip and jointly control the exercise of their voting power at our general meeting through Bloom Ocean; and (iii) the SCH Ultimate Shareholders, SCH Corporate Shareholders, Sino-Coal Holding, Bloom Ocean and Mr. Yip are, directly or indirectly, individually or together with the others, entitled to exercise or control the exercise of 30% or more of the voting power at our general meetings, each of the SCH Ultimate Shareholders, SCH Corporate Shareholders, Sino-Coal Holding, Bloom Ocean and Mr. Yip is regarded as our Controlling Shareholder under the Listing Rules.

Four of the SCH Ultimate Shareholders, namely Mr. Wang, Mr. Sun, Mr. Xu and Mr. ZS Sun are executive Directors. Mr. Guo is a senior management of our Group. Please refer to the section headed “Directors and Senior Management” in this prospectus for further information of each of Mr. Wang, Mr. Sun, Mr. Xu, Mr. ZS Sun and Mr. Guo. As for Ms. GE Li, Mr. Song, Mr. Liu and Mr. HL Li, they are existing employees of Dongguang Chemical, and prior to its establishment in July 1998, they were employees of Dongguang Huafei, the predecessor company of Dongguang Chemical. Ms. GE Li, Mr. Guo and Mr. Liu became shareholders of Dongguang Chemical in April 2004 and, as part of the Reorganisation, they became three of the SCH Ultimate Shareholders in November 2014 and have indirectly held their respective interests in our Company through Sino-Coal Holding since then. As for Mr. Yip, he is a consultant of our Group to coordinate the appointment of the professional parties for the Global Offering, and to assist our Group in the process of the Reorganisation and the Listing application. Save for being a Controlling Shareholder, he is not connected to the directors, substantial shareholders or chief executive of our Company or our subsidiaries and their respective associates. Mr. Yip has been a shareholder of Bloom Ocean since June 2014. He has over 10 years of experience in investment and commercial banking related experience.

Mr. Wang is our chairman, executive Director and the ultimate largest Shareholder immediately prior to and after completion of the Global Offering. Prior to the establishment of Dongguang Chemical, Mr. Wang was a full-time employee in Dongguang Huafei and took up various positions during his tenure of service in Dongguang Huafei. Please refer to the section headed “Directors and Senior Management” in this prospectus for further information on Mr. Wang’s work experiences. Dongguang Huafei was a state-owned enterprise and was the predecessor company of Dongguang Chemical. Dongguang Huafei had been restructured into a domestic limited liability company pursuant to a restructuring exercise in which Dongguang Chemical was established in July 1998. Up to the Latest Practicable Date, Mr. Wang had not been a full time government official of a country.



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Our Directors consider that our Group is capable of carrying on our business independently of our Controlling Shareholders and their respective associates (other than us) based on the following reasons:

### **Operational independence**

During the Track Record Period, we had purchased coal from two associates of Mr. Wang, an executive Director and the chairman of our Board, for our production use, which in aggregate amounted to approximately RMB185.9 million, RMB213.1 million and RMB28.4 million for each of the years ended 31 December 2014, 2015 and 2016, respectively, representing approximately 16.2%, 15.1% and 2.17% of the total cost of sales of our Group for the corresponding year/period, respectively. Our Group had ceased to purchase coal from these two associates of Mr. Wang, namely, Mr. Wang Zhiguang (王治江) and Ms. Wang Yuhong (王玉红), who are the brother and sister of Mr. Wang, respectively, as at the Latest Practicable Date. The Directors are of the view that the transactions with these two associates were carried out in normal commercial terms. Save as disclosed, during the Track Record Period and up to the Latest Practicable Date, we have independent access to our customers and suppliers.

We have our own internal control systems and accounting systems for our business operations. Therefore, our operations are independent of and not connected with any of our Controlling Shareholders. On this basis, our Directors believe that we do not unduly rely on our Controlling Shareholders to carry on our business.

### **Financial independence**

During the Track Record Period and up to the Latest Practicable Date, we had our own finance department and independent accounting systems. Our Directors also believe that we are able to obtain financing independent from our Controlling Shareholders.

To meet our working capital requirements, we had bank and other borrowings of approximately RMB881.7 million, RMB718.3 million, RMB902.5 million and RMB924.2 million as at 31 December 2014, 2015 and 2016 and 30 April 2017, respectively. Certain of our banking facilities and other borrowings as at 31 December 2014, 2015 and 2016 and the Latest Practicable Date were secured by personal guarantees given by Mr. Wang and/or Mr. Sun. The bank has given its in principle consent to release the personal guarantees given by Mr. Wang in respect of such banking facilities which were still outstanding as at the Latest Practicable Date, upon Listing. As for another borrowing outstanding as at the Latest Practicable Date, a personal guarantee given by Mr. Wang and Mr. Sun would be released upon Listing in accordance with the terms of the guarantee.

During the Track Record Period, our Company had also issued the CCCO Bonds and the CCCO CB, which were secured by, among others, share charges over the entire issued share capital of Bloom Ocean, share charge over the 51.809% of the entire issued share capital of Sino-Coal Holding, and guarantees by Mr. Wang, Mr. Sun, Timely Moon, Plenty Sun, Sino-Coal Holding and Bloom Ocean. These share charges and guarantees were released and discharged on 8 August 2016 upon redemption of the CCCO Second Tranche Bond and the CCCO CB by our Company. Please refer to the section headed “History, Reorganisation and Corporate Structure – (2) Investment by CCCO” in this prospectus for further details. To finance the redemption of CCCO Bonds and

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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CCCO CB, we borrowed term loans from three lenders who are Independent Third Parties in August 2016 for an aggregate principal amount of HK\$178 million, which were secured by the personal guarantees given by Mr. Wang and Mr. Sun to be released upon the occurrence of the earlier of Listing or the repayment of the respective loans in accordance with their respective terms. Two of these term loans for the aggregate principal amount of HK\$120 million were repaid in full in December 2016 and January 2017, respectively, part of which were refinanced by a two-year loan for the principal amount of HK\$70 million from another lender which is an Independent Third Party. Such term loan was also secured by the personal guarantees given by Mr. Wang and Mr. Sun which will be released upon the occurrence of the earlier of Listing or the repayment of the loan in accordance with its terms.

Amount due from our Controlling Shareholders, their respective associates and/or related parties to our Group amounted to approximately RMB174.7 million, nil and nil as at 31 December 2014, 2015 and 2016, respectively. Such amounts were unsecured, interest free and repayable upon demand. Amounts due to our Controlling Shareholders, their respective associates and/or related parties from our Group amounted to approximately RMB54.7 million, nil and nil as at 31 December 2014, 2015 and 2016, respectively. The amount due as at 31 December 2014 was unsecured, interest-free and repayable on demand. The balance of any outstanding amounts due from or to any of our Controlling Shareholder, their respective associates and/or related parties has been repaid and settled in full as at the Latest Practicable Date.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, we had not provided any loans to, nor given any guarantee, security or pledge for, our Controlling Shareholders, our Directors or their respective associates, and none of our Directors or any of their respective associates had provided any personal guarantee, security or pledge for any of our banking facilities and other borrowings.

In light of the foregoing, our Directors are of the view that our Group does not rely on our Controlling Shareholders and/or their associates for any financial assistance.

### **Management independence**

Our Board comprises four executive Directors and three independent non-executive Directors. All of the directorships of our executive Directors are held by Mr. Wang, Mr. Sun, Mr. Xu and Mr. ZS Sun who are also our Controlling Shareholders.

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 interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group independently. Our Directors are satisfied that our senior management team is able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Global Offering.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### RULE 8.10 OF THE LISTING RULES

None of our Controlling Shareholders and our Directors has any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

### DEED OF NON-COMPETITION

Each of our Controlling Shareholders has confirmed that none of them engages in, or is interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business. To protect our Group from any potential competition, our Controlling Shareholders have given non-compete undertakings in our favour under the Deed of Non-Competition on 20 June 2017, pursuant to which each of our Controlling Shareholders have, among other matters, irrevocably and unconditionally undertaken with us on a joint and several basis that at any time during the Relevant Period (as defined below), each of our Controlling Shareholders shall, and shall procure that their respective associates (other than our Group) shall:

- (i) save for the Excluded Business (as defined below), not, directly or indirectly, carry on, invest in or be engaged in any business which will or may compete with the business currently and from time to time engaged by our Group ("**Restricted Business**"), including but not limited to the marketing, sales, distribution, production and/or processing of coal-based urea and other products of our Group from time to time ("**Restricted Products**");
- (ii) not solicit any existing or then existing employee of our Group for employment by them or their respective associates (excluding our Group);
- (iii) not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to their knowledge in their capacity as our Controlling Shareholders and/or Directors for the purpose of competing with the Restricted Business; and
- (iv) in respect of any order undertaken or proposed to be undertaken by them or their respective associates (excluding our Group) involving the marketing, sales, distribution, production and/or processing of any Restricted Products, unconditionally use reasonable endeavours to procure that such customer(s) to appoint or contract directly with any member of our Group for the marketing, sales, distribution, production and/or processing of the Restricted Products under the relevant order.

For the above purpose:

- (A) the "Relevant Period" means the period commencing from the Listing Date and shall, in respect of each Controlling Shareholder, expire upon the earliest date of occurrence of the events below:
  - (a) the date on which such Controlling Shareholder ceases to be a controlling shareholder of our Company (as defined under the Listing Rules);
  - (b) the date on which our Shares cease to be listed on the Stock Exchange or (if applicable) other stock exchange;

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (B) the “Excluded Business” means:
- (a) any direct or indirect investments of the Controlling Shareholders and/or their respective associates (excluding our Group) in any member of our Group;
  - (b) any direct or indirect investment of the Controlling Shareholders and/or their respective associates (excluding our Group) in the marketing, sales, distribution, production and/or processing of the Restricted Products outside the PRC whereby:
    - (i) the aggregate investment by such Controlling Shareholder and/or his/her/its associates in the business shall not exceed 30% of the entire equity interests in that business; and
    - (ii) none of such Controlling Shareholder and/or his/her/its associates will be involved in the operation and management of that business; and
  - (c) any direct or indirect investment in our Controlling Shareholders and/or their respective associates (excluding our Group) in shares of a publicly listed company (other than any member of our Group) whereby:
    - (i) the aggregate interests held by such Controlling Shareholder and/or his/her/its associates shall not exceed 5% of the entire issued shares of that company; and
    - (ii) none of such Controlling Shareholder and/or his/her/its associates (individually or taken as a whole) will be the single largest shareholder or equity holder of that company; and
    - (iii) none of such Controlling Shareholder and/or his/her/its associates will be involved in the operation and management of that company and/or its subsidiaries.

Each of our Controlling Shareholders has undertaken under the Deed of Non-competition that he or her or it shall, and procure his/her/its respective associates (other than our Group) to, provide to us and/or our Directors (including the independent non-executive Directors) from time to time all information necessary for annual review by the independent non-executive Directors with regard to compliance with the terms of the Deed of Non-competition by our Controlling Shareholders. Each of our Controlling Shareholders has also undertaken to make an annual declaration as to compliance with the terms of the Deed of Non-competition in our annual report.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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In order to properly manage any potential or actual conflict of interests between us and our Controlling Shareholders in relation to the compliance and enforcement of the Deed of Non-competition, we have adopted the following corporate governance measures:

- (i) our independent non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the Deed of Non-competition by our Controlling Shareholders;
- (ii) we will disclose any decisions on matters reviewed by the 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 associates has material interest in any matter to be deliberated by the Board in relation to the compliance and enforcement of the Deed of Non-competition, he shall disclose his interests to our Board and may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles of Association.

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 associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

## DIRECTORS AND SENIOR MANAGEMENT

### Directors

Our Board consists of seven Directors, including four executive Directors and three independent non-executive Directors. Our Board is responsible for and has general powers for the management and the conduct of our business. The following table lists the current members of our Board and sets out certain information in respect of members of our Board.

Name	Age	Position	Date of appointment as a Director	Date of joining our Group	Responsibilities in our Group
<i>Executive Directors</i>					
Mr. Wang Zhihe (王治河)	59	Executive Director and chairman of our Board	12 June 2014 (Note)	July 1998	Overall strategic development, and leading the business development of our Group
Mr. Sun Yi (孫毅)	62	Executive Director and vice chairman of our Board	12 June 2014 (Note)	July 1998	Overall financial management and internal control of our Group
Mr. Sun Zushan (孫祖善)	64	Executive Director and chief operating officer of our Group	12 June 2014 (Note)	July 1998	Overall operational management of our Group
Mr. Xu Xijiang (徐希江)	55	Executive Director and chief technology officer of our Group	12 June 2014 (Note)	July 1998	Overall management of technology and production of our Group
<i>Independent non-executive Directors</i>					
Ms. Lin Xiuxiang (林秀香)	54	Independent non-executive Director	20 June 2017	20 June 2017	Supervising and providing independent judgement to the Board, the audit committee, the remuneration committee, the nomination committee and the corporate governance committee
Mr. Liu Jincheng (劉金成)	53	Independent non-executive Director	20 June 2017	20 June 2017	Supervising and providing independent judgement to the Board, the audit committee, the remuneration committee and the nomination committee
Mr. Ng Sai Leung (吳世良)	44	Independent Non-Executive Director	20 June 2017	20 June 2017	Supervising and providing independent judgement to the Board, the audit committee and the corporate governance committee

*Note:* Each of Mr. Wang Zhihe, Mr. Sun Yi, Mr. Sun Zushan and Mr. Xu Xijiang was appointed as our Director on 12 June 2014 and re-designated as our executive Director on 20 June 2017.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Senior Management

The following table lists the current members of our senior management (other than our Directors) who are primarily responsible for the operations and management of our Group.

Name	Age	Present position in our Group	Date of joining our Group	Date of first becoming a senior management of our Group	Responsibilities in our Group
Mr. Cheng Shing Hay (鄭承熙)	38	Chief financial officer and company secretary of our Company	February 2015	February 2015	Overall financial and banking management of our Group and company secretarial work
Mr. Guo Jianming (郭建明)	43	Deputy general manager of our Group	July 1998	March 2001	Overseeing the safety and environment aspect and logistics management of our Group
Mr. Zhang Yao (張堯)	48	Assistant general manager of our Group	July 1998	July 2007	Supervising and management of production equipment of our Group
Ms. Wang Qing (王青)	50	Chief engineer of our Group	July 1998	June 2005	Overseeing the design, planning and operation of our production facilities of our Group

### DIRECTORS

#### Executive Directors

**Mr. Wang Zhihe** (王治河), aged 59

*Executive Director and chairman of our Board*

Mr. Wang is the executive Director and chairman of our Board, and is responsible for overall strategic development, and leading the business development of our Group. He was appointed as a Director on 12 June 2014 and re-designated as executive Director on 20 June 2017. Mr. Wang is one of the founders of our Group and one of our Controlling Shareholders. He has over 38 years of experience in operation, and over 24 years of experience in managing the business of manufacturing coal-based fertiliser. Mr. Wang joined our Group in July 1998. He has been the chairman of Dongguang Chemical since July 1998. Mr. Wang was the general manager of Dongguang Chemical from July 1998 to February 2012, the factory director of Dongguang Huafei from November 1992 to June 1998, the deputy factory director of Dongguang Huafei from January 1992 to October 1992, the office director of Dongguang Huafei from June 1986 to December 1991, the chief of sales division of Dongguang Huafei from January 1984 to May 1986 and the

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## DIRECTORS AND SENIOR MANAGEMENT

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statistician of Dongguang Huafei from January 1978 to December 1983. He completed a semi-sabbatical study junior college professional certificate course in industrial management organised by Hebei Faculty of Technology\* (河北工學院) (currently known as Hebei University of Technology (河北工業大學)) in June 1990. Mr. Wang is also a director of certain subsidiaries of our Group.

**Mr. Sun Yi** (孫毅), aged 62

*Executive Director and vice chairman of our Board*

Mr. Sun is an executive Director and vice chairman of our Board, and is responsible for overall financial management and internal control of our Group. He was appointed as a Director on 12 June 2014 and re-designated as executive Director on 20 June 2017. Mr. Sun is one of the founders of our Group and one of our Controlling Shareholders. He has over 40 years of experience in accounting and financial management and over 23 years of experience in operation and managing the business of manufacturing coal-based fertiliser. Mr. Sun joined our Group in July 1998. He has been the deputy general manager of Dongguang Chemical since July 1998. Mr. Sun was the deputy factory director and a director of Dongguang Huafei from April 1997 to June 1998, the assistant factory director of Dongguang Huafei from December 1992 to April 1997, the chief of finance division of Dongguang Huafei from August 1987 to November 1987, the cashier and chief accountant of finance division of Dongguang Huafei from January 1976 to July 1987, the statistician of the mechanical workshop of Dongguang Huafei from February 1974 to December 1975 and the fitter of the mechanical workshop of Dongguang Huafei from September 1970 to January 1974. He completed a professional study course in economic management organised by Beijing Economic Correspondence University\* (北京經濟函授大學) (currently known as Beijing Economic Management Correspondence College\* (北京經濟管理函授學院)) in December 1989. Mr. Sun is also a director of certain subsidiaries of our Group.

**Mr. Sun Zushan** (孫祖善), aged 64

*Executive Director and chief operating officer of our Group*

Mr. Sun is an executive Director and chief operating officer of our Group, and is responsible for overall operational management of our Group. He was appointed as a Director on 12 June 2014 and re-designated as executive Director on 20 June 2017. Mr. Sun is one of the founders of our Group and one of our Controlling Shareholders. He has over 46 years of experience in operation, and over 18 years of experience in managing the business of manufacturing coal-based fertiliser. Mr. Sun joined our Group in July 1998. He has been the general manager of Dongguang Chemical since March 2012. Mr. Sun was the deputy general manager of Dongguang Chemical from July 1998 to February 2012, the deputy factory director and director of Dongguang Huafei from May 1998 to June 1998, assistant factory director of Dongguang Huafei from March 1997 to April 1998, chief of sales division of Dongguang Huafei from April 1994 to February 1997, the director of the technology transformation office of Dongguang Huafei from April 1991 to April 1994, the chief of production division of Dongguang Huafei from June 1989 to April 1991, the chief of supply division of Dongguang Huafei from January 1989 to June 1989, the deputy branch chemical factory director of Dongguang Huafei from September 1986 to January 1989, the deputy chief of equipment division of Dongguang Huafei from July 1984 to August 1986, the deputy director of chemical workshop of Dongguang Huafei from September 1978 to June 1984, the repairman of repair workshop of Dongguang Huafei from May 1974 to August 1978 and the operator of transform workshop of Dongguang Huafei from June 1970 to May 1974. He is also a director of certain subsidiaries of our Group.



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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Xu Xijiang** (徐希江), aged 55

*Executive Director and chief technology officer of our Group*

Mr. Xu is an executive Director and chief technology officer of our Group, and is responsible for overall management of technology and production of our Group. He was appointed as a Director on 12 June 2014 and re-designated as executive Director on 20 June 2017. Mr. Xu is one of the founders of our Group and one of our Controlling Shareholders. He has over 35 years of experience in operation, and over 18 years of experience in managing the business of manufacturing coal-based fertiliser. Mr. Xu joined our Group in July 1998. He has been the deputy general manager of Dongguang Chemical since July 1998. Mr. Xu was the assistant factory director of Dongguang Huafei from December 1992 to June 1998, the chief of production division of Dongguang Huafei from October 1990 to December 1992, the director of chrysophenine workshop (凍黃車間) of Dongguang Huafei from May 1989 to October 1990 and the workman of Dongguang Huafei from September 1981 to May 1989. He is also a director of certain subsidiaries of our Group.

### **Independent non-executive Directors**

**Ms. Lin Xiuxiang** (林秀香), aged 54

*Independent non-executive Director*

Ms. Lin is the independent non-executive Director. She was appointed as an independent non-executive Director on 20 June 2017. Ms. Lin has over 28 years of experience in the education field in financial management and accounting. She has been the director of the department of financial management of the school of accountancy of the Central University of Finance and Economics (中央財經大學) (“CUFE”) since October 2003 and a professor in the faculty of accounting and financial management of the school of accountancy of CUFE since September 2006. She has also been an independent director and a director of the audit committee of Minsheng Securities (民生證券股份有限公司) since August 2012. She has also been an associate professor in the faculty of financial management of the school of accountancy of CUFE from October 2003 to August 2006, an associate professor in the faculty of finance of CUFE from September 1999 to September 2003, a lecturer in financial management of the faculty of finance of CUFE from May 1996 to August 1999, a lecturer in finance and accounting of the faculty of finance of Central School of Finance\* (中央財政金融學院) (currently known as CUFE) from November 1992 to April 1996 and a teaching assistant in finance and accounting of the faculty of finance of Central School of Finance from August 1988 to October 1992. Ms. Lin obtained a doctoral degree in economics from CUFE in June 2006. She also obtained a master’s degree in economics from the Central School of Finance in July 1988.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Liu Jincheng** (劉金成), aged 53

*Independent non-executive Director*

Mr. Liu is the independent non-executive Director. He was appointed as an independent non-executive Director on 20 June 2017. Mr. Liu has over 24 years of experience in operation and management in chemical industry. He has been the vice chairman of the board of Hebei Yangmei Zhengyuan Chemical Group Co., Ltd\* (河北陽煤正元化工集團有限公司), which principally engages in the manufacture of fertiliser and the research and development of equipment for the production of fertiliser, since January 2010 and the general manager of Cangzhou Zhengyuan Fertiliser Co., Ltd\* (滄州正元化肥有限公司), which is principally engaged in the manufacture of fertiliser, since October 2013. He has also been the president of Hebei Zhengyuan Chemical Group Joint Stock Co., Ltd\* (河北正元化工集團股份有限公司) (formerly known as Hebei Zhengyuan Chemical Group Co., Ltd\* (河北正元化工集團有限公司)), which principally engages in the manufacture of fertiliser and the research and development of equipment for the production of chemical, from April 2006 to January 2010, the president of Hebei Zhengyuan Investment Co., Ltd\* (河北正元投資有限責任公司), which principally engages in the operation and investment in fertiliser businesses, from April 2005 to April 2006, and the technology manager of Shijiazhuang Zhengyuan Gaoxiao Tower Development Company\* (石家莊正元高效塔器開發公司), which principally engages in the manufacture of equipment for the production of chemical, from October 1992 to April 2005. Mr. Liu obtained a master's degree in chemical engineering from the Hebei Faculty of Technology\* (河北工學院) (currently known as Hebei University of Technology (河北工業大學)) in July 1988.

**Mr. Ng Sai Leung** (吳世良), aged 44

*Independent non-executive Director*

Mr. Ng is the independent non-executive Director. He was appointed as an independent non-executive Director on 20 June 2017. Mr. Ng has over 18 years of experience in investment banking and business assurance industries. He is the independent non-executive Director who has the qualifications and experience to meet the requirements under Rule 3.10(2) of the Listing Rules.

Mr. Ng has been the managing director of Baron Global Financial Services Limited (currently known as VBG Capital Limited), a licensed corporation under the SFO which principally engages in the provision of investment banking services, since January 2015. He has been appointed as an independent non-executive director of MEIGU Technology Holding Group Limited, a company listed on the Stock Exchange (stock code: 8349) with effect on 16 December 2016. He was also a director of the investment banking department of CMB International Capital Corporation Limited, which principally engages in the provision of investment banking services to global, local institutional and corporate clients as well as individual investors, from August 2010 to January 2015, a vice president and senior vice president of the corporate finance division of CIMB

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## DIRECTORS AND SENIOR MANAGEMENT

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Securities (HK) Ltd., a company which principally engages in the provision of a full range of services from cash equities, equity sales and research and debt capital markets through to financial/ corporate advisory and merger and acquisitions, from June 2006 to August 2010, a senior manager and an associate director of MasterLink Securities (HK) Corp., Ltd., a company which principally engages in the provision of corporate finance advisory services, from May 2004 to May 2006, an assistant manager, manager and senior manager of the corporate finance department of Tai Fook Capital Limited (currently known as Haitong International Capital Limited), a company which principally engages in the provision of corporate finance advisory services, from September 1999 to April 2004, an officer of the compliance department of Hong Kong Futures Exchange Limited from March 1998 to September 1999, and a junior internal officer of the private banking division of Swiss Bank Corporation, an investment bank which then principally engaged in the provision of financial services, from March 1997 to February 1998. He also worked as an accountant of Ernst & Young from August 1995 to March 1997. Mr. Ng was certified as a certified public accountant from the Board of Public Accountants of the State of Montana, the US in September 1997. He is also a member of the Chartered Financial Analyst Institute. Mr. Ng obtained a bachelor's degree in business administration from The University of Hong Kong in November 1995. He also obtained a master's degree in business administration from The Chinese University of Hong Kong in December 2002.

### General

Save as disclosed above and in the section headed "Relationship with our Controlling Shareholders" in this prospectus, each of our Directors:

- (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date;
- (ii) had no other relationship with any Directors, senior management or substantial or controlling shareholders of our Company as at the Latest Practicable Date;
- (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date.

As at the Latest Practicable Date, save as the interests of each of the executive Directors in the Shares which are disclosed in the section headed "Further information about Directors and Shareholders – 13(d) Interests and short positions of our Directors in the shares, underlying shares or debenture of our Company and our associated corporation following the Global Offering" as set out in Appendix V to this prospectus, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

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## DIRECTORS AND SENIOR MANAGEMENT

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### SENIOR MANAGEMENT

**Mr. Cheng Shing Hay** (鄭承熙), aged 38

*Chief financial officer and company secretary of our Company*

Mr. Cheng, is the chief financial officer and company secretary of our Company. He was appointed as our chief financial officer on 11 February 2015 and our company secretary on 31 March 2015. Mr. Cheng is responsible for overseeing our Group's financial and company secretarial functions. He has over 12 years of experience in finance, accounting and auditing field. Prior to joining our Group, Mr. Cheng was the chief financial officer and company secretary of China New City Commercial Development Limited (stock code: 1321), a company which shares are listed on the Main Board of the Stock Exchange, from January 2014 to January 2015, the financial controller and later the joint chief financial officer of Xiangyu Dredging Holdings Limited (stock code: 871), a company which shares are listed on the Main Board of the Stock Exchange, from December 2012 to November 2013, and chief financial officer of a PRC based internet company from October 2011 to November 2012. Prior to that, between September 2001 and October 2011, Mr. Cheng had worked in various positions of the audit department in Deloitte Touche Tohmatsu and Grant Thornton. Mr. Cheng is a non-practicing member of the Hong Kong Institute of Certified Public Accountants and chartered accountant of the Chartered Accountants Australia and New Zealand (formerly known as Institute of Chartered Accountants of New Zealand). He obtained a graduate diploma in commerce from the University of Auckland in May 2001 and a bachelor degree in commerce from the University of Auckland in May 2000.

Pursuant to the letter of employment entered into between Mr. Cheng and our Company, Mr. Cheng will be entitled to the contingent allotment and issue, credited as fully paid by our Company a certain number of Shares ("**Remuneration Shares**") in two equal installments which is determined based on the following formula:

$$RS = \text{HK\$1 million} / OP$$

*Where:*

RS means the aggregate number of Shares to be allotted and issued as fully paid to Mr. Cheng, rounded up to the nearest whole board lot of Shares as traded on the Stock Exchange.

OP means the final Offer Price per Share under the Global Offering

The first installment shall be 50% of the Remuneration Shares which shall be allotted and issued to Mr. Cheng on the first Business Day ("**First Installment Date**") after anniversary of the 12th month following the Listing Date; and the final installment shall be the balance of the Remuneration Shares and the same shall be allotted and issued to Mr. Cheng on the first Business Day after anniversary of the 12th month following the First Installment Date. The allotment and issue of the Remuneration Shares is conditional upon the continuance of his employment with our Company on the date of allotment of Shares.

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## DIRECTORS AND SENIOR MANAGEMENT

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In relation to the accounting treatment of the Remuneration Shares in the Group's financial statements, in accordance with IFRS, the Remuneration Shares are treated as share-based payments whereby employees render services at the consideration of equity instruments (i.e. “**equity-settled transactions**”). The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The cost of equity-settled transactions is recognised in profit or loss with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

During the Track Record Period, the Remuneration Shares had not been accounted for in our consolidated financial statements as share-based payments, as the cost of equity-settled transactions arising from the conditional grant of the Remuneration Shares was immaterial. As no Remuneration Shares had been allotted and issued during the Track Record Period, no dilution effect and impact on earnings per shares had been resulted from the conditional grant of the Remuneration Shares under the letter of employment during the Track Record Period. It is expected that during the financial year in which the Remuneration Shares are to be issued, the share-based payments in respect of the Remuneration Shares will be charged as employees' expenses in our income statement for that financial year by reference to the fair value of the Remuneration Shares, and the earnings per share will be diluted by such additional number of Remuneration Shares to be allotted and issued.

**Mr. Guo Jianming** (郭建明), aged 43  
*Deputy general manager of our Group*

Mr. Guo is the deputy general manager of our Group, and is responsible for overseeing the safety and environmental aspect and logistics management of our Group. He has been with our Group since July 1998. Mr. Guo is one of the SCH Ultimate Shareholders and he indirectly owns approximately 6.9% of Sino-Coal Holding, one of our Controlling Shareholders, through Fair Tycoon Limited which is in turn wholly owned by Mr. Guo. He has been the deputy general manager of Dongguang Chemical since August 2003. Mr. Guo was the assistant general manager of Dongguang Chemical from March 2001 to August 2003, the director of plastic woven workshop of Dongguang Chemical from June 1999 to March 2001 and the operator of transform workshop of Dongguang Chemical from July 1998 to June 1999 and the operator of transform workshop of Dongguang Huafei from April 1997 to June 1998. He completed junior college study course in industrial analysis organised by Hebei Institute of Technology\* (河北理工學院) (currently known as Hebei United University (河北聯合大學)) in July 1996.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Zhang Yao** (張堯), aged 48  
*Assistant general manager of our Group*

Mr. Zhang is the assistant general manager of our Group, and is responsible for supervising and management of production equipment of our Group. He has been with our Group since July 1998. Mr. Zhang has been the assistant general manager of Dongguang Chemical since July 2007. He was the chief of equipment division of Dongguang Chemical from July 1998 to July 2007, the chief of equipment division of Dongguang Huafei from June 1996 to June 1998, the director of synthesis workshop of Dongguang Huafei from June 1992 to June 1996, the repairman of compression workshop of Dongguang Huafei from January 1986 to June 1992 and the workman of Dongguang Huafei from June 1985 to January 1986.

**Ms. Wang Qing** (王青), aged 50  
*Chief engineer of our Group*

Ms. Wang is the chief engineer of our Group, and is responsible for overseeing the design, planning and operation of our production facilities of our Group. She has been with our Group since July 1998. Ms. Wang has been the chief engineer of Dongguang Chemical since June 2005. She was the director of technology transformation office of Dongguang Chemical from March 1999 to June 2005, the deputy director of production division of Dongguang Chemical from July 1998 to March 1999, the deputy director of production division of Dongguang Huafei from December 1995 to June 1998, the deputy chief of technology division of Dongguang Huafei from July 1993 to December 1995, the technician of production division of Dongguang Huafei from May 1992 to July 1993 and was responsible for staff education of the vocational division of Dongguang Huafei from August 1987 to April 1992. Ms. Wang obtained a bachelor degree in inorganic chemical from Hebei Institute of Technology\* (河北工學院) (currently known as Hebei University of Technology (河北工業大學)) in July 1987.

### General

Save as disclosed herein, 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 the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2) of the Listing Rules as at the Latest Practicable Date.

### COMPANY SECRETARY

Our company secretary is Mr. Cheng Shing Hay. He is employed by us on a full-time basis. Please refer to his biographical details in the sub-section headed “Senior Management” above.

### COMPENSATION

The aggregate amounts of remuneration of our Directors for the years ended 31 December 2014, 2015 and 2016 were approximately RMB736,000, RMB771,000 and RMB779,000, respectively. Details of the arrangement for remuneration are set out in Note 12 of Section II in the Accountants’ Report in Appendix I to this prospectus. Under such arrangement and pursuant to our Directors’ service agreements and letters of appointment referred to in the section headed “Further information about Directors and Shareholders – 13. Directors” in Appendix V to this prospectus, the aggregate amount of directors’ fee and other emoluments payable to our Directors for the year ending 31 December 2017 is estimated to be approximately RMB3,455,000, excluding any discretionary bonuses.

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## DIRECTORS AND SENIOR MANAGEMENT

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Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. We have also adopted the Share Option Scheme, which enable us to provide incentive or reward to our Directors, senior management and other selected participants. For details of the Share Option Scheme, please refer to the section headed “Other Information – 16. Share Option Scheme” in Appendix V to this prospectus. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. We regularly review and determine the remuneration and compensation packages of our Directors and senior management.

After Listing, our Remuneration Committee will review and recommend the remuneration and compensation packages of our Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of our Directors and senior management and performance of our Group.

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

For additional information on Director’ remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to Note 12 of Section II in the Accountants’ Report in Appendix I to this prospectus.

### BOARD COMMITTEES

The audit committee, remuneration committee, nomination committee and the corporate governance committee of our Company were approved to be established by resolutions passed by our Board on 20 June 2017. The membership of such committee are as follows:

<u>Name of Director</u>	<u>Audit Committee</u>	<u>Remuneration Committee</u>	<u>Nomination Committee</u>	<u>Corporate Governance Committee</u>
<i>Executive Directors</i>				
Mr. Wang Zhihe	–	–	Chairman	–
Mr. Sun Yi	–	Member	–	Member
Mr. Sun Zushan	–	–	–	–
Mr. Xu Xijiang	–	–	–	–
<i>Independent non-executive Directors</i>				
Ms. Lin Xiuxiang	Member	Chairlady	Member	Member
Mr. Liu Jincheng	Member	Member	Member	–
Mr. Ng Sai Leung	Chairman	–	–	Chairman

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## DIRECTORS AND SENIOR MANAGEMENT

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Each of the above committees has written terms of reference. The functions of the above four committees are summarised as follows:

### **Audit committee**

Our Company established an audit committee with written terms of reference in compliance with Code C.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of our audit committee are mainly to make recommendations to our Board on the appointment and removal of the external auditor, review the financial statements and material advice in respect of financial reporting and oversee the risk management and internal control principles of our Company.

### **Remuneration committee**

Our Company established a remuneration committee with written terms of reference in compliance with Code B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of our remuneration committee are to make recommendation to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group, review performance based remuneration and ensure none of our Directors determine their own remuneration.

### **Nomination committee**

Our Company established a nomination committee with written terms of reference in compliance with Code A.5 of the Corporate Government Code as set out in Appendix 14 to the Listing Rules. The primary functions of our nomination committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board.

### **Corporate Governance committee**

Our Company established a corporate governance committee with written terms of reference in compliance with Code D.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of our corporate governance committee are to develop and review our policies and practices on corporate governance and make recommendations to our Board.

## **COMPLIANCE ADVISER**

We have appointed KGI Capital Asia 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, among others, at the following circumstances:

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



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## DIRECTORS AND SENIOR MANAGEMENT

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- (3) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (4) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares, the possible development of a false market in our Shares, or any other matters.

The term of appointment our compliance adviser shall commence on the Listing Date and end on the date of despatch of our annual report in respect of our financial results for the first full financial year commencing after the Listing Date.

### **SHARE OPTION SCHEME**

Our Company has conditionally adopted the Share Option Scheme on 20 June 2017 under which certain selected classes of participants (including, among others, full-time employees) may be granted options to subscribe for the new Shares. The principal terms of the Share Option Scheme are summarised in the section headed “Other Information – 16. Share Option Scheme” in Appendix V to this prospectus.

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## SUBSTANTIAL SHAREHOLDERS

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### PERSONS HAVING NOTIFIABLE INTERESTS UNDER THE SFO

So far as our Directors are aware, immediately following the completion of the Global Offering (but without taking account of any Shares which may be taken up under the Global Offering and without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme), the following persons will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

<u>Name of Shareholder</u>	<u>Nature of interest</u>	<u>Number of Shares held</u> <i>(Note 1)</i>	<u>shareholding percentage</u> <i>(%)</i>
Timely Moon	Interest in controlled corporation <i>(Note 2)</i>	460,000,000 (L)	74.19%
Mr. Wang	Interest in controlled corporation <i>(Note 2)</i>	460,000,000 (L)	74.19%
Ms. Sun Yukun	Interest of spouse <i>(Note 3)</i>	460,000,000 (L)	74.19%
Sino-Coal Holding	Beneficial owner	279,680,000 (L)	45.11%
Bloom Ocean	Beneficial owner	180,320,000 (L)	29.08%
Plenty Sun	Interest in controlled corporation <i>(Note 4)</i>	180,320,000 (L)	29.08%
Mr. Sun	Interest in controlled corporation <i>(Note 4)</i>	180,320,000 (L)	29.08%
Ms. Yao Juan	Interest of spouse <i>(Note 5)</i>	180,320,000 (L)	29.08%

*Notes:*

- (1) The letter “L” denotes a person’s “long position” in such Shares.
- (2) Among these 460,000,000 Shares, 279,680,000 Shares are held by Sino-Coal Holding (which is owned as to approximately 33.059% by Timely Moon); and 180,320,000 Shares are held by Bloom Ocean (which is owned as to approximately 44.27% by Timely Moon). Timely Moon is wholly owned by Mr. Wang. By virtue of the SFO, each of Timely Moon and Mr. Wang is taken to be interested in the Shares held by each of Sino-Coal Holding and Bloom Ocean.
- (3) Ms. Sun Yukun is the spouse of Mr. Wang. Under the SFO, Ms. Sun Yukun is taken to be interested in the same number of Shares in which Mr. Wang is interested.

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## SUBSTANTIAL SHAREHOLDERS

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- (4) These 180,320,000 Shares are held by Bloom Ocean (which is owned as to approximately 44.01% by Plenty Sun). Plenty Sun is wholly owned by Mr. Sun. By virtue of the SFO, each of Plenty Sun and Mr. Sun is taken to be interested in the Shares held by each of Sino-Coal Holding and Bloom Ocean.
- (5) Ms. Yao Juan is the spouse of Mr. Sun. Under the SFO, Ms. Yao Juan is taken to be interested in the same number of Shares in which Mr. Sun is interested.

Save as disclosed herein, our Directors are not aware of any persons who will, immediately following completion of the Global Offering (but without taking into account Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

Please refer to the sections headed “History, Reorganisation and Corporate Structure” and “Relationship with our Controlling Shareholders” in this prospectus for details of relationships among our substantial Shareholders.

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## SHARE CAPITAL

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### TOTAL AUTHORISED AND ISSUED SHARE CAPITAL OF OUR COMPANY

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

<i>Authorised share capital:</i>		<i>US\$</i>
500,000,000,000	Shares of US\$0.0001 each	50,000,000

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

*Issued and to be issued, fully paid or credited as fully paid*

460,000,000	Shares in issue at the date of this prospectus	46,000
160,000,000	Shares to be issued pursuant to the Global Offering (excluding any Shares which may be issued under the Over-allotment Option)	16,000
<b>620,000,000</b>	<b>Shares</b>	<b>62,000</b>

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

*Issued and to be issued, fully paid or credited as fully paid*

460,000,000	Shares in issue at the date of this prospectus	46,000
160,000,000	Shares to be issued pursuant to the Global Offering	16,000
24,000,000	Shares to be issued if the Over-allotment Option is exercised in full	2,400
<b>644,000,000</b>	<b>Shares</b>	<b>64,400</b>

### RANKING

The Offer Shares and the Shares that may be issued pursuant to the Over-allotment Option will rank *pari passu* with all existing Shares in issue on the date of the allotment and issue of such Shares, and in particular will be entitled to all dividends or other distributions declared, made or paid after the date of this prospectus.

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out under “Other Information – 16. Share Option Scheme” in Appendix V to this prospectus.

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## SHARE CAPITAL

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### GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (a) 20% of the aggregate number of Shares in issue, excluding the Shares which may be issued pursuant to the Over-allotment Option, immediately following completion of the Global Offering; and
- (b) the aggregate number of Shares repurchased by our Company, if any, under the general mandate to repurchase Shares referred to below.

The aggregate number of Shares which our Directors are authorised to allot and issue under this mandate will not be reduced by the allotment and issue of Shares under a rights issue, scrip dividend scheme or similar arrangement in accordance with the Articles of Association, or pursuant to the exercise of options which were granted under the Share Option Scheme or under the Global Offering or upon the exercise of the Over-allotment Option.

This mandate will expire at the earliest of:

- the conclusion of our Company's next annual general meeting; or
- the expiration of the period within which our Company is required by law or its Articles of Association to hold its next annual general meeting; or
- when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to "Further Information about our Company and our subsidiaries – 3. Resolutions in writing of our Shareholders passed on 20 June 2017" in Appendix V to this prospectus.

### GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate number of Shares of not more than 10% of the aggregate number of Shares in issue following the completion of the Global Offering (excluding Shares which may to be issued pursuant to the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Stock Exchange, or any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and requirements of the Listing Rules. Further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares is set out in "Further Information about our Company and subsidiaries – 7. Repurchase by our Company of our own securities" in Appendix V to this prospectus.

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## SHARE CAPITAL

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This mandate will expire at the earliest of:

- the conclusion of our Company's next annual general meeting; or
- the expiration of the period within which our Company is required by law or its Articles of Association to hold its next annual general meeting; or
- when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to "Further Information about our Company and our subsidiaries – 3. Resolutions in writing of our Shareholders passed on 20 June 2017" in Appendix V to this prospectus.

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## FINANCIAL INFORMATION

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*The following discussion and analysis of our business, financial condition and results of operations is based on and should be read in conjunction with our financial statements as at and for each of the years ended 31 December 2014, 2015 and 2016, including the notes thereto, as set forth in “Appendix I – Accountants’ Report” and other financial information appearing elsewhere in this prospectus.*

*This discussion contains forward-looking statements that involve risks and uncertainties. We caution you that our business and financial performance are subject to substantial risks and uncertainties including, but not limited to, those factors included in the section headed “Risk Factors” in this prospectus. Our future results could differ materially from those projected in the forward-looking statements.*

### OVERVIEW

We are one of the major coal-based urea producers with annualised designed production capacity of approximately 1.1 million tonnes of urea in the PRC and with headquarters in Hebei Province. According to Frost & Sullivan, we ranked No. 9 among all urea production companies in the PRC in terms of both production capacity and revenue from sales of urea in 2016. In addition, we ranked No. 3 and No. 11 in terms of revenue from sale of urea for industrial use and agricultural use, respectively, among all urea production companies in the PRC in 2016. In 2016, in recognition of our high occupational and production safety standard and our strong financial performance in 2015, we were awarded as “Safety Production Standardisation Second-Class Enterprise” and “2015 National Top 20 Gross Profit Enterprise in Nitrogen Fertiliser Industry” by Safety Production Supervision and Management Bureau of Hebei Province and China Nitrogen Fertiliser Industry Association, respectively. For details of the awards, please refer to the sub-section headed “Business – Awards and Accreditations” of this prospectus.

As a result of our advanced production capabilities, the commencement of production at Plant One in 2014 and long term relationship with our customers, we have experienced steady growth in sales volume during the Track Record Period. Our sales volume for urea products increased from 823,892 tonnes for the year ended 31 December 2014 to 1,173,509 tonnes for the year ended 31 December 2015, and further to 1,211,208 tonnes for the year ended 31 December 2016. Our revenue was RMB1,383.9 million, RMB1,859.3 million and RMB1,457.5 million and our gross profit was RMB233.6 million, RMB453.0 million and RMB149.8 million for the years ended 31 December 2014, 2015 and 2016, respectively.

### KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations, financial condition and future prospects have been, and will continue to be, affected by a number of factors, including those set out below.

#### **Continuous economic growth in the PRC**

During the Track Record Period, all of our revenue was generated from sales in the PRC. Therefore, economic trends in the PRC have a significant impact on various aspects of our operations, including, but not limited to the demand for our products, the price and supply of raw materials, as well as the selling, distribution and administrative expenses. The growth of China’s economy has resulted in an acceleration of industrialisation, which has affected and is expected to

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continue to affect our operations since our products are primarily used in both the industrial and agricultural industries. In addition, the PRC Government has from time to time adjusted its monetary, financial, fiscal or industry policies, among others, or implemented other macroeconomic measures. Any adjustment in or implementation of economic policies and measures could affect our results of operations and financial condition. Both the PRC's macroeconomic trends and policies could affect our procurement, production, sales and other parts of our business, leading to fluctuations in our results of operations.

### Product pricing

Historically, we have determined the sales prices of our products based on the prevailing market prices of our products. Leveraging on our leading industry position and our long-standing relationship with our customers, we tend to enjoy strong customer loyalty for our products.

The following table sets forth the average selling prices of our products for the periods indicated.

	For the year ended 31 December		
	2014	2015	2016
	<i>(RMB per tonne)</i>		
<b>Average selling price<sup>(1)</sup></b>			
Urea	1,524	1,465	1,081
Liquid carbon dioxide	206	169	195
Methanol	1,683	1,343	1,381
LNG	–	2,654	2,182

*Note:*

(1) VAT excluded.

Our principal product is urea, which accounted for around 90% of our revenue during the Track Record Period. As a result, the decrease in market price of urea will decrease our revenue. According to Frost & Sullivan, the average retail price of urea in China decreased from RMB1,580 per tonne in 2014 to RMB1,505 per tonne in 2015 and further to RMB1,159 per tonne in 2016. The average selling price of our urea decreased from RMB1,524 per tonne for the year ended 31 December 2014 to RMB1,465 per tonne for the year ended 31 December 2015, and further to RMB1,081 per tonne for the year ended 31 December 2016.

The average selling prices of our urea products were below the market prices in the PRC during the Track Record Period primarily due to the average retail prices of urea in North China where our Group operates were generally below the average retail prices of urea in the overall PRC market during the Track Record Period, as such price is affected by the regional supply and demand situation. Anthracite, the main raw material used in urea production, is distributed primarily in North China and the nearby regions. With abundant supply of anthracite in close proximity, the urea production companies located in the North China such as our Group are potentially entitled to a lower production cost base as compared with the competitors located in other regions in the PRC. According to Frost & Sullivan, the annual average anthracite price in



## FINANCIAL INFORMATION

North China was lower than the national average throughout the Track Record Period for all categories of anthracite from slack to medium-sized coals. Further, our average purchase prices of coal during the Track Record Period were lower than the market prices of coal for the same periods, which enabled us to effectively control its cost of sales and maintain healthy gross profit margins. As most of our major customers during the Track Record Period were located in North China, in particular, Hebei Province and Tianjin, the average selling price of our urea products was primarily affected by the market prices of urea in North China, which was generally below the retail prices of the overall PRC market. After a period of relatively low market price of urea in North China and the continued decline in the market price of urea from 2012 to 2015 in the PRC, the market price of urea has experienced continuous rebound since August 2016. The average retail price (excluding VAT) of urea in the PRC increased from RMB1,052 per tonne in August 2016 to RMB1,411 per tonne in May 2017. Accordingly, the average retail price (excluding VAT) of urea in North China increased from RMB1,022 per tonne in August 2016 to RMB1,362 per tonne in May 2017, according to Frost & Sullivan.

	<b>For the year ended 31 December</b>	<b>Average Retail Prices in the Region indicated (RMB/tonne)</b>	
	<b>Our Group</b>	<b>North China*</b>	<b>Overall PRC*</b>
2014	1,524	1,532	1,580
2015	1,465	1,421	1,505
2016	1,081	1,098	1,159

\* *Source: Frost and Sullivan*

Assuming all other variables remain constant, the following sensitivity analysis illustrates the impact of hypothetical fluctuations in average selling price of urea on our net profit after tax for the periods indicated. Based on the historical fluctuation of the selling price of urea during the Track Record Period, fluctuations are assumed to be 4%, 15% and 26% during the Track Record Period.

	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(RMB'000)</i>		
Change in net profit if average selling price of urea increases/(decreases) by 4%	37,656/(37,656)	51,590/(51,590)	39,270/(39,270)
Change in net profit if average selling price of urea increases/(decreases) by 15%	141,209/(141,209)	193,463/(193,463)	147,261/(147,261)
Change in net profit if average selling price of urea increases/(decreases) by 26%	244,763/(244,763)	335,336/(335,336)	255,253/(255,253)

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## FINANCIAL INFORMATION

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### **Production capacity, production volume and utilisation rate**

Our results of operations depend on our production capacity, production volume and utilisation rate. As at the Latest Practicable Date, we had two active production plants, namely, Plant One and Plant Two, located at Dongguang County of Cangzhou City, Hebei Province. We commenced our operations at Plant One in August 2014. Plant Two has been in operation since 2009. During the Track Record Period, we also had operations at the Old Plant which was closed in April 2014. As at the Latest Practicable Date, our annualised designed production capacity were approximately 1,095,000 tonnes of urea, 146,000 tonnes of methanol, 164,250 tonnes of liquid carbon dioxide and 5,414 tonnes of LNG. For the year ended 31 December 2016, we had achieved a production volume of approximately 1,209,844 tonnes of urea, 82,477 tonnes of methanol, 127,198 tonnes of liquid carbon dioxide and 3,530 tonnes of LNG. For the year ended 31 December 2016, our consolidated utilisation rate for urea, methanol, liquid carbon dioxide and LNG was 110%, 56%, 77% and 87%, respectively. For more details regarding our historical production facilities and capacities, please refer to the section headed “Business – Production – Production Facilities and Capacities” in this prospectus.

### **Price of raw materials**

Our profit largely depends on the prices that we are able to charge for our products and costs of sales that we require to make these products. Our raw material costs represented a substantial portion of our total cost of sales during the Track Record Period.

For the years ended 31 December 2014, 2015 and 2016, our cost of raw materials amounted to approximately RMB634.5 million, RMB702.6 million and RMB562.4 million, respectively, constituting approximately 55.2%, 50.0% and 43.0% of our total cost of sales, respectively. The costs of the raw materials we use to produce our products are subject to market situation. Our historical operations and margins have been and will continue to be affected by fluctuations in the prices for raw materials. Anthracite and bituminous coal are the main raw materials we use in our production. For the years ended 31 December 2014, 2015 and 2016, our purchase price of anthracite was RMB782 per tonne, RMB627 per tonne and RMB510 per tonne, respectively. For the same periods, our purchase price of bituminous coal was RMB465 per tonne, RMB367 per tonne and RMB345 per tonne, respectively. For the years ended 31 December 2014, 2015 and 2016, our gross profit amounted to RMB233.6 million, RMB453.0 million and RMB149.8 million, respectively. For the same period, our gross profit margin was 16.9%, 24.4% and 10.3%, respectively.

Assuming all other variables remain constant, the following sensitivity analysis illustrates the impact of hypothetical fluctuations in average unit price of anthracite and bituminous coal on our net profit for the periods indicated. Based on the historical fluctuation of the unit price of anthracite and bituminous coal during the Track Record Period, fluctuations are assumed to be 13%, 20% and 23% during the Track Record Period. The level of fluctuations as to urea price and coal price may differ for various reasons, please refer to the section headed “Industry Overview – Overview of the Urea Market in China – Price and Cost Structure Analysis of Urea” for detailed information.

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	For the year ended 31 December		
	2014	2015	2016
	<i>(RMB'000)</i>		
<b>Average unit price of anthracite coal</b>			
Change in net profit if average unit price decreases/(increases) by 13%	53,351/(53,351)	58,910/(58,910)	46,840/(46,840)
Change in net profit if average unit price decreases/(increases) by 20%	82,079/(82,079)	90,631/(90,631)	72,062/(72,062)
Change in net profit if average unit price decreases/(increases) by 23%	94,391/(94,391)	104,226/(104,226)	82,871/(82,871)
<b>Average unit price of bituminous coal</b>			
Change in net profit if average unit price decreases/(increases) by 13%	5,954/(5,954)	5,914/(5,914)	6,600/(6,600)
Change in net profit if average unit price decreases/(increases) by 20%	9,161/(9,161)	9,098/(9,098)	10,154/(10,154)
Change in net profit if average unit price decreases/(increases) by 23%	10,535/(10,535)	10,463/(10,463)	11,677/(11,677)

Our Directors believe the market prices of coal will continue to fluctuate and we do not hedge our exposure to the price of these materials. Therefore, in the event of significant movement in the prices of raw materials and if we cannot pass on the cost increase to our customer, our cost of sales could be materially and adversely impacted.

### **Product mix**

During the Track Record Period, we offered urea as our principal product. We also produce and sell methanol, liquid carbon dioxide and LNG, which are by-products and semi-products during the production of urea. Historically, most of our revenue have been derived from the sales of urea, which accounted for 90.7%, 92.5% and 89.8% of our total revenue for the years ended 31 December 2014, 2015 and 2016, respectively. As a result, our movements of the total revenue during the Track Record Period was largely attributable to the changes in our revenue derived from the sales of urea. Large granular urea is a type of urea product with better fertiliser function thus higher profit margin. Considering the growing market demand of this product, while maintaining our existing total production capacity of urea, we enhanced our annualised designed production

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capacity of large granular urea to 365,000 tonnes in 2015. We intend to construct the New Large Granular Urea Production Facility, which we believe will significantly improve our production capacity of large granular urea and further enhance the flexibility of producing such type of products. For detailed information about the reasons and benefits relating to the construction of the New Large Granular Urea Production Facility, please refer to the subsection headed “Business – Production – Expansion Plan – Justification of the Expansion Plan” in this prospectus. The production of methanol and liquid carbon dioxide will not only allow us to reduce emission of gas and waste to comply with the relevant environmental regulatory requirements, but will also supplement our revenue.

As part of our strategy to further achieve this, we are developing equipment and technology which will allow us to extract LNG by recycling by-products created during the ammonia production process. In 2015, we completed the construction of our LNG production line and commenced the formal production in April 2016. We believe that the relative success of our new LNG will positively enhance our profitability as LNG generally have higher profit margins than our general urea products. We incurred approximately RMB23.4 million in total for the construction of the new LNG production line. The success of our new LNG depends on a number of factors, including our ability to accurately anticipate changes in market demand and consumer preferences, our ability to differentiate our LNG from those of our competitors, government regulations, our ability to obtain all required regulatory approvals and the effectiveness of our sales and marketing for LNG.

We expect to enhance our ability to provide urea products while maintaining our sales of by-products. We believe that offering a variety of products will allow us to enter into new markets and diversify our income stream which enable us to better manage the risks associated with the urea industry.

### **BASIS OF PRESENTATION**

Our Company was incorporated in the Cayman Islands on 26 July 2013 as an exempted company with limited liability under the Companies Law. In preparation for the Global Offering, our Group underwent the Reorganisation. For the details of the Reorganisation, please see the section headed “History, Reorganisation and Corporate Structure” in this prospectus. As a result of the Reorganisation, our Company became the holding company of the companies now comprising our Group since 28 November 2014.

Immediately prior to and after the Reorganisation, our Group’s principal business, being the manufacturing and selling of urea, methanol, liquid carbon dioxide and LNG in the PRC, and Sino Emirates, a limited liability company incorporated on 4 October 2007 under the laws of Hong Kong, were held by the Controlling Shareholders. Prior to the Reorganisation, Mr. Wang Zhihe, Mr. Sun Yi and other seven individuals, including Mr. Sun Zushan, Mr. Xu Xijiang, Ms. Li Guie, Mr. Li Hongliang and Mr. Song Jianning, (the “**Individual Shareholders**”), and Sino Emirates owned Hebei Dongguang 60.8% and 39.2%, respectively. Upon completion of the Reorganisation on 28 November 2014 as presented in Note 1.(b)(ii) of Section II to the Accountants’ Report included in Appendix I to this prospectus, our Group underwent the Reorganisation to transfer our business. For the purpose of this report, the Financial Information has been prepared on a consolidated basis by applying the principles of merger accounting which is a continuation of the existing business since the beginning of the relevant periods. For additional information, please refer to the section headed “History, Reorganisation and Corporate Structure – The Reorganisation”.

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The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of our Group for the years ended 31 December 2014, 2015 and 2016 include the results and cash flows of all companies now comprising our Group as if our group structure upon the completion of the Reorganisation had been in exercise throughout the Relevant Periods or since the respective dates of acquisition/establishment, or up to the respective dates of deregistration/disposal, whichever is shorter. The consolidated statements of financial position of our Group as at 31 December 2014, 2015 and 2016 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses now comprising our Group using the existing book values as if the current group structure had been in existence at those dates, taken into account the respective dates of acquisition/establishment and deregistration/disposal. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

For more information on the basis of preparation of the financial information included herein, please see Note 1 of Section II to the Accountants' Report included in Appendix I to this prospectus.

### CRITICAL ACCOUNTING POLICIES

We have identified certain accounting policies that we believe are most significant to the preparation of our consolidated financial statements. Some of our significant accounting policies involve subjective assumption and estimates, as well as complex judgements by our management relating to accounting items. Estimates and judgements 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. We have not changed our assumptions or estimates in the past and have not noticed any material errors regarding our assumptions or estimates. Under current circumstances, we do not expect that our assumptions or estimates are likely to change significantly in the future. Our significant accounting policies are set forth in detail in Note 4 of Section II to the Accountants' Report included in Appendix I to this prospectus.

#### Revenue recognition

We derive our revenue from the manufacturing and selling of urea, methanol, liquid carbon dioxide and LNG. We recognise revenue when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases:

We recognise revenue generated from the sales of goods when the significant risks and rewards of ownership have been transferred to the buyer, provided that our Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. This is usually taken as the time when the goods are delivered and the customers have accepted the goods.

We recognise interest income on a time-proportion basis using the effective interest method.

For details regarding our accounting policy relating to revenue recognition, see Note 4(k) of Section II to the Accountants' Report included in the Appendix I to this prospectus.

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### Property, plant and equipment

We recognise property, plant and equipment at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment includes its purchase price and the costs 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 our Group and the cost of the item can be measured reliably. We charge other costs, such as repairs and maintenance to profit or loss during the financial period in which they are incurred.

We calculate depreciation on the straight-line basis to write off the cost of each item of property, plant and equipment to its expected residual value over its estimated useful life. The useful lives of property, plant and equipment by categories are presented as below:

Buildings	10 to 30 years or over the lease term, whichever is shorter
Plant and machinery	12 years
Furniture, fixtures and equipment	3 to 18 years
Motor vehicles	4 to 12 years

We calculate construction in progress at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

We write down asset to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

We calculate the gain or loss on disposal of an item of property, plant and equipment based on the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

For details regarding our accounting policy relating to property, plant and equipment, see Note 4(c) of Section II to the Accountants' Report included in the Appendix I to this prospectus.

### Income tax

Income tax comprises current tax and deferred tax.

We recognise current tax based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

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We recognise deferred tax in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

We recognise deferred tax liabilities for taxable temporary differences arising on investments in subsidiaries and associates, except where we are able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

We recognise income taxes in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

For details regarding our accounting policy relating to income tax, see Note 4(1) of Section II to the Accountants' Report included in the Appendix I to this prospectus.

### **CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES**

#### **Estimated useful lives of property, plant and equipment**

We estimate useful lives and residual values for our 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. We increase the depreciation charge where useful lives are less than previously estimated lives. It will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

#### **Net realisable value of inventory**

We estimate inventory at the lower of cost and net realisable value. We determine cost using the weighted average method. We estimate the net realisable value of inventories based on the estimated selling price in the ordinary course of business, less estimated distribution and selling expenses. We reassess the estimations at each reporting date to ensure inventory is shown at the lower of cost and net realisable value.

#### **Impairment of receivables**

We review receivables on a regular basis to determine if any provision for impairment is necessary. This estimate is based on the credit history of our customers, past settlement and industry practice and current market conditions. We reassess the impairment of receivables at each reporting date.

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## FINANCIAL INFORMATION

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### **Impairment of non-financial assets**

We assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, we estimate the recoverable amount of the asset. This requires an estimation of the value-in-use of the cash-generating unit to which the asset is allocated. Estimating the value-in-use requires us to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

### **Income tax and deferred tax**

We assess income tax provisions to make judgements on the future tax treatment of certain transactions. We evaluate tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, we recognise deferred tax assets to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

### **Fair value measurement**

A number of assets and liabilities included in the Financial Information require measurement at, and/or disclosure of, fair value.

The fair value measurement of our Group's financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are:

Level 1: Quoted prices (unadjusted) in active markets for identical assets/liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets/liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the assets/liabilities that are not based on observable market data (unobservable inputs).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.



## FINANCIAL INFORMATION

### RESULT OF OPERATIONS

The following table shows statements of comprehensive income derived from our consolidated financial information for the periods indicated:

	For the year ended 31 December					
	2014		2015		2016	
	<i>(RMB'000, except percentages)</i>					
<b>Revenue</b>	<b>1,383,882</b>	<b>100.0%</b>	<b>1,859,300</b>	<b>100.0%</b>	<b>1,457,523</b>	<b>100.0%</b>
Cost of sales	(1,150,260)	(83.1%)	(1,406,321)	(75.6%)	(1,307,769)	(89.7%)
<b>Gross profit</b>	<b>233,622</b>	<b>16.9%</b>	<b>452,979</b>	<b>24.4%</b>	<b>149,754</b>	<b>10.3%</b>
Other income	6,195	0.4%	7,779	0.4%	9,924	0.7%
Other gains and losses, net	133	0.0%	(50,581)	(2.7%)	(10,661)	(0.7%)
Administrative expenses, of which	(43,093)	(3.1%)	(62,675)	(3.4%)	(49,264)	(3.4%)
– Listing expenses	(974)	(0.0%)	(5,698)	(0.3%)	(10,255)	(0.7%)
– Other administrative expenses	(42,119)	(3.1%)	(56,977)	(3.1%)	(39,009)	(2.7%)
Distribution expenses	(23,262)	(1.7%)	(25,840)	(1.4%)	(2,075)	(0.1%)
Finance costs	(54,460)	(3.9%)	(82,683)	(4.4%)	(68,121)	(4.7%)
<b>Profit from operations</b>	<b>119,135</b>	<b>8.6%</b>	<b>238,979</b>	<b>12.9%</b>	<b>29,557</b>	<b>2.0%</b>
Change in fair value of convertible bonds	–	–	(30,517)	(1.7%)	8,701	0.6%
Loss on redemption of convertible bonds	–	–	–	–	(1,344)	(0.1%)
<b>Profit before income tax</b>	<b>119,135</b>	<b>8.6%</b>	<b>208,462</b>	<b>11.2%</b>	<b>36,914</b>	<b>2.5%</b>
Income tax expenses	(29,950)	(2.2%)	(100,367)	(5.4%)	(18,104)	(1.2%)
<b>Profit for the year</b>	<b>89,185</b>	<b>6.4%</b>	<b>108,095</b>	<b>5.8%</b>	<b>18,810</b>	<b>1.3%</b>
<b>Other comprehensive income that may be reclassified to profit or loss in subsequent periods</b>						
Exchange differences on translation of foreign operations	(311)	(0.0%)	471	0.0%	3,437	0.2%
<b>Total comprehensive income for the year attributable to owners of the Company</b>	<b>88,874</b>	<b>6.4%</b>	<b>108,566</b>	<b>5.8%</b>	<b>22,247</b>	<b>1.5%</b>
<b>Adjusted profit for the year<sup>(1)</sup> (unaudited)</b>	<b>90,159</b>	<b>6.5%</b>	<b>170,289</b>	<b>9.2%</b>	<b>39,664</b>	<b>2.7%</b>

Note:

- (1) Adjusted profit for the year/period is derived by excluding (i) expenses relating to the Listing, which mainly consist of the aggregate fees paid to the Sole Sponsor, legal and other professional fees, printing and other expenses, (ii) change in fair value of convertible bonds, and (iii) interest expenses and foreign exchange loss in relation to non-convertible bonds and convertible bonds. Please refer to section headed “Financial Information – Non-IFRS Measures” for details.

## FINANCIAL INFORMATION

### PRINCIPAL COMPONENTS OF OUR INCOME STATEMENT

#### Revenue

Our revenue consists of sales of our principal products, urea, and by-products which include methanol, liquid carbon dioxide and LNG. For the years ended 31 December 2014, 2015 and 2016, our revenue amounted to RMB1,383.9 million, RMB1,859.3 million and RMB1,457.5 million, respectively. The major source of our revenue during the Track Record Period was from the sales of urea. During the Track Record Period, all of our revenue was derived from our sales in the PRC.

For the sales of products, we recognise revenue when the significant risks and ownership have been transferred, the title has been passed to the buyer and the amount of revenue can be measured reliably, provided that we maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. This usually happens at the time when products are delivered and the customers have accepted the goods.

The following table sets forth our revenue by product for the periods indicated.

	For the year ended 31 December					
	2014	2015		2016		
	<i>(RMB'000, except percentages)</i>					
<b>Revenue by product</b>						
Urea	1,255,193	90.7%	1,719,671	92.5%	1,308,987	89.8%
Liquid carbon dioxide	10,894	0.8%	19,534	1.1%	25,142	1.7%
Methanol	114,012	8.2%	116,373	6.3%	114,879	7.9%
LNG	–	–	2,669 <sup>(2)</sup>	0.1%	7,606	0.5%
Other(s) <sup>(1)</sup>	3,783	0.3%	1,053	0.0%	909	0.1%
<b>Total</b>	<b>1,383,882</b>	<b>100.0%</b>	<b>1,859,300</b>	<b>100.0%</b>	<b>1,457,523</b>	<b>100.0%</b>

*Note:*

- (1) Other product is liquid ammonia.
- (2) The revenue for LNG is calculated based on the sales volume of LNG sold by our Group in 2015, which included LNG produced during the trial production stage during the construction of the LNG production facility.

## FINANCIAL INFORMATION

The following table sets forth our revenue derived from sales of urea by different types of urea based on our management accounts for the periods indicated.

	For the year ended 31 December					
	2014		2015		2016	
	(unaudited)		(unaudited)		(unaudited)	
	<i>(RMB'000, except percentages)</i>					
<b>Revenue from different types of urea</b>						
Small granular urea	1,255,193	100%	1,658,351	96%	1,220,862	93%
Large granular urea	-	-	61,320	4%	88,125	7%
<b>Total</b>	<b>1,255,193</b>	<b>100%</b>	<b>1,719,671</b>	<b>100%</b>	<b>1,308,987</b>	<b>100%</b>

The following table sets forth our total sales volume of our urea and methanol products for the periods indicated.

	For the year ended 31 December		
	2014	2015	2016
	<i>(tonne)</i>		
<b>Sales volume</b>			
Urea	823,892	1,173,509	1,211,208
Liquid carbon dioxide	52,959	115,544	128,727
Methanol	67,746	86,643	83,198
LNG	-	1,006 <sup>(1)</sup>	3,486

*Note:*

- (1) the sales volume of LNG in 2015 included LNG produced during the trial production stage during the construction of the LNG production facility.

## FINANCIAL INFORMATION

### Cost of sales

Our cost of sales consists of purchase of raw materials, electricity, labour, and manufacturing overhead. For the years ended 31 December 2014, 2015 and 2016, our cost of sales amounted to RMB1,150.3 million, RMB1,406.3 million and RMB1,307.8 million, respectively.

The following table sets forth the our cost of sales by its components for the periods indicated.

	For the year ended 31 December						
	2014			2015			2016
	<i>(RMB'000, except percentages)</i>						
<b>Cost of sales by components</b>							
Raw materials of which:	634,526	55.2%	702,563	50.0%	562,387	43.0%	
Anthracite	532,697	46.3%	609,828	43.4%	470,765	36.0%	
Bituminous coal	101,829	8.9%	92,735	6.6%	91,622	7.0%	
Electricity	331,222	28.7%	455,391	32.4%	465,300	35.6%	
Manufacturing overhead	147,082	12.8%	207,056	14.7%	230,003	17.6%	
Labour	37,430	3.3%	41,311	2.9%	50,079	3.8%	
<b>Total</b>	<b>1,150,260</b>	<b>100.0%</b>	<b>1,406,321</b>	<b>100.0%</b>	<b>1,307,769</b>	<b>100.0%</b>	

Raw materials consist primarily of anthracite and bituminous coal. Anthracite has historically represented the largest component of our raw materials, comprising approximately 46.3%, 43.4% and 36.0% of our total cost of sales for the years ended 31 December 2014, 2015 and 2016, respectively.

The costs of electricity, which refer to the costs of the electricity purchased from national electricity grid, were RMB331.2 million, RMB455.4 million and RMB465.3 million, accounting for 28.7%, 32.4% and 35.6% of our total costs of sales, for the years ended 31 December 2014, 2015 and 2016, respectively.

Labour costs primarily consist of wages, salaries and social welfare for our employees directly involved in our production process. For the years ended 31 December 2014, 2015 and 2016, our labour cost amounted to RMB37.4 million, RMB41.3 million and RMB50.1 million.

Manufacturing overhead primarily consists of the costs of packaging materials and depreciation. For the years ended 31 December 2014, 2015 and 2016, our manufacturing overhead amounted to RMB147.1 million, RMB207.1 million and RMB230.0 million.

### Gross Profit

For the years ended 31 December 2014, 2015 and 2016, our gross profit amounted to RMB233.6 million, RMB453.0 million and RMB149.8 million, respectively. For the same period, our gross profit margin was 16.9%, 24.4% and 10.3%, respectively.

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The following table sets forth our gross profit margin by product for the periods indicated.

	For the year ended 31 December		
	2014	2015	2016
<b>Gross profit margin</b>			
Urea	16.9%	25.9% <sup>(1)</sup>	9.6% <sup>(1)</sup>
Liquid carbon dioxide	44.4%	37.5%	39.5%
Methanol	14.3% <sup>(2)</sup>	0.3% <sup>(2)</sup>	11.2% <sup>(2)</sup>
LNG	–	4.4%	9.7%

*Notes:*

- (1) The decrease in gross profit margin of urea from 25.9% in 2015 to 9.6% in 2016 was primarily due to (i) the decrease in the market price of urea from 2015 to 2016, which was higher than the level of decrease in the market price of coal during the same periods; and (ii) the cancellation of VAT exemption on the sales of urea since 1 September 2015, which resulted in increased tax costs.
- (2) The decrease in gross profit margin of methanol from 14.3% in 2014 to 0.3% in 2015 was primarily due to significant decline in the market price of methanol from 2014 to 2015. The subsequent increase in gross profit margin of methanol from 0.3% in 2015 to 11.2% in 2016 was due to the combined effect of the small increase in market price of methanol and the decreased raw material price from 2015 to 2016.

### Other income

Our other income consist of government grants, bank interest income, dividend of financial assets at fair value through profit or loss, sales of scrap materials, compensation income and others. Government grants have been received from the local government in relation to environmental protection. Bank interest income refers to the interest gained from our bank deposits. Dividend of financial assets at fair value through profit or loss refers to the income generated from our bank wealth management product and listed capital fund denominated in Renminbi with maturity within two months. Sales of scrap materials refer to the sales of parts and components undertaken by us as we upgraded our production facilities. Compensation income refers to compensation under insurance policies covers our facilities. For the years ended 31 December 2014, 2015 and 2016, our other income amounted to RMB6.2 million, RMB7.8 million and RMB9.9 million, respectively.

The following table sets forth our other income for the periods indicated.

	For the year ended 31 December		
	2014	2015	2016
		<i>(RMB'000)</i>	
<b>Other income</b>			
Government grants	3,472	4,770	8,063
Bank interest income	1,567	832	826
Dividend of financial assets at fair value through profit or loss	247	–	–
Sales of scrap materials	59	49	164
Compensation income	–	1,324	–
Others	850	804	871
<b>Total</b>	<b>6,195</b>	<b>7,779</b>	<b>9,924</b>

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## FINANCIAL INFORMATION

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### Other gains and losses, net

Our net other gains and losses consist of foreign exchange gain or loss, impairment loss on property, plant and equipment and loss on disposal, plant and equipment. For the years ended 31 December 2014, 2015 and 2016, our net other gains and losses, amounted to a net gain of RMB0.1 million, net losses of RMB50.6 million and net losses of RMB10.7 million, respectively. Foreign exchange gain/(loss), the primary loss item in 2016, primarily consists of the losses or gains due to exchange difference on non-convertible bonds and convertible bonds denominated in U.S. dollars. Impairment loss on property, plant and equipment and the one-off loss on disposal of property, plant and equipment primarily consist of losses incurred in our disposal of Old Plant in 2015.

The following table sets forth our other gains and losses for the periods indicated.

	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(RMB'000)</i>		
<b>Other gains and losses</b>			
Foreign exchange gain/(loss)	133	(14,290)	(10,661)
Impairment loss on property, plant and equipment	–	(13,275)	–
Loss on disposal of property, plant and equipment	–	(23,016)	–
	–	(23,016)	–
<b>Total</b>	<b>133</b>	<b>(50,581)</b>	<b>(10,661)</b>

### Distribution expenses

Distribution expenses primarily consist of travelling and transportation expenses, salaries and bonuses, social insurance and other expenses incurred by our sales and marketing team in the ordinary course of business. We typically determine the bonuses based on the overall business performance of our Group during the period. For the years ended 31 December 2014, 2015 and 2016, our distribution expenses amounted to RMB23.3 million, RMB25.8 million and RMB2.1 million, respectively. The significant decrease in our travelling and transportation costs from RMB24.2 million in 2015 to RMB0.1 million in 2016 was primarily due to our new arrangement with customers which requires them to bear the railway transportation expenses since September 2015.

The following table sets forth our distribution expenses for the periods indicated.

	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(RMB'000)</i>		
<b>Distribution expenses</b>			
Salaries and bonuses	1,008	1,197	1,412
Social insurance	290	358	430
Travelling and transportation	21,815	24,175	118
Others	149	110	115
	149	110	115
<b>Total</b>	<b>23,262</b>	<b>25,840</b>	<b>2,075</b>

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## FINANCIAL INFORMATION

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### Administrative expenses

Administrative expenses primarily consist of expenses incurred in the ordinary course of business, such as salaries and provision of welfare benefits for our administrative employees, social insurance, depreciation, travelling and transportation expenses, charges for sewage, electricity and water, land use fees, consultation fees, legal and professional fees, other taxes and other miscellaneous administrative expenses such as testing expenses, motor vehicle expenses, bank charges and security, as well as the expenses in relation to the Listing, such as listing expenses. For the years ended 31 December 2014, 2015 and 2016, our administrative expenses amounted to RMB43.1 million, RMB62.7 million and RMB49.3 million, respectively.

The following table sets forth our administrative expenses for the periods indicated.

	For the year ended 31 December		
	2014	2015	2016
	<i>(RMB'000)</i>		
<b>Administrative expenses</b>			
– Expenses from normal course of business:			
Salaries and staff welfare	9,187	9,522	9,671
Depreciation	12,650	13,032	4,485
Social insurance	1,663	4,339	1,712
Travelling and transportation	1,014	1,241	919
Electricity and water	1,917	2,604	3,086
Other taxes	3,714	4,394	4,394
Land use fees	299	332	332
Sewage charge	1,563	1,940	2,107
Bank charges	664	9,055	2,240
Consultation fees	3,381	2,869	2,642
Legal and professional fees	111	203	346
Others <sup>(1)</sup>	5,956	7,446	7,075
– Expenses in relation to the Listing:			
Listing expenses	974	5,698	10,255
<b>Total</b>	43,093	62,675	49,264

*Note:*

(1) Other administrative expenses include testing expenses, motor vehicle expenses and security expenses.

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## FINANCIAL INFORMATION

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### Finance costs

Our finance costs consist primarily of interest expense on bank borrowings and non-convertible and convertible bonds. For the years ended 31 December 2014, 2015 and 2016, our finance costs amounted to RMB54.5 million, RMB82.7 million and RMB68.1 million, respectively.

The following table sets forth our finance costs for the periods indicated. Please refer to Note 10, 28, 30 and 31 of Section II to the Accountants' Report included in the Appendix I to this prospectus for details.

	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
		<i>(RMB'000)</i>	
Interest expense in relation to:			
Bank and other loans wholly repayable within five years	42,370	72,778	55,978
Non-convertible bonds and convertible bonds	–	13,309	12,143
Advance from a related party wholly repayable within five years	34,595	–	–
	76,965	86,087	68,121
Less: Amount capitalised	(22,505)	(3,404)	–
<b>Total</b>	<b>54,460</b>	<b>82,683</b>	<b>68,121</b>

### Income tax expenses

We are subject to income tax on an entity basis on the profit arising or derived from the tax jurisdictions in which we are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, our Company and our subsidiaries incorporated in the Cayman Islands and British Virgin Islands are not subject to any income tax. The statutory PRC corporate income tax rate is 25% of an enterprise's taxable income, as reported in its statutory accounts, which are prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Our Directors confirm that we have made all the required tax filings under the relevant tax laws and regulations in the relevant jurisdictions where we conduct our business and have paid all outstanding tax liabilities, and that we are not subject to any dispute or potential dispute with the tax authorities.



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## FINANCIAL INFORMATION

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No provision for Hong Kong profit tax has been made in the consolidated statements of profit or loss and other comprehensive income as we had no assessable profits derived from or earned in Hong Kong during the Track Record Period.

Our effective income tax rates for the years ended 31 December 2014, 2015 and 2016 were 25.1%, 48.2% and 49.0%, respectively. Our relatively high effective income tax rate in 2015 was primarily due to our expenses on withholding tax on dividends of RMB8.0 million, withholding tax on unremitted earnings of RMB23.9 million and the interest expense, foreign exchange loss and fair value loss in relation to the CCCO Bonds and CCCO CB were not deductible as they were incurred by a company incorporated in the Cayman Islands which is not subject to income tax, which were nil in 2014. The distribution of dividend and unremitted earnings is expected to be within three years. Our effective income tax rate for 2016 was 49.0% primarily because the interest expense and foreign exchange loss were not deductible as they were incurred by our Company which was incorporated in the Cayman Islands and is therefore not subject to income tax.

For the years ended 31 December 2014, 2015 and 2016, our income tax expenses amounted to RMB30.0 million, RMB100.4 million and RMB18.1 million, respectively. The significant variation of the amount of income tax expenses during the Track Record Period is primarily due to (i) the fluctuation of our profit before income tax during the Track Record Period, which was approximately RMB119.1 million, RMB208.5 million and RMB36.9 million for the years ended 31 December 2014, 2015 and 2016, respectively. As a result, the changes of our income tax expenses had followed the same trend. For detailed information regarding the reason of the fluctuation of our profit before income tax, please refer to the subsection headed “– Results of Operations” in this section; and (ii) certain tax non-deductible expenses or losses during the Track Record Period, including the expenses on withholding tax on dividends and withholding tax on unremitted earnings in 2015 and the interest expense and foreign exchange loss in relation to the CCCO Bonds and CCCO CB in 2015 and 2016. The reconciliation between the statutory tax expenses and the effective tax rate is disclosed in Note 11 of Section II to the Accountants’ Report as set out in Appendix I to this prospectus.

### NON-IFRS MEASURES

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use adjusted profit/loss as an additional measure. We present these financial measures because they are used by our management to evaluate our financial performance by excluding the impact of items that we do not consider indicative to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

#### Adjusted Profit

We define adjusted profit as profit for the year/period excluding (i) Listing expenses, which mainly consist of the aggregate fees paid to the professional parties, printing and other expenses, (ii) change in fair value of convertible bonds, and (iii) interest expenses and foreign exchange loss in relation to non-convertible bonds and convertible bonds. The term of adjusted profit is not defined under IFRS. The use of adjusted profit has material limitation as an analytical tool, as it does not include all items that impact our profit or loss for the relevant periods. Items excluded from adjusted profit are significant components in understanding and assessing our operating and financial performance.

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## FINANCIAL INFORMATION

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The following table reconciles our adjusted profit for the periods presented to the IFRS profit/loss for the periods indicated:

	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(RMB'000)</i>		
<b>Profit for the year</b>	<b>89,185</b>	<b>108,095</b>	<b>18,810</b>
Add:			
Listing-related expenses	974	5,698	10,255
Change in fair value of convertible bonds	–	30,517	(8,701)
Interest expense in relation to non-convertible bonds and convertible bonds	–	13,309	12,143
Foreign exchange loss in relation to non-convertible bonds and convertible bonds	–	12,670	7,157
<b>Adjusted profit for the year</b>	<b>90,159</b>	<b>170,289</b>	<b>39,664</b>

In light of the foregoing limitations for these non-IFRS measures, when assessing our operating and financial performance, you should not consider adjusted profit in isolation or as a measure that is calculated in accordance with IFRS. In addition, because these non-IFRS measures may not be calculated in the same manner by all companies, it may not be comparable to other similarly titled measures used by other companies.

### RESULTS OF OPERATIONS

#### Year ended 31 December 2015 compared with year ended 31 December 2016

##### *Revenue*

Our consolidated revenue decreased by RMB401.8 million, or 21.6%, from RMB1,859.3 million for the year ended 31 December 2015 to RMB1,457.5 million for the year ended 31 December 2016.

##### Revenue by product

*Urea.* Revenue from sales of our urea products decreased by RMB410.7 million, or 23.9%, from RMB1,719.7 million for the year ended 31 December 2015 to RMB1,309.0 million for the year ended 31 December 2016, primarily due to a decrease in the average selling price of our urea by RMB384.7 per tonne, or 26.3%, from RMB1,465.4 per tonne for the year ended 31 December 2015 to RMB1,080.7 per tonne for the year ended 31 December 2016. In comparison, the sales volume of our urea products increased by 37,699.4 tonnes, or 3.2% from 1,173,509 tonnes for the year ended 31 December 2015 to 1,211,208 tonnes for the year ended 31 December 2016, primarily due to our efforts to improve our production efficiency which enables us to increase our production volume to meet customers demand and to maintain our long-term relationship with customers.

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## FINANCIAL INFORMATION

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*Methanol.* Revenue from sales of our methanol products remained relatively stable, with a slight decrease by RMB1.5 million, or 1.3%, from RMB116.4 million for the year ended 31 December 2015 to RMB114.9 million for the year ended 31 December 2016.

### *Cost of sales*

Our cost of sales decreased by RMB98.6 million, or 7.0%, from RMB1,406.3 million for the year ended 31 December 2015 to RMB1,307.8 million for the year ended 31 December 2016, primarily due to the significant decrease in our average purchase price of anthracite coal and bituminous coal, which resulted in a decrease in our costs of raw materials by RMB140.2 million, or 20.0%, from RMB702.6 million for the year ended 31 December 2015 to RMB562.4 million for the year ended 31 December 2016. Accordingly, our cost of sales of urea decreased by RMB92.0 million, or 7.2%, from RMB1,274.8 million for the year ended 31 December 2015 to RMB1,182.8 million for the year ended 31 December 2016, which was consistent with the level of decrease in our overall cost of sales.

### *Gross profit*

Our gross profit decreased by RMB303.2 million, or 66.9%, from RMB453.0 million for the year ended 31 December 2015 to RMB149.8 million for the year ended 31 December 2016, primarily due to the decrease in revenue resulting from (i) the significant decrease in our selling price of urea and (ii) the charge of VAT since September 2015, which was exempted prior to 1 September 2015. As urea is a commodity, its prevailing market prices are typically determined by both supply and demand. According to Frost & Sullivan, at the time of cancellation of the VAT exemption in September 2015, there was an oversupply of urea products from small-sized and inefficient urea producers. Due to the then temporary oversupply, urea price was kept at a low level, making it difficult for the urea producers to pass on the increased VAT costs to their customers by immediately raising their selling prices of urea products in a short period of time. The market price of urea remained at a low level until the supply and demand has gradually rebalanced in the second half of 2016, which was largely due to the phasing out of small-sized and inefficient urea producers. Therefore, the joint effect of the increase in VAT costs and a low price level across 2015 and 2016 had a significant impact on the profitability of our Group. For additional information, please refer to the paragraphs headed “PRC Regulations – Legal Supervision Over Taxation in China – Value-added Tax”, “Risk Factors – Changes in taxation policies of chemical fertilisers may materially and adversely affect our operating results”, “Business – Sustainability of our business – v. Measures to alleviate the risk of urea price fluctuation” and “Business – Changes in Five largest suppliers during the Track Record Period” in this prospectus. As a result, our gross margin decreased from 24.4% for the year ended 31 December 2015 to 10.3% for the year ended 31 December 2016.

### *Other income*

Other income increased by RMB2.1 million, or 27.6%, from RMB7.8 million for the year ended 31 December 2015 to RMB9.9 million for the year ended 31 December 2016, primarily due to a recognition of a non-recurrent government grant of approximately RMB5.0 million related to environmental protection received in August 2016.

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### *Other gains and losses, net*

We recorded net other losses of RMB50.6 million for the year ended 31 December 2015 from (i) foreign exchange movements; (ii) impairment and disposal of plant and equipment in Old Plant amounting to approximately RMB36.3 million; and (iii) foreign exchange loss of approximately RMB14.3 million. Net other losses of RMB10.7 million was incurred for the year ended 31 December 2016 primarily due to a foreign exchange loss from non-convertible and convertible bonds.

### *Administrative expenses*

Administrative expenses slightly decreased by RMB13.4 million, or 21.4%, from RMB62.7 million for the year ended 31 December 2015 to RMB49.3 million for the year ended 31 December 2016 primarily due to (i) a decrease in depreciation by disposal of Old Plant; (ii) a decrease of bank charges, such as bank handling fees and arrangement fees, as a result of a reduced amount of new loans incurred in 2016; and (iii) a decrease in the provision made for work-related injury insurance in 2016; partially offset by an increase in the expenses in relation to the Listing.

### *Distribution expenses*

Distribution expenses decreased by RMB23.7 million, or 92.0%, from RMB25.8 million for the year ended 31 December 2015 to RMB2.1 million for the year ended 31 December 2016 primarily due to our new arrangement with customers which requires them to bear the railway transportation expenses since September 2015.

### *Finance costs*

Finance costs decreased by RMB14.6 million, or 17.6%, from RMB82.7 million for the year ended 31 December 2015 to RMB68.1 million for the year ended 31 December 2016, primarily due to the refinancing of the non-convertible bonds and convertible bonds with lower interest rate during the year.

### *Profit before income tax*

As a result of the factors described above, profit before income tax decreased by RMB171.6 million, or 82.3%, from RMB208.5 million for the year ended 31 December 2015 to RMB36.9 million for the year ended 31 December 2016.

### *Income tax expenses*

Our income tax expenses decreased by RMB82.3 million, or 82.0%, from RMB100.4 million for the year ended 31 December 2015 to RMB18.1 million for the year ended 31 December 2016 primarily due to a decrease in profit before income tax.

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### *Profit for the year*

As a result of the foregoing, our profit for the year decreased by RMB89.3 million, or 82.6%, from RMB108.1 million for the year ended 31 December 2015 to RMB18.8 million for the year ended 31 December 2016. Our profit margin decreased from 5.8% for the year ended 31 December 2015 to 1.3% for the year ended 31 December 2016.

### **Year ended 31 December 2014 compared with year ended 31 December 2015**

#### *Revenue*

Our consolidated revenue increased by RMB475.4 million, or 34.4%, from RMB1,383.9 million for the year ended 31 December 2014 to RMB1,859.3 million for the year ended 31 December 2015.

#### Revenue by product

*Urea.* Revenue from sales of our urea products increased by RMB464.5 million, or 37.0%, from RMB1,255.2 million for the year ended 31 December 2014 to RMB1,720 million for the year ended 31 December 2015. Although the average selling price of our urea decreased by RMB58 per tonne, or 3.8%, from RMB1,524 per tonne for the year ended 31 December 2014 to RMB1,465 per tonne for the year ended 31 December 2015, the sales volume of our urea increased by 349,617 tonnes, or 42.4%, from 823,892 tonnes for the year ended 31 December 2014 to 1,173,509 tonnes for the year ended 31 December 2015, primarily due to a four-month operation of Plant One following its completion of construction in August 2014 as compared to a 12-month operation in 2015.

*Methanol.* Revenue from sales of our methanol products increased by RMB2.4 million, or 2.1%, from RMB114 million for the year ended 31 December 2014 to RMB116 million for the year ended 31 December 2015, primarily because the sales volume of our methanol products increased partially offset by the decrease in the average selling price of our methanol products.

#### *Cost of sales*

Our cost of sales increased by RMB256.0 million, or 22.3%, from RMB1,150.3 million for the year ended 31 December 2014 to RMB1,406.3 million for the year ended 31 December 2015. The increase was primarily due to (i) an increase in cost of coal resulting from an increase in production volume in Plant One following its completion of construction in August 2014, which was partially offset by a decrease in the market price of anthracite and bituminous coal, which are the major raw materials for urea production, during the same period, (ii) an increase in electricity fees due to our increased production volume from Plant One, (iii) an increase in manufacturing overhead due to increased consumption from increased production capacity as a result of the significant technological upgrade of Plant One and price increases of spare parts and consumables, and (iv) an increase in staff costs paid to our employees involved in production due to increased salaries, bonuses and staff allowance while our headcount remained relatively stable.

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Our cost of sales of urea increased by RMB231.8 million, or 22.2%, from RMB1,043.0 million for the year ended 31 December 2014 to RMB1,274.8 million for the year ended 31 December 2015, primarily due to our expanded production volume of urea at Plant One, which was partially offset by decreases in purchase prices of anthracite and bituminous coal, the major raw materials used for the production of our urea products.

### *Gross profit*

Our gross profit increased by RMB219.4 million, or 93.9%, from RMB233.6 million for the year ended 31 December 2014 to RMB453.0 million for the year ended 31 December 2015. This increase was primarily driven by the revenue increase due to our expanded production volume. Such increased in production capacity allowed us to benefit from the enlarged economies of scale during the full year of 2015 and the new plant is equipped with more advanced technologies which led to better urea production yield. This in turn led to a reduction in the unit production cost of urea in 2015. The increase in gross profit margin was also attributable to the introduction of a new production line in December 2014 which enabled us to transform small granular urea products to large granular urea products (with a diameter normally ranging from 2.6 mm to 4.75 mm) where large granular urea products generally have higher average selling price and thus higher gross profit margin given similar unit cost of production. As a result, our gross margin increased from 16.9% for the year ended 31 December 2014 to 24.4% for the year ended 31 December 2015.

### *Other income*

Other income increased by RMB1.6 million, or 25.6%, from RMB6.2 million for the year ended 31 December 2014 to RMB7.8 million for the year ended 31 December 2015. This increase was primarily due to (i) recognition of government grants related to environmental protection, deferred and released to profit or loss over the expected useful life of the relevant assets and (ii) a non-recurrent compensation income received for compensating the damaged machines and power supply facilities from a third party in 2015.

### *Other gains and losses, net*

We recorded net other gains of RMB0.1 million for the year ended 31 December 2014 due to foreign exchange movement. We recorded net other losses of RMB50.6 million for the year ended 31 December 2015 resulting from (i) foreign exchange movements and (ii) impairment and disposal of plant and equipment in Old Plant.

### *Administrative expenses*

Administrative expenses increased by RMB19.6 million, or 45.4%, from RMB43.1 million for the year ended 31 December 2014 to RMB62.7 million for the year ended 31 December 2015. This increase was primarily due to (i) an increase in bank charges resulting from arranging new bank loans, settlements of 2014 Entrusted Loan and 2015 Entrusted Loan and the issuance of PNB-SBI Exchangeable Notes, CCCO Bonds and CCCO CB, (ii) an increase in our listing expenses incurred in 2015, and (iii) an increase in payment of outstanding housing provident fund contribution for our employees.

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### *Distribution expenses*

Distribution expenses increased by RMB2.5 million, or 11.1%, from RMB23.3 million for the year ended 31 December 2014 to RMB25.8 million for the year ended 31 December 2015 primarily due to an increase in travelling and transportation expenses resulted from an increase in our sales volume, which was slightly offset by the exclusion of payments of railway transportation fees for customers since September 2015.

### *Finance costs*

Finance costs increased by RMB28.2 million, or 51.8%, from RMB54.5 million for the year ended 31 December 2014 to RMB82.7 million for the year ended 31 December 2015 primarily due to (i) the payment of interest expense in relation to bank loans wholly payable within five years resulting from the 2014 Entrusted Loan and 2015 Entrusted Loan. We repaid the principal in full in March 2015, April 2015 and December 2015, respectively, (ii) the incurrence of interest from non-convertible bonds and convertible bonds issued in 2015, and (iii) a decrease in capitalised financial costs due to completion of construction of Plant One in 2014. Such increase was offset by the interest expense in relation to advance from Zhaohe.

### *Profit before income tax*

As a result of the factors described above, profit before income tax increased by RMB89.4 million, or 75.0%, from RMB119.1 million for the year ended 31 December 2014 to RMB208.5 million for the year ended 31 December 2015.

### *Income tax expenses*

Our income tax expense increased by RMB70.4 million, or 235.1%, from RMB30.0 million for the year ended 31 December 2014 to RMB100.4 million for the year ended 31 December 2015 primarily due to (i) the increase in our profit before tax withholding tax on dividends, and (ii) withholding tax on unremitted earnings.

### *Profit for the year*

As a result of the foregoing, our profit for the year increased by RMB18.9 million, or 21.2%, from RMB89.2 million for year ended 31 December 2014 to RMB108.1 million for the year ended 31 December 2015. Our profit margin decreased from 6.4% for the year ended 31 December 2014 to 5.8% for the year ended 31 December 2015.

## **LIQUIDITY AND CAPITAL RESOURCES**

We have historically financed our operations primarily through a combination of cash flows from operations and short-term and long-term borrowings. We require cash for our working capital requirements, such as product manufacturing and development. Capital expenditures related to the development of new production facilities and the purchases of property, plant and equipment. Our primary uses of funds has been working capital, capital expenditures, and repayments of short-term and long-term borrowings. Any significant decrease in demand for, or pricing of, our products or a significant decrease in the availability of bank loans may adversely impact our liquidity. We did not experience any difficulties in rolling over our bank borrowings during the Track Record Period and up to the Latest Practicable Date.

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### Cash Flows

Our Group's cash and bank balances were RMB98.5 million, RMB222.2 million and RMB162.4 million as at 31 December 2014, 2015 and 2016, respectively. The following table sets forth our cash flows for the periods indicated.

	For the year ended 31 December		
	2014	2015	2016
	<i>(RMB'000)</i>		
Net cash generated from operating activities	361,484	306,972	89,940
Net cash (used in)/generated from investing activities	(489,250)	69,687	(36,975)
Net cash generated from/(used in) financing activities	9,042	(253,429)	(116,170)
Net (decrease)/increase in cash and cash equivalents	(118,724)	123,230	(63,205)
Cash and cash equivalents at beginning of year	217,545	98,510	222,211
Effect on foreign exchange rate changes	(311)	471	3,437
Cash and cash equivalents at end of year	98,510	222,211	162,443

### Net cash generated from operating activities

We derived operating cash inflow from the sales of our products. Our cash outflow to operating activities is principally for the purchase of production raw materials and other operating costs such as staff costs and utilities.

For the year ended 31 December 2016, we had net cash generated from operating activities of RMB89.9 million, which was primarily attributable to (i) operating profits before working capital changes of RMB244.6 million reflecting profit before income tax as adjusted positively by depreciation of property, plant and equipment of RMB143.0 million, (ii) exchange difference on non-convertible bonds, convertible bonds and other borrowings of RMB10.5 million and (iii) interest expenses of RMB68.1 million. Such adjustment was offset by fair value gain on convertible bonds of RMB8.7 million. Decrease in working capital was primarily attributable to a set of factors including: (i) an increase in prepayments, deposits and other receivables of RMB88.0 million as a result of an increase in prepaid VAT and other taxes, (ii) an increase in deposits received, other payables and accruals of RMB28.6 million due to no substantial technological upgrade projects and improvements after completion of construction of Plant One in 2014, (iii) income tax paid of RMB8.6 million, (iv) a decrease in deferred revenue of RMB5.2 million due to one-off refund of government grants caused by unsatisfactory local economic performance of local government, and (v) an increase in inventories of RMB7.6 million due to increase in balance of raw materials.



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For the year ended 31 December 2015, we had net cash generated from operating activities of RMB307.0 million, which was primarily attributable to (i) operating profits before working capital changes of RMB507.1 million adjusted positively by depreciation of property, plant and equipment, (ii) interest expense of RMB82.7 million, (iii) loss on disposal of property, plant and equipment of RMB23.0 million, (iv) impairment loss on property, plant and equipment of RMB13.3 million and exchange difference on non-convertible bonds and convertible bonds of RMB12.7 million and (v) fair value loss on convertible bonds of RMB30.5 million. Decrease in working capital was primarily attributable to (i) income taxes paid of RMB113.4 million, (ii) a decrease in deposits received, other payables and accruals of RMB107.1 million resulting from decrease in outstanding purchase orders yet to be delivered and completion of construction of Plant One in 2014, and (iii) a decrease in trade payables of RMB9.4 million due to settlements for purchase of raw materials, partially offset by the deferred revenue as a result of receipts of government grants for replacing plants and machinery in meeting the requirements of environmentally friendly schemes from the PRC government.

For the year ended 31 December 2014, we had net cash generated from operating activities of RMB361.5 million, which was primarily attributable to operating profits before working capital changes of RMB267.7 million adjusted positively by depreciation of property, plant and equipment and interest expense. Increase in working capital was primarily attributable to (i) an increase in deposits received, other payables and accruals of RMB93.1 million resulting from increase in outstanding purchase order yet to be delivered and purchase of equipment and construction cost for technological upgrade at Plant One, (ii) an increase in trade payables of RMB12.9 million resulting from increase in purchase of coal in response to expansion of urea production capacity despite the decrease in average purchase price of coal, and (iii) a decrease in notes receivables of RMB10.4 million due to settlement of trade payables and increase in deferred revenue due to government grants successfully applied for construction of Plant One.

### **Net cash flow (used in)/generated from investing activities**

During the Track Record Period, our cash outflow in investing activities was primarily used to purchase and pay for deposits for property, plant and equipment to cater for our growing production needs and expand our production capacity. Our cash inflow in investing activities was primarily attributable to proceeds of financial assets at fair value through profit or loss.

For the year ended 31 December 2016, our net cash used in investing activities was RMB37.0 million, which was primarily due to (i) purchase of property, plant and equipment of RMB31.8 million in relation to continuous technological upgrade works and environmentally friendly improvement works for Plant Two, and (ii) an increase in restricted bank deposits of RMB6.0 million in relation to the secure short-term bank borrowings of RMB20 million.

For the year ended 31 December 2015, our net cash generated from investing activities was RMB69.7 million, which was primarily due to (i) a decrease in amounts due from shareholders of RMB174.7 million in relation to our buyback of 39.2% equity interest of Sino Emirates from a preceding shareholder, (ii) proceeds from disposal of property, plant and equipment of RMB22.0 million in relation to disposal of Old Plant, and (iii) a decrease in amounts due from officers of RMB16.7 million as the officer has purchased an office in Beijing on behalf of our Group in 2015. Such cash inflow was partially offset by purchase of property, plant and equipment of RMB150.5 million in relation to continuous technological upgrade works performed in connection with Plant Two.

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For the year ended 31 December 2014, our net cash used in investing activities was RMB489.3 million, which was primarily due to (i) purchase of property, plant and equipment of RMB345.3 million in relation to construction of Plant One for new production assembly lines and continuous technological upgrade works performed for Plant Two, (ii) an increase in amounts due from shareholders of RMB172.2 million in relation to advance made for our buyback of 39.2% equity interest of Sino Emirates, (iii) an increase in amounts due from officers for advances to an officer to acquire our Beijing office, and (iv) purchase of financial assets at fair value through profit or loss in relation to unlisted funds and bank wealth management products of RMB26.1 million. Such cash outflow was partially offset by proceeds from disposal of financial assets at fair value through profit or loss of RMB70.1 million in relation to bank wealth management products and listed market funds.

### **Net cash flow generated from/(used in) financing activities**

During the Track Record Period, our financing cash inflow was primarily attributable to the utilisation of banking facilities, drawdown of bank and other borrowings and issuance of non-convertible bonds and convertible bonds.

For the year ended 31 December 2016, our net cash used in financing activities was RMB116.2 million, which was primarily due to (i) the repayment of bank and other borrowings of RMB603.8 million, (ii) repayment of convertible and non-convertible bonds in an aggregate amount of RMB226.5 million, and (iii) payment of RMB64.8 million interest, largely refinanced by the drawdown of bank and other borrowings of RMB778.9 million in relation to purchase of coal and settlement of prior year short-term bank borrowings.

For the year ended 31 December 2015, our net cash used in financing activities was RMB253.4 million, which was primarily due to (i) repayment of bank and other borrowings of RMB973.4 million mainly due to settlement of 2014 Entrusted Loan and 2015 Entrusted Loan, (ii) dividend paid in the amount of RMB171.3 million, (iii) interest paid of RMB80.3 million in relation to interest that incurred by bank and other borrowings, convertible bonds and non-convertible bonds, and (iv) settlement of amount due to shareholders of RMB22.0 million. The settlement of amount due to shareholders was partially offset by (i) drawdown of borrowings of RMB810.0 million in relation to the settlement of the 2014 Entrusted Loan, amounts due from shareholders and the remaining for purchase of coal and property, plant and equipment, (ii) proceeds from issuance of convertible bonds of RMB122.4 million, and (iii) proceeds from issue of non-convertible bonds of RMB61.2 million.

For the year ended 31 December 2014, our net cash generated from financing activities was RMB9.0 million primarily due to (i) a decrease in amounts due to Zhaohe of RMB313.5 million, (ii) repayment of bank and other borrowings of RMB308.5 million, and (iii) interest paid of RMB54.5 million, which was partially offset by a drawdown of borrowings of RMB685.3 million in relation to purchase of property, plant and equipment for continuous technological upgrade works performed for Plant Two and coal procurement for production,

Our Directors confirm that there had not been any material defaults in payments of trade and other payables and bank borrowing or any material covenants relating to our Group's outstanding borrowing during the Track Record Period and up to the Latest Practicable Date.

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Assuming all other variables remain constant, the following sensitivity analysis illustrates the impact of hypothetical fluctuations in average selling price of urea on our cash and cash equivalents for the periods indicated, which is indicative of our working capital and cash flow for the same periods. Based on the historical fluctuation of the selling price of urea during the Track Record Period, fluctuations are assumed to be 4%, 15% and 26% during the Track Record Period.

	As at 31 December		
	2014	2015	2016
	<i>(RMB'000)</i>		
Change in cash and cash equivalents if average selling price of urea increases/(decreases) by 4%	37,656/(37,656)	51,590/(51,590)	39,269/(39,269)
Change in cash and cash equivalents if average selling price of urea increases/(decreases) by 15%	141,210/(141,210)	193,462/(193,462)	147,257/(147,257)
Change in cash and cash equivalents if average selling price of urea increases/(decreases) by 26%	244,764/(244,764)	335,334/(335,334)	255,246/(255,246)

Assuming all other variables remain constant, particularly, without taking into account the impact from the change in the average selling price of urea, the following sensitivity analysis illustrates the impact of hypothetical fluctuations in average unit price of anthracite and bituminous coal on our cash and cash equivalents for the periods indicated, which is indicative of our working capital and cash flow for the same periods. Based on the historical fluctuation of the unit price of anthracite and bituminous coal during the Track Record Period, fluctuations are assumed to be 13%, 20% and 23% during the Track Record Period. The level of fluctuations as to urea price and coal price may differ for various reasons, please refer to the section headed “Industry Overview – Overview of the Urea Market in China – Price and Cost Structure Analysis of Urea” for detailed information.

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	As at 31 December		
	2014	2015	2016
	<i>(RMB'000)</i>		
<b>Average unit price of anthracite coal</b>			
Change in cash and cash equivalents if average unit price increases/ (decreases) by 13%	47,106/(47,106)	53,860/(53,860)	43,214/(43,214)
Change in cash and cash equivalents if average unit price increases/ (decreases) by 20%	72,471/(72,471)	82,862/(82,862)	66,484/(66,484)
Change in cash and cash equivalents if average unit price increases/ (decreases) by 23%	83,342/(83,342)	95,291/(95,291)	76,456/(76,456)
<b>Average unit price of bituminous coal</b>			
Change in cash and cash equivalents if average unit price increases/ (decreases) by 13%	8,524/(8,524)	8,875/(8,875)	9,359/(9,359)
Change in cash and cash equivalents if average unit price increases/ (decreases) by 20%	13,113/(13,113)	13,653/(13,653)	14,398/(14,398)
Change in cash and cash equivalents if average unit price increases/ (decreases) by 23%	15,080/(15,080)	15,701/(15,701)	16,558/(16,558)

The level of fluctuations as to urea price and coal price may differ for various reasons, please refer to the section headed “Industry Overview – Overview of the Urea Market in China – Price and Cost Structure Analysis of Urea” for detailed information. In reality, the changes in urea prices are closely associated with the changes in coal prices. We expect that the fluctuation of the selling prices of our urea products will be in line with the changes in the coal prices, and the future increases in the coal prices will likely to result in the corresponding increases in the selling prices of our urea products. Therefore, the effect of the two may partially offset each other, leaving the working capital and cash flow less affected.

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### NET CURRENT LIABILITY

The following table sets out our current assets and liabilities as at the dates indicated.

	As at 31 December			As at 30 April
	2014	2015	2016	2017
	<i>(RMB'000)</i>			(unaudited)
<b>Current assets</b>				
Inventories	65,959	59,212	66,762	72,627
Prepaid land lease payments	2,343	2,079	2,079	2,079
Prepayments, deposits and other receivables	54,757	43,476	131,503	157,637
Financial assets at fair value through profit or loss	6,000	–	–	–
Income tax recoverable	–	9,638	–	–
Loan receivable	–	–	–	90,224
Amounts due from shareholders	174,689	–	–	–
Amounts due from officers	16,700	–	–	–
Notes receivables	390	2,530	1,170	8,082
Restricted bank deposits	–	–	6,000	11,010
Cash and bank balances	98,510	222,211	162,443	103,786
<b>Total current assets</b>	<b>419,348</b>	<b>339,146</b>	<b>369,957</b>	<b>445,445</b>
<b>Current liabilities</b>				
Trade payables	40,382	30,941	12,955	32,667
Deferred revenue	2,428	3,980	3,130	3,130
Deposits received, other payables and accruals	244,918	137,780	109,137	62,623
Short-term bank and other borrowings	330,000	422,306	494,146	519,813
Long-term bank and other borrowings – current portion	63,093	12,732	43,530	6,926
Income tax payable	16,707	–	4,091	8,165
Amounts due to shareholders	54,720	–	–	–
Non-convertible bonds	–	67,378	–	–
Convertible bonds	–	161,787	–	–
<b>Total current liabilities</b>	<b>752,248</b>	<b>836,904</b>	<b>666,989</b>	<b>633,324</b>
<b>Net current liabilities</b>	<b>(332,900)</b>	<b>(497,758)</b>	<b>(297,032)</b>	<b>(187,879)</b>

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Our net current liabilities decreased from RMB297.0 million as at 31 December 2016 to RMB187.9 million as at 30 April 2017. Such decrease was primarily due to (i) an increase in loan receivable by RMB90.2 million in relation to the amount lent to Min-Silver-Gold Investment Management (Beijing) Co., Ltd. of RMB90.0 million in the nature of entrusted loan based on an entrusted loan agreement among the Dongguang Branch of the Agricultural Bank of China, the borrower and our Group dated 29 December 2016 and accrued interest income of RMB0.2 million for the period; (ii) a decrease in the current portion of the long-term bank and other borrowings by RMB36.6 million in relation to the settlement of the current portion of long-term bank and other borrowings; and (iii) a decrease in deposits received, other payables and accruals by RMB46.5 million mainly in relation to the decrease of customers deposits of RMB32.5 million and decrease of other payables of RMB13.8 million.

Our net current liabilities decreased from RMB497.8 million as at 31 December 2015 to RMB297.0 million as at 31 December 2016. This decrease was primarily due to (i) a decrease in convertible bonds and non-convertible bonds by RMB161.8 million and RMB67.4 million, respectively, as such bonds were settled by cash on 8 August 2016, (ii) a decrease in deposits received, other payables and accruals by RMB28.6 million as no significant technological upgrade after completion of construction of Plant One, (iii) an increase in current portion of long-term bank and other borrowings by RMB30.8 million and an increase in the current portion of short-term bank and other borrowings by RMB71.8 million, and (iv) an increase in prepayments, deposits, and other receivables of RMB88.0 million in relation to the increase in prepayment of electricity, coal suppliers, VAT and other tax.

Our net current liabilities increased from RMB332.9 million as at 31 December 2014 to RMB497.8 million as at 31 December 2015. This increase was primarily due to (i) a decrease in amounts due from shareholders by RMB174.7 million following our repayment of the bridge loan for the purpose of our Reorganisation, and (ii) the issuance of non-convertible bonds (with interests payables) and convertible bonds (with foreign exchange loss and fair value loss) in the amount of RMB67.4 million and RMB161.8 million, respectively, and partially offset by (i) an increase in cash and bank balance by RMB123.7 million, and (ii) a decrease in deposits received, other payables and accruals by RMB107.1 million in relation to the decrease in outstanding purchase orders yet to be delivered and the completion of construction of Plant One in 2014.

### **DISCUSSION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

#### **Inventories**

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is determined on the weighted average or first-in first-out basis. Net realisable value is based on estimated selling prices in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. The value of our inventories amounted for 15.7%, 17.5% and 18.0% of our total current assets as at 31 December 2014, 2015 and 2016, respectively.

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The following table sets forth our inventory balances for raw materials, finished goods and parts and spares as at the dates indicated.

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(RMB'000)</i>		
Raw materials	54,061	43,688	50,914
Finished goods	3,269	10,801	9,827
Parts and spares	8,629	4,723	6,021
<b>Total</b>	<b>65,959</b>	<b>59,212</b>	<b>66,762</b>

The inventory balance of raw materials increased from RMB43.7 million as at 31 December 2015 to RMB50.9 million as at 31 December 2016, primarily due to an increase in our purchase of bituminous coal in 2016. The inventory balance of raw materials decreased from RMB54.1 million as at 31 December 2014 to RMB43.7 million as at 31 December 2015, primarily due to our efforts on the enhancement of raw materials utilisation and management capabilities and the improvement of the production efficiency of our production facilities.

The inventory balance of finished goods slightly decreased from RMB10.8 million as at 31 December 2015 to RMB9.8 million as at 31 December 2016 due to a decrease in inventory balance of methanol by RMB0.8 million. The inventory balance of finished goods increased from RMB3.3 million as at 31 December 2014 to RMB10.8 million as at 31 December 2015, primarily due to increased production capacity due to technological upgrade of Plant One in 2014.

The inventory balance of parts and spares, which are used for the machinery in our production facilities, slightly increased from RMB4.7 million as at 31 December 2015 to RMB6.0 million as at 31 December 2016, primarily due to the continuous repairs, maintenance and improvement of our production facilities on normal operational basis. The inventory balance of parts and spares decreased from RMB8.6 million as at 31 December 2014 to RMB4.7 million as at 31 December 2015, primarily due to our less maintenance required for our facilities following the completion of our technological upgrade of Plant One and therefore less parts and spares were purchased.

The following table sets forth our average inventory, cost of sales and inventory turnover days for the periods indicated.

	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(RMB'000)</i>		
Average inventory <sup>(1)</sup>	65,645	62,586	62,987
Cost of sales	1,150,260	1,406,321	1,307,769
Inventory turnover days <sup>(2)</sup>	20.8	16.2	17.6

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## FINANCIAL INFORMATION

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*Notes:*

- (1) Average inventory equals the arithmetic mean of the opening and closing balances of inventory of a given period.
- (2) Turnover days of inventories for a certain period is derived by dividing the average inventory by cost of sales and multiplied by 365 days for a year.

Our inventory turnover days remained stable and increased slightly from 16.2 days for the year ended 31 December 2015 to 17.6 days for the year ended 31 December 2016 as the average inventory remained stable in monetary amount. Our inventory turnover days decreased from 20.8 days for the year ended 31 December 2014 to 16.2 days for the year ended 31 December 2015, primarily due to (i) the decrease in average inventory resulting from the increased consumption of anthracite, (ii) the decrease in average purchase price of coal, and (iii) our enhancement in inventory control through improved production arrangements and sales efforts. As at 30 April 2017, we had utilised or sold inventory amounting to RMB66.8 million, representing 99.9%, of the inventory kept as at 31 December 2016.

### Notes receivables

Our notes receivables primarily relate to receivables for goods sold to our customers. During the Track Record Period, we generally accept cash payments from our customers and therefore our notes receivables were maintained at a relatively low level with short note receivables turnover days. We believe there is no significant concentration of credit risk as our customer base consists of a large number of customers.

Our notes receivables generally become maturity within a period of six months. An aging analysis of our notes receivables as at the balance sheet dates indicated is set forth below, based on the invoice date as at the dates indicated.

	As at 31 December		
	2014	2015	2016
		(RMB'000)	
Within three months	180	2,200	833
Three to six months	210	330	337
Six months to one year	–	–	–
<b>Total</b>	<b>390</b>	<b>2,530</b>	<b>1,170</b>



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The following table sets forth our average notes receivable, revenue and notes receivables turnover days for the periods indicated.

	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(RMB'000, except turnover days)</i>		
Average notes receivables <sup>(1)</sup>	5,614	1,460	1,850
Revenue	1,383,882	1,859,300	1,457,523
Notes receivables turnover days <sup>(2)</sup>	1.5	0.3	0.5

*Notes:*

- (1) Average notes receivables equals the arithmetic mean of the opening and closing balances of notes receivables of a given period.
- (2) Turnover days of notes receivables for a certain period is derived by dividing the average notes receivables by revenue and multiplied by 365 days for a year.

As at 30 April 2017, we utilised note receivables amounting to RMB1.2 million, representing 100% of the notes receivables outstanding as at 31 December 2016.

### Prepayment, deposits and other receivables

Current portion of prepayments, deposit and other receivables mainly represents the prepayments (i) in connection with delivery charge in distribution expenses, and (ii) purchase of equipments from contractors to be completed within one year. Our current portion of prepayments, deposit and other receivables is also comprised of deferred Listing expenses, which will be deducted from equity upon the completion of the Global Offering, the VAT and other tax and employees' advances. Non-current portion of prepayments, deposit and other receivables mainly represents the prepayments in connection with our new production line in Plant One and continuous technological improvement of Plant Two.

The following table sets forth a breakdown of our prepayment, deposit and other receivables as at the dates indicated.

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(RMB'000)</i>		
Prepayments for distribution expenses	5,134	46	57
Prepayments for equipment	23,710	4,958	3,915
Deferred Listing expenses	325	441	5,888
Value-added tax recoverable	–	8,529	51,135
Prepayments for electricity	–	9,400	20,000
Prepayments for coal suppliers	–	–	24,282
Other prepayments, deposits and other receivables	47,829	24,147	29,642
	76,998	47,521	134,919
Less: Non-current portion	(22,241)	(4,045)	(3,416)
<b>Total</b>	<b>54,757</b>	<b>43,476</b>	<b>131,503</b>

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## FINANCIAL INFORMATION

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Our current portion of prepayment, deposits and other receivables increased from RMB43.5 million as at 31 December 2015 to RMB131.5 million as at 31 December 2016, primarily due to an increase in prepaid electricity, coal suppliers, VAT and other taxes. The increase in prepayments for coal suppliers from nil as at 31 December 2015 to RMB24.3 million as at 31 December 2016 was primarily due to PRC government's policy to restrict coal mining capacities in 2016 which limited coal supply. In response to the change of market conditions, we agreed to make prepayments to certain coal suppliers before the delivery of coal to ensure uninterrupted supply of coal. The prepayment commitment is made against each order of coal. For additional information regarding the impact of our prepayments to coal suppliers on our liquidity, please refer to the subsection headed "Business – Raw Materials, Storage, Energy and Suppliers – Changes in Five Largest Suppliers During the Track Record Period" in this prospectus. Our current portion of prepayment, deposits and other receivables was RMB54.8 million as at 31 December 2014 and RMB43.5 million as at 31 December 2015, respectively, which is mainly attributable to (i) an decrease in our prepayments for distribution expenses following our new arrangement with customers to transfer the railway transportation fees to them since September 2015, (ii) our advance made to one of our customers, (iii) the prepayment to purchase of unlisted funds which was settled during 2015, and (iv) the settlement of advance to a third party offset by the increase in prepayment of VAT and utilities.

Our non-current portion of our prepayment, deposits and other receivables decreased from RMB22.2 million as at 31 December 2014 to RMB4.0 million as at 31 December 2015, primarily due to the transfer of certain prepayment made for construction of the Plant One to property, plant and equipment in 2015. After that, our non-current portion of our prepayment, deposits and other receivables remained relatively stable and amounted to RMB4.1 million and RMB3.4 million as at 31 December 2015 and 2016, respectively.

None of our prepayments, deposits and other receivables is either past due or impaired. There was no recent history of default in relation to our prepayments, deposits and other receivables.

As at 30 April 2017, we had utilised or settled prepayment, deposits and other receivables amounted to RMB107.8 million, representing 82.0% of the prepayments, deposits and other receivables balance as at 31 December 2016.

### Trade payables

Our trade payables consist of trade payables for our raw materials which include coal and chemicals for production.

The following table sets forth our trade payables as at the dates indicated.

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(RMB'000)</i>		
Trade payables	40,382	30,941	12,955

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Our trade payables decreased from RMB40.4 million as at 31 December 2014 to RMB30.9 million as at 31 December 2015, and further decreased to RMB13.0 million as at 31 December 2016 primarily due to the decrease in our average purchase price of coal and expedited payment for our purchase of coal in 2016.

The following table sets forth our average trade payables, cost of sales and trade payables turnover days for the periods indicated.

	For the year ended 31 December		
	2014	2015	2016
	<i>(RMB'000)</i>		
Average trade payables <sup>(1)</sup>	33,928	35,662	21,948
Cost of sales	1,150,260	1,406,321	1,307,769
Trade payables turnover days <sup>(2)</sup>	10.8	9.3	6.1

*Notes:*

- (1) Average trade payables equal the arithmetic mean of opening and closing balances of trade payables of a given period.
- (2) Turnover days of trade payables for a certain period is derived by dividing the average trade payables by cost of sales and multiplied by 365 days for a year.

Our trade payables turnover days were 10.8 days, 9.3 days and 6.1 days for the year ended 31 December 2014, 2015 and 2016, respectively. Our trade payables turnover days were maintained at a relatively low level and were stable during the Track Record Period, which was consistent with the business terms between our suppliers and us.

The following table sets forth the aging analysis of our trade payables as at the dates indicated.

	As at 31 December		
	2014	2015	2016
	<i>(RMB'000)</i>		
Within 90 days	35,735	25,387	4,784
91 to 180 days	402	2,553	4,736
181 days to 365 days	1,076	1,728	907
Over 365 days	3,169	1,273	2,528
<b>Total</b>	<b>40,382</b>	<b>30,941</b>	<b>12,955</b>

As at 30 April 2017, we have settled RMB5.8 million, or 44.5%, of the RMB13.0 million trade payables outstanding as at 31 December 2016.

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### Deposits received, other payables and accruals

Our deposits received, other payables and accruals consist of payables for deposits received from our customers for the sales of our goods, accruals liabilities such as social security fund, rental fees, and accrual of our Listing expenses and other payables in relation to purchase of equipment and construction cost for technological upgrade and other tax payables.

The following table sets forth our deposits received, other payables and accruals as at the dates indicated.

	As at 31 December		
	2014	2015	2016
	<i>(RMB'000)</i>		
Deposits received	107,503	41,520	60,721
Accruals	12,297	7,219	9,667
Other payables	125,118	89,041	38,749
<b>Total</b>	<b>244,918</b>	<b>137,780</b>	<b>109,137</b>

Our deposits received increased from RMB41.5 million as at 31 December 2015 to RMB60.7 million as at 31 December 2016, primarily due to the increase of purchase orders yet to be delivered in 2017. Our deposits received decreased from RMB107.5 million as at 31 December 2014 to RMB41.5 million as at 31 December 2015, primarily due to the decrease in purchase orders yet to be delivered in 2016.

Our accruals increased from RMB7.2 million as at 31 December 2015 to RMB9.7 million as at 31 December 2016, primarily due to an increase in the payable of employees' social insurance and welfare. Our accruals decreased from RMB12.3 million as at 31 December 2014 to RMB7.2 million as at 31 December 2015, primarily due to a decrease in payables of employees' social insurance and welfare.

Our other payables decreased from RMB125.1 million as at 31 December 2014 to RMB89.0 million as at 31 December 2015, primarily due to the completion of construction of Plant One in August 2014 and continuous settlements of payables in relation to the construction. Our other payables decreased from RMB89.0 million as at 31 December 2015 to RMB38.7 million as at 31 December 2016, primarily because there was no major constructions on our production facilities and accrued interest for employee's loan during the period.

### NON-CURRENT ASSETS AND LIABILITIES

Our non-current assets primarily consist of property, plant and equipment, investment property, prepaid land lease payments, prepayments for equipment and deferred tax assets. As at 31 December 2014, 2015 and 2016, we had non-current assets of RMB1,589.8 million, RMB1,529.1 million and RMB1,417.7 million, respectively.

Our non-current liabilities primarily consist of long-term bank and other borrowings, amount due to a related party, deferred revenue and deferred tax liabilities. As at 31 December 2014, 2015 and 2016, we had non-current liabilities of RMB509.2 million, RMB313.6 million and RMB380.8 million, respectively.

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### INDEBTEDNESS

#### Bank and other borrowings

The following table sets forth our bank and other loans as at the dates indicated.

	As at 31 December			As at 30 April
	2014	2015	2016	2017
	<i>(RMB'000)</i>			
				(unaudited)
<b>Current</b>				
Short-term secured bank loans	120,000	179,000	202,000	217,000
Short-term secured other loans	–	48,306	47,146	47,813
Current portion of long-term secured bank and other loans	<u>63,093</u>	<u>12,732</u>	<u>33,561</u>	<u>3,599</u>
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	183,093	240,038	282,707	268,412
Short-term unsecured bank loans	210,000	195,000	245,000	255,000
Current portion of long-term unsecured other loans	<u>–</u>	<u>–</u>	<u>9,969</u>	<u>3,327</u>
	<u>393,093</u>	<u>435,038</u>	<u>537,676</u>	<u>526,739</u>
<b>Non-current</b>				
Long-term secured bank loans	148,590	33,077	–	27,000
Long-term secured other loans	–	250,164	311,621	318,966
Long-term unsecured other loans	<u>340,000</u>	<u>–</u>	<u>53,236</u>	<u>51,455</u>
	<u>488,590</u>	<u>283,241</u>	<u>364,857</u>	<u>397,421</u>
<b>Total</b>	<u><b>881,683</b></u>	<u><b>718,279</b></u>	<u><b>902,533</b></u>	<u><b>924,160</b></u>

Our bank and other loans are denominated principally in Renminbi and Hong Kong dollars. As at 31 December 2014, 2015, 2016 and 30 April 2017, the effective annual weighted interest rates of our bank and other loans were 4.8%, 10.1%, 6.2% and 6.8% respectively.

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Bank loans consist of interest-bearing short-term and long-term loans from commercial banks at market rates as well as entrusted loans. Our secured bank loans are mainly secured by pledge of certain our property, plant and equipment, investment property, leasehold land, inventories and bank deposits.

As at the Latest Practicable Date, we had (i) RMB124 million available under our credit facility with Bank of Cangzhou Dongguang Branch, of which RMB120 million was utilised, (ii) RMB195 million available under our credit facility with Agricultural Bank of China Dongguang County Branch, of which RMB192 million was utilised, and (iii) RMB70 million available under our credit facility with Bank of Cangzhou Shichang Branch, which was fully utilised. As at the Latest Practicable Date, the aggregate amount of unutilised banking facilities of our Group was RMB7 million.

Other loans consist of (i) interest-bearing short-term and long-term loans from certain offshore Independent Third Parties and (ii) interest-bearing short-term and long-term loans under finance lease agreements with PRC financial institution and financial leasing companies in the form of sale and leaseback arrangements in respect of our certain property, plant and equipment. These finance lease arrangements are recorded as other loans as the risks and rewards of the leased assets are not transferred to the lessors.

As at 31 December 2016, in addition to our loans under finance lease agreements, we had offshore other loans in the amount of approximately RMB123.7 million from three offshore Independent Third Parties, which are private companies in Hong Kong. Two of these Independent Third Parties are financial investors with an interest to earn from their investment through, among others, providing interest-bearing loans to companies which they believe have solid fundamentals, such as our Group, and the other Independent Third Party is a private company engaged in investment banking services and a subsidiary of a Hong Kong listed company.

As at 31 December 2016, offshore other loans were granted by three Independent Third Parties to us. In connection with the offshore other loan (the “**Offshore Loan**”) from one Independent Third Party (the “**Offshore Lender**”), the Offshore Lender had requested that Dongguang Chemical to lend a sum of RMB60.0 million to Min-Silver-Gold Investment Management (Beijing) Co. Ltd. (the “**Borrower**”), an affiliated company of the Offshore Lender in the PRC. Accordingly, on or around the same time, we had entered into an entrustment loan agreement with the Dongguang Branch of the Agricultural Bank of China (“**Dongguang ABC**”) and the Borrower to regulate the foregoing (the “**Entrusted Loan A**”). At the request of the Offshore Lender, Dongguang Chemical entered into another similar entrustment loan agreement with Dongguang ABC and the Borrower in March 2017 and granted an entrusted loan to the Borrower for the sum of RMB30.0 million in April 2017. Such loan was granted in connection with an offshore loan obtained for the redemption of the PNB-SBI Exchangeable Notes (collectively with the Entrusted Loan A, the “**Entrusted Loans**”). The Entrusted Loans are unsecured and has a term of one year with an interest rate of 4.5%. The Entrusted Loans were only made at the request of the Offshore Lender and were one-off transactions, rather than our ordinary and usual course of business. Therefore, we have not adopted any particular policies in this respect. The Entrusted Loans do not constitute a security for any of the offshore loans mentioned above. As advised by the Company’s PRC Legal Adviser, the Entrusted Loans are legal, valid and binding among the parties thereto under the PRC laws, and there is no requirement to register the Entrusted Loans with any regulatory authority in the PRC and the Entrusted Loans are in compliance with applicable PRC laws and regulations.

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## FINANCIAL INFORMATION

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Our other loans under finance lease agreements were pledged by our certain property, plant and equipment with interest rate ranging from 4.14% to 15.27% during the Track Record Period. Our offshore other loans as at 31 December 2016 were either secured by the pledge on Sino Emirates' shares or personal guarantees from our Directors with interest rates of 10.0% per annum or ranging from 5.0% to 7.5% over LIBOR per annum for different periods. We incurred such offshore other loans for the redemption of the CCCO CB and CCCO Bonds in 2016. Please refer to the subsections headed “– Indebtedness – Non-convertible Bonds” and “– Indebtedness – Convertible Bonds” in this section for further details.

Our current secured bank and other loans decreased from RMB282.7 million as at 31 December 2016 to RMB268.4 million as at 30 April 2017, primarily due to the repayments of current portion of long-term secured bank and other loans in the first four months of 2017. Our current secured bank and other loans increased from RMB240.0 million as at 31 December 2015 to RMB282.7 million as at 31 December 2016, primarily due to more short-term secured bank loans were drawn in 2016 and a long-term secured bank loan of RMB27 million drawn in 2015 has been reclassified as current since the loan will be matured in 2017. Such amount of RMB27 million was subsequently refinanced in early 2017 through a new long-term secured bank loans with the same amount. Our current secured bank and other loans increased from RMB183.1 million as at 31 December 2014 to RMB240.0 million as at 31 December 2015, primarily due to financing to support continuous technological improvement of our plants.

Our current unsecured bank and other loans increased from RMB255.0 million as at 31 December 2016 to RMB258.3 million as at 30 April 2017, primarily due to the drawdown of short-term unsecured bank loan of RMB150 million exceeded the repayments of RMB140 million, together with repayment of other loans of RMB6.6 million in the first four months of 2017. Our current unsecured bank and other loans increased from RMB195.0 million as at 31 December 2015 to RMB255.0 million as at 31 December 2016, primarily due to the drawdown of bank loans for purchase of coal and settlement of short-term bank loans. Our current unsecured bank loans decreased from RMB210.0 million as at 31 December 2014 to RMB195.0 million as at 31 December 2015, primarily due to certain repayment of our bank loans exceeds the drawdown of bank loans for financing to support continuous technological improvement of our plants.

Our non-current bank and other loans were RMB488.6 million, RMB283.2 million, RMB364.9 million and RMB397.4 million as at 31 December 2014, 2015, 2016 and 30 April 2017, respectively. Our non-current secured other loans represented (i) loans under finance lease agreements with PRC financial institution and a financial leasing company in the form of sale and leaseback arrangements in 2015 and 2016 in respect of our certain property, plant and equipment. These finance lease arrangements are recorded as other loans and the risks and rewards of the leased assets are not transferred to the lessors; and (ii) a loan granted from an independent third party of HK\$70 million in December 2016. The increase from RMB364.9 million as at 31 December 2016 to RMB397.4 million as at 30 April 2017 was primarily due to the drawdown of long-term secured bank loans for repayment of current portion of long-term secured bank loans. The increase from RMB283.2 million as at 31 December 2015 to RMB364.9 million as at 31 December 2016 was primarily due to the drawdown of bank and other loans for settlement of convertible bonds and non-convertible bonds. The decrease from RMB488.6 million as at 31 December 2014 to RMB283.2 million as at 31 December 2015 was primarily due to the entrusted loan in an amount of RMB340.0 million was fully repaid in March 2015.

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Our bank and other loans during the Track Record Period were fixed-rate loans. The following table sets forth the effective interest rates to our bank and other loans as at the dates indicated.

	As at 31 December			As at 30 April
	2014	2015	2016	2017
	(%)	(%)	(%)	(%) (unaudited)
Fixed-rate loans	6.15-8.00	4.14-15.27	4.30-11.28	4.30-11.28

The following table sets forth the maturity profile of our bank and other loans as at the dates indicated.

	As at 31 December			As at 30 April
	2014	2015	2016	2017
	(RMB'000)			(unaudited)
Within one year	393,093	435,038	537,676	526,739
In the second year	142,514	33,574	364,857	397,421
In the third to fifth year, inclusive	346,076	249,667	–	–
<b>Total</b>	<b>881,683</b>	<b>718,279</b>	<b>902,533</b>	<b>924,160</b>

### Entrusted Loan Arrangements

Our non-current unsecured other loans was RMB340.0 million as at 31 December 2014 which was incurred as Dongguang Chemical entered into an entrusted loan agreement with Zhaohe, Agricultural Bank of China, Dongguang Branch on 19 December 2014 (the “**2014 Entrusted Loan**”). According to the 2014 Entrusted Loan, Zhaohe entrusted Agricultural Bank of China, Dongguang Branch (“**ABC**”) to provide us with a loan in the principal amount of RMB340.0 million with annual interest rate of 33.3333% over the prevailing lending interest rate promulgated by PBOC from time to time, for a period of three years. A pledged deposit was provided by a third party to ABC which then provided the equivalent loan amount to Dongguang Chemical. With such funds, Dongguang Chemical repaid our amount due to Zhaohe (a company controlled by Mr. Sun Shuqiang, one of our shareholders) in the amount of RMB313.5 million on 27 December 2014. The amount due to Zhaohe was unsecured, interest bearing at 10% per annum and had no fixed term of repayment. The 2014 Entrusted Loan was entered into in connection with Dongguang Chemical’s historical borrowings from Designated Lenders from 1999 to 2009 and the amounts due to Zhaohe from 2009 and up to 25 March 2015 when 2014 Entrusted Loan was fully repaid.



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Dongguang Chemical entered into an entrust loan agreement with ABC and Dongguang Guangyi Investment Co., Ltd., a limited company incorporated under the laws of the PRC on 15 April 2014 and an independent third party on 23 March 2015 (the “**2015 Entrusted Loan**”). According to the 2015 Entrusted Loan, Dongguang Guangyi Investment Co., Ltd. entrusted ABC to provide us with a loan with an annual interest rate of 10% in the principal amount of RMB340.0 million, for a period of three years. With the total funds received under the 2015 Entrusted Loan and its internal resources, Dongguang Chemical repaid the 2014 Entrusted Loan in the amount of approximately RMB358.4 million in two tranches in April 2015 and December 2015, representing the total principal amount and interest due and payable on the repayment dates. Dongguang Chemical repaid the 2015 Entrusted Loan with its internal resources and partially through finance leases arrangement by December 2015. Since December 2015, Zhaohe discontinued to renew or entered into new borrowings with Designated Lenders. Zhaohe started to repay the borrowings from Designated Lenders in December 2015. As at 30 June 2016, the outstanding borrowings had been repaid in full to each of the Designated Lenders.

Since 1999, Dongguang Chemical had non-secured borrowings from designated lenders who were its employees, retired employees, and family members and relatives of the employees and retired employees (“**Designated Lenders**”), with an annual interest rate of 10%, for its working capital purpose. Such borrowings from Designated Lenders had no fixed principal amount. Payment terms ranged from one to two years. The Designated Lenders had the right to renew the loans with Dongguang Chemical upon expiry. In October 2009, Dongguang Chemical discontinued its borrowings from Designated Lenders. As at 31 October 2009, Dongguang Chemical had borrowings of approximately RMB164 million.

Since November 2009, Dongguang Chemical entered into loans with Zhaohe, in an amount equal to the total borrowings between Dongguang Chemical and Designated Lenders from 1999 to 2009 and bearing the same terms and condition of such borrowings. Meanwhile, Dongguang Chemical’s outstanding borrowings from Designated Lenders were novated to Zhaohe in full. As a result, we had amount due to Zhaohe from 2009 and up to 25 March 2015. In order to rectify such non-compliance with the relevant PRC laws and regulations, Dongguang Chemical entered into the 2014 Entrusted Loans and repaid the amounts due to Zhaohe.

With respect to the borrowings from employees, pursuant to the State Council General Office’s Notice on Relevant Questions Regarding Punishment of Illegal Fundraising (國務院辦公廳關於依法懲處非法集資有關問題的通知), illegal fundraisings include but not limited to those (i) not approved by the relevant regulatory department and raises funds illegally from the social public (especially, non-specified targets), (ii) promise return on investment in cash, benefits and shares, and (iii) use legal method such as the signing of a contract to disguise the purposes of illegal fundraising. In addition, according to the Supreme People’s Court’s Interpretation on Application of Laws in Trial of Illegal Fund Raising Criminal Cases (最高人民法院關於審理非法集資刑事案件具體應用法律若干問題的解釋), raising funds from specific relatives, friends or internal employees without involving any public promotion does not constitute illegal or disguised taking of deposits from the general public.

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Our Directors confirmed that (i) such borrowings from Designated Lenders were not made in any public manner and they were borrowed only from our employees, retired employees and family members and relatives of the employees and retired employees rather than from unspecified general public, (ii) such borrowings was made without conducting any public promotional activities, (iii) the interest charged was not significantly higher than that of bank loans, (iv) all the funds were used for our operational purpose without any other illegal purposes, (v) the Designated Lenders were not in any manner forced to lend such money to us and they entered into the loan contracts at free will; (vi) all such borrowings have been repaid, and (vii) there has not been any dispute between us and the Designated Lenders in relation to such borrowings, and neither did we ever receive any notice of investigation or was imposed any sanction for such borrowing activities.

On 30 June 2016, Dongguang Finance Bureau, the competent authority overseeing the financial activities of companies in Dongguang County, issued a written confirmation stating that we will not be subject to any fines or penalties with respect to our historical borrowings from the Designated Lenders as well as from Zhaohe.

Based on the forgoing, our PRC Legal Adviser and our Directors are of the view that such borrowings were unlikely to be found as illegal fund raising from the general public which is prohibited under the applicable PRC regulations.

According to our PRC Legal Advisers, loans between enterprises may be deemed invalid pursuant to certain provisions of the Lending General Provisions (貸款通則) promulgated by the PBOC in 1996. According to the Lending General Provisions, in a case where enterprises engage in borrowing and lending without authorization, the PBOC may impose a fine on the lending party in an amount equal to one to five times of the illegal proceeds generated from the lending activity, and concurrently invalidate such lending activity. Our PRC Legal Advisers are of the view that, the risk of the PBOC imposing any penalty on us is low. For additional information on the legal consequences, potential maximum penalties and liabilities of such inter-company loans, please refer to the sections headed “Business – Legal Non-Compliance and Proceedings – (5) Acting as a lender in inter-company loan” and “Business – Legal Non-Compliance and Proceedings – (6) Acting as a borrower in inter-company loan” in this prospectus.

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### Non-convertible Bonds

On 3 June 2015, our Company issued 12% secured non-convertible bonds with an aggregated principal amount of US\$10,000,000 (equivalent to approximately RMB61,202,000) at 100% of the face value, with US\$5,000,000 (equivalent to approximately RMB30,601,000) i.e., the CCCO First Tranche Bond matured on 31 December 2015, and US\$5,000,000 (equivalent to approximately RMB30,601,000) i.e., the CCCO Second Tranche Bond matured on 31 August 2016, respectively. The CCCO Bonds were secured by, among others, share charges of 100% interest in Sino-Coal Holding, Bloom Ocean, our Company and its subsidiaries. As at 31 December 2015, the outstanding principal amount of the CCCO Bonds amounted to RMB67.4 million.

The CCCO First Tranche Bond was redeemed in full by our Company on 15 January 2016. With the consent of the holders, our Company redeemed the CCCO Second Tranche Bond in full on 8 August 2016.

### Convertible Bonds

Our Company issued convertible bonds (ie. CCCO CB) with a principal amount of US\$20,000,000 (equivalent to RMB122,404,000) on 3 June 2015. The CCCO CB carry 12% coupon interest rate and have a maturity period of 15 months from the date of issuance. The expiry date was 2 September 2016. The holders of the CCCO CB were entitled to convert the CCCO CB into ordinary shares of our Company at an initial conversion ratio of 13.82% of issued ordinary shares of our Company immediately before the conversion, and such conversion right may be exercised at any time during the period commencing from the date of issuance of the CCCO CB and ending on the earlier of the fifth business day before the maturity date and the Listing Date (except for certain blackout period prescribed therein during which the conversion right may not be exercised). The conversion ratio is subject to adjustments from the actual net profit after tax of our Group. Our Company is entitled to redeem the CCCO CB subject to certain conditions on the maturity date. The CCCO CB were redeemed in full by our Company on 8 August 2016.

The following table sets forth the movements of balance of convertible bonds as at the dates indicated.

	<b>As at 31 December 2015</b>	<b>As at 31 December 2016</b>
	<i>(RMB'000)</i>	
At beginning of the year	–	161,787
Issue of convertible bonds	122,404	–
Redemption for the year	–	(159,876)
Exchange difference	8,866	5,446
Change in fair value	30,517	(8,701)
Loss on redemption	–	1,344
<b>At end of the year</b>	<b>161,787</b>	<b>–</b>

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## FINANCIAL INFORMATION

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### Shares Pledged

The 100% equity interests of Sino Emirates were pledged with an Independent Third Party as the security for its loan to us. Notwithstanding that the Directors believe that there should be no material additional risk exposure relating the share pledge on Sino Emirates, our Group will consider implementing various measures to control the risk exposures, including, *inter alia*, the following:

- (i) repay these other loans by using the dividends to be distributed by our Group's onshore operating subsidiary; and
- (ii) repay the other loans by using/obtaining unsecured bank loans or other loans with better terms after the Listing.

### Statement of Indebtedness

As at 30 April 2017, being the latest practicable date for the purpose of liquidity disclosure in this prospectus, we had outstanding indebtedness totaling RMB924.2 million, consisting of the following (i) short-term bank and other borrowings of RMB526.8 million, and (ii) long-term bank and other borrowings of RMB397.4 million. Certain bank and other borrowings were secured by certain of our Group's inventories, investment property, pledged bank deposit, property, plant and equipment and leasehold land, and guaranteed by Mr. Wang and/or Mr. Sun.

Save as disclosed in this prospectus, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities as at 30 April 2017, being our indebtedness statement date. Since the indebtedness statement date, there has been no material adverse change in our indebtedness.

Our Directors confirm that we had no material defaults in the payment of trade and non-trade payables, bank loans, obligation under convertible bonds and non-convertible bonds, nor any material breaches of the finance covenants during the Track Record Period.

### CAPITAL COMMITMENTS

The table below sets forth a breakdown of our capital commitments as at the dates indicated.

	<b>As at 31 December</b>			<b>As at</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>30 April</b>
	<i>(RMB'000)</i>			
Commitments for the acquisition of property, plant and equipment – contracted, but not provided	<u>81,140</u>	<u>31,065</u>	<u>14,968</u>	<u>46,654</u>

(unaudited)

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## FINANCIAL INFORMATION

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The capital commitments described above primarily related to the construction, expansion and technology upgrade of our production plants. We intend to fund these commitments with cash generated from our operations and bank borrowings.

Our Directors confirm that there has been no material change in our capital commitments since 31 December 2016 and up to the Latest Practicable Date.

### CAPITAL EXPENDITURES

#### Historical Capital Expenditures

We incurred capital expenditures for the construction, expansion and technology upgrade of our production plants. The following table sets forth our capital expenditures for the periods indicated.

	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(RMB'000)</i>		
Construction in progress	398,199	97,775	476

Following the completion of Plant One in August 2014, which we incurred significant capital expenditures, our capital expenditures for construction in progress decreased from RMB398.2 million in 2014 to RMB97.8 million in 2015, and further decreased to RMB0.5 million in 2016.

#### Planned Capital Expenditures

The following table sets forth our major expected capital expenditure for the years ending 31 December 2017 and 2018, based on our current project plans, target costs and internal estimates as at 31 December 2016, which are subject to change.

	<b>For the year ending 31 December</b>	<b>For the year ending 31 December</b>
	<b>2017</b>	<b>2018</b>
	<i>(RMB'000)</i>	
	<i>(unaudited)</i>	
Capital expenditure for fixed assets	71,500	44,000

Our major expected capital expenditures for the years ending 31 December 2017 and 2018 is approximately RMB71.5 million and RMB44.0 million, respectively, primarily for plant and equipment and will be funded with cash from operating activities, bank borrowings and the proceeds from the Global Offering. Please refer to the sections headed “Business – Production – Expansion Plan” for details of our expansion plan and “Future Plans and Use of Proceeds – Use of Proceeds” for the portion of capital expenditures to be funded by the proceeds from the Global Offering.

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### CONTINGENT LIABILITIES

Except as disclosed in this prospectus, our Group had no material contingent liabilities as at 30 April 2017, being the latest practicable date for the purpose of liquidity disclosure in this prospectus. As at the Latest Practicable Date, our Group was not involved in any material legal proceedings, nor was our Group aware of any pending or potential material legal proceedings involving our Group. If our Group was involved in such material legal proceedings, we would record any loss contingencies when, based on information then available, it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. We confirm that there had not been any material change in the level of our contingent liabilities since 31 December 2016 to the Latest Practicable Date.

### KEY FINANCIAL RATIOS

The following table sets forth certain key financial ratios as at the dates or for the periods indicated.

	As at or for the year ended 31 December		
	2014	2015	2016
Gross profit margin <sup>(1)</sup>	16.9%	24.4%	10.3%
Net profit margin <sup>(2)</sup>	6.4%	5.8%	1.3%
Adjusted net profit margin <sup>(3)</sup>	6.5%	9.2%	2.7%
Return on total assets <sup>(4)</sup>	4.8%	5.6%	1.0%
Return on equity <sup>(5)</sup>	12.2%	14.8%	2.6%
Current ratio <sup>(6)</sup>	0.56	0.41	0.55
Quick ratio <sup>(7)</sup>	0.47	0.33	0.45
Gearing ratio <sup>(8)</sup>	1.18	1.32	1.22
Net debt to equity ratio <sup>(9)</sup>	1.05	1.01	1.00

*Notes:*

- (1) The gross profit margin is derived by dividing the gross profit by the revenue for the respective year multiplied by 100%.
- (2) The net profit margin is derived by dividing the net profit by the revenue for the respective year multiplied by 100%.
- (3) The adjusted net profit margin is derived by dividing the net profit (excluding the listing-related expenses, change in fair value of convertible bonds and interest expense and foreign exchange loss in relation to non-convertible bonds and convertible bonds) for the respective year multiplied by 100%. Please refer to the section headed “Financial Information – Non-IFRS Measures” for details.
- (4) Return on total asset is derived by dividing net profit by total assets for the respective year multiplied by 100%, where total asset is the average beginning and ending balances of total assets for the given period.
- (5) Return on equity is derived by dividing net profit by shareholders’ equity for the respective year multiplied by 100%, where shareholders’ equity is the average beginning and ending balances of shareholders’ equity for the given period.
- (6) Current ratio is derived by dividing current assets by current liabilities at the end of a given period.
- (7) Quick ratio is derived by dividing (i) current assets less inventories by (ii) current liabilities at the end of a given period.

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## FINANCIAL INFORMATION

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- (8) Gearing ratio is derived by dividing total debt by total equity at the end of a given period, where total debt represents bank borrowings and contractual obligations.
- (9) Net debt to equity ratio is derived by dividing (i) net debt, which is total debt less cash and cash equivalents, by (ii) total equity at the end of a given period.

### **Return on Total Assets**

Our return on total assets, which is derived by dividing net profit by total assets, where total assets are the average beginning and ending balances of total assets for the given period, was 4.8%, 5.6% and 1.0% in 2014, 2015 and 2016, respectively. The decrease from 2015 to 2016 was primarily due to a decrease in profit from RMB108.1 million in 2015 to RMB18.8 million in 2016. The increase from 2014 to 2015 was primarily due to the increase in net profit resulting from increase in sales volume of urea.

### **Return on Equity**

Our return on equity, which is derived by dividing net profit by shareholders' equity, where shareholders' equity is the average beginning and ending balances of shareholders' equity for the given period, was 12.2%, 14.8% and 2.6% in 2014, 2015 and 2016, respectively. The decrease from 2015 to 2016 was primarily due to a decrease in net profit resulting from a decrease in average selling price of urea products. The increase from 2014 to 2015 was primarily due to the increase in our net profits due to the increase in the sales volume of our urea.

### **Current Ratio**

Our current ratio, which is current assets divided by current liabilities at the end of a given period, was 0.56, 0.41 and 0.55 as at 31 December 2014, 2015 and 2016, respectively. The increase from 31 December 2015 to 31 December 2016 was primarily due to a settlement of non-convertible bond and convertible bonds by long-term bank and other borrowing and internal fund. The decrease from 31 December 2014 to 31 December 2015 was primarily due to the decrease in current assets resulting from the decrease in amounts due from shareholders, offices and a related party, the decrease in inventories and the increase in current liabilities resulting from the increased bank borrowings resulting from the construction of Plant One.

### **Quick Ratio**

Our quick ratio, which is current assets less inventories divided by current liabilities, was 0.47, 0.33 and 0.45 as at 31 December 2014, 2015 and 2016, respectively. The increase from 31 December 2015 to 31 December 2016 was primarily due to a settlement of non-convertible bond and convertible bonds by long-term bank and other borrowing and internal fund. The decrease from 31 December 2014 to 31 December 2015 was primarily due to the decrease in amounts due from shareholders officers and a related party.

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### Gearing Ratio

Our gearing ratio was 1.18, 1.32 and 1.22 as at 31 December 2014, 2015 and 2016, respectively. The decrease from 31 December 2015 to 31 December 2016 was primarily due to a reduced debt financing compared with 2015 which was settled by our internal generated fund. The increase from 31 December 2014 to 31 December 2015 was primarily due to the increase in our bank borrowings, which was at a higher percentage than the increase in our total equity.

### Net Debt to Equity Ratio

Our net debt to equity ratio was 1.05, 1.01 and 1.00 as at 31 December 2014, 2015 and 2016, respectively. The ratio remained relatively stable during 31 December 2015 and 31 December 2016 owing to the consistent debt financing policy upheld during the periods. The decrease from 31 December 2014 to 31 December 2015 was primarily due to the increase in our cash and bank balances in connection with the issuance of CCCO Bonds and CCCO CB and the decrease in long-term bank and other borrowings in connection with the repayment of 2015 Entrusted Loan during the same period.

### OFF-BALANCE SHEET ARRANGEMENTS

As at 30 April 2017, being the latest practicable date for the purpose of liquidity disclosure in this prospectus, we did not have any off-balance sheet arrangements.

### RELATED PARTY TRANSACTIONS

During the Track Record Period, our Group had entered into the following related party transactions for the periods indicated below. Since 1 April 2016, we have ceased all these related party transactions and our Group does not intend to carry out any of these related parties transactions going forward.

Name of related parties	Relationship	Nature of transactions	For the year ended 31 December		
			2014	2015	2016
			<i>(RMB'000)</i>		
Mr. Wang Zhijiang	relative of shareholder	Purchase of raw materials	52,449	46,178	7,335
Ms. Wang Yuhong	relative of shareholder	Purchase of raw materials	133,487	166,969	21,077

Our Directors confirm that these related party transactions of our Group were conducted in the normal course of business and were on arm's length basis. Our Directors have further confirmed that these related party transactions did not distort our results of operations of the Track Record Period or make our historical results not reflective of our future performance. For more information on related party transaction, please refer to Note 34 to the Financial Information included in the Accountants' Report in Appendix I to this Prospectus.



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## FINANCIAL INFORMATION

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### PROPERTY INTERESTS AND PROPERTY VALUATION

Details relating to our property interests are set out in Appendix III to this prospectus. Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, has valued the properties owned and leased by us as at 30 April 2017. The text of their letters, summaries of values and valuation certificates are set out in Appendix III to this prospectus.

A reconciliation of the net book value of the relevant leasehold properties as at 30 April 2017 to their fair value as stated in Appendix III to this prospectus is as follows:

	<u>RMB'000</u>
Valuation of property interest owned, occupied and held under development by our Group as at 30 April 2017 as set out in the property valuation report in Appendix III to this Prospectus	387,356
Net book value of properties as at 31 December 2016 as set out in Appendix I to this Prospectus	350,013
Add: Additions during the period from 1 January 2017 to 30 April 2017	2,180
Less: Depreciation and amortization during the period from 1 January 2017 to 30 April 2017	(5,717)
Net book value of our Group as at 30 April 2017	346,476
Net valuation surplus	40,880

### QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

We are exposed to various types of market risks in the normal course of our business, mainly foreign exchange risk, credit risk, interest rate risk, liquidity risk and fair value risk. As our exposure to these risks is kept to a minimum, we do not hold or have not used any derivatives and other instruments for hedging purposes. We do not issue derivative financial instruments for trading purpose. The board reviews and approves policies for managing each of these risks and they are summarised below.

#### Foreign Exchange Risk

Currency risk refers to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Our Group mainly operated in the PRC with most of the transactions settled in Renminbi and did not have significant exposure to risk resulting from changes in foreign currency exchange rates in 2014.

In 2015, we have issued non-convertible bonds and convertible bonds in total of US\$30 million. In 2016, we have redeemed all the outstanding principal of non-convertible bonds and convertible bonds, which was partially funded by other borrowings of HK\$178 million granted in August 2016. On 29 December 2016, other borrowings of HK\$70 million was further granted. As at 31 December 2016, other borrowings of HK\$110 million has been repaid.

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As at 31 December 2016, our assets and liabilities denominated in Hong Kong dollars, of which the financial currency of group entities is Renminbi, were as follows:

	<b>31 December 2016</b>
	<i>HK\$'000</i>
Bank and other borrowings	138,252
Cash and bank balances	(18,071)
Overall net exposure	120,181

The following table indicates the approximate changes in the our profit for the year and retained profits and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which our Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances between companies of our Group where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the RMB strengthens against the relevant currency. For a weakening of the RMB against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

<b>31 December 2015</b>			
		<b>Effect on profit for the year and retained profits</b>	<b>Effect on other components of consolidated equity</b>
<b>Increase in foreign exchange rate</b>		<i>RMB'000</i>	<i>RMB'000</i>
United States dollars (“US\$”)	1%	(1,719)	–
<b>31 December 2016</b>			
<b>Increase in foreign exchange rate</b>		<b>Effect on profit for the year and retained profits</b>	<b>Effect on other components of consolidated equity</b>
		<i>RMB'000</i>	<i>RMB'000</i>
Hong Kong dollars (“HK\$”)	1%	(806)	–

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The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the entities of our Group; and exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

### **Credit Risk**

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instruments and cause a financial loss to our Group.

The objective of our measures to manage credit risk is to control potential exposure to recoverability problem. Most of our cash and cash equivalents are held in major reputable financial institutions in the PRC, which our management believes are of high credit quality. We make periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

The related parties are in good settlement records and reputation. Our management believes that the credit risk on the amount due is minimal. Our Group has assessed the recoverability of all overdue receivables. Our Directors consider that no provision is necessary to cover the credit risk by reference to the counterparty's default history. The measures to manage credit risk have been followed by us since prior years and are considered to be effective.

### **Interest Rate Risk**

Interest rate risk is the risk of fluctuations of fair values on future cash flows of financial instruments which arise from changes in interest rates. Floating interest rate instruments will result in our Group facing the risk of changes in market interest rate, and fixed interest rate instruments will result in our Group facing fair value interest rate risk.

Other than cash and bank balances, bank and other borrowings, amount due to a shareholder, non-convertible bonds and convertible bonds, we have no other significant interest-bearing financial asset and liabilities. All financial liabilities bear fixed rate. As a result, any change in the interest rate promulgated by banks from time to time is not considered to have significant impact to us.

### **Liquidity Risk**

Liquidity risk relates to the risk that we will not be able to meet our obligations associated with our financial liabilities. Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings, also regularly monitor our liquidity requirements, our compliance with lending covenants and our relationship with our bankers to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer term. In addition, banking facilities have been put in place for contingency purposes. Our liquidity position is monitored on a daily basis by the management.

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The following table summarises the remaining contractual maturities at dates indicated of our financial liabilities, which are based on contractual undiscounted payments.

	<b>Carrying amount</b>	<b>Total contractual undiscounted cash flow</b>	<b>On demand</b>	<b>Within 1 year</b>	<b>More than 1 year</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>As at 31 December 2014</b>					
Trade payables	40,382	40,382	40,382	–	–
Other payables and accruals	137,415	137,415	137,415	–	–
Amounts due to shareholders	54,720	54,720	54,720	–	–
Bank and other borrowings	<u>881,683</u>	<u>986,563</u>	<u>–</u>	<u>442,241</u>	<u>544,322</u>
	<u><u>1,114,200</u></u>	<u><u>1,219,080</u></u>	<u><u>232,517</u></u>	<u><u>442,241</u></u>	<u><u>544,322</u></u>
<b>As at 31 December 2015</b>					
Trade payables	30,941	30,941	30,941	–	–
Other payables and accruals	96,260	96,260	96,260	–	–
Bank and other borrowings	718,279	820,777	479,393	–	341,384
Non-convertible bonds	67,378	69,964	69,964	–	–
Convertible bonds	<u>161,787</u>	<u>140,333</u>	<u>–</u>	<u>140,333</u>	<u>–</u>
	<u><u>1,074,645</u></u>	<u><u>1,158,275</u></u>	<u><u>676,558</u></u>	<u><u>140,333</u></u>	<u><u>341,384</u></u>
<b>As at 31 December 2016</b>					
Trade payables	12,955	12,955	12,955	–	–
Other payables and accruals	48,416	48,416	48,416	–	–
Bank and other borrowings	<u>902,533</u>	<u>982,119</u>	<u>–</u>	<u>587,578</u>	<u>394,541</u>
	<u><u>963,904</u></u>	<u><u>1,043,490</u></u>	<u><u>61,371</u></u>	<u><u>587,578</u></u>	<u><u>394,541</u></u>

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### Other price risk

#### *Price risk related to convertible bonds*

Our Group are required to estimate the fair values of the convertible bonds issued at the ended of each reporting period, which therefore exposed our Group to equity price risk. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in risk-free rate, expected volatility and the expected dividend yield.

### Fair Value Risk

The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The following table presents assets measured at fair value in the consolidated statements of financial position in accordance with the fair value hierarchy. The hierarchy groups assets into three levels based on the relative reliability of significant inputs used in measuring the fair value of these assets. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial instrument is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial assets and financial liabilities measured at fair value as at 31 December 2014, 2015 and 2016 in the consolidated statements of financial position are grouped into the fair value hierarchy as follows:

<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

#### **Recurring fair value measurement**

##### **As at 31 December 2014**

Financial assets at fair value through profit or loss

–	6,000	–	6,000
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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>As at 31 December 2015</b>				
Financial liabilities at fair value through profit or loss				
– convertible bonds	<u>–</u>	<u>–</u>	<u>161,787</u>	<u>161,787</u>
<b>As at 31 December 2016</b>				
Financial liabilities at fair value through profit or loss				
– convertible bonds	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

### WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to us, including the available cash and bank balances, the expected cash flow from our operations, credit facilities available and expected to be available, and the estimated net proceeds from the Global Offering, our Directors confirm, and the Sole Sponsor concurs, after due and careful inquiry, that we have sufficient working capital for our present requirement for at least the next 12 months from the date of this prospectus.

### DIVIDENDS

During the Track Record Period, our Company declared dividends to the relevant shareholders. For the years ended 31 December 2014, 2015 and 2016, our Company paid to the then shareholders dividends in the amount of nil, RMB171.3 million and nil, respectively.

Subject to the Cayman Islands Companies Law and our Articles of Association, we may declare dividends in cash in any currency through a general meeting, but no dividend may be declared in excess of the amount recommended by our Board. In addition to cash, dividends may be distributed in the form of Shares. Any distribution of Shares, however, must be approved by our Board of Directors or our Shareholders in accordance with our Articles of Association.

Our Company has no fixed dividend policy specifying a dividend payout ratio. The payment and the amount of any dividends, if paid, will depend on our results of operations, cash flows financial condition, future prospectus and other factors that our Board may consider relevant. Our historical dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future.

### DISTRIBUTABLE RESERVES

As at 31 December 2016, our reserves available for distribution to our equity holders amounted to approximately RMB600.0 million.

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### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF OUR GROUP

The following unaudited pro forma financial information prepared in accordance with paragraph 4.29 of the Main Board Listing Rules and Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants is for illustrative purpose only, and is set out herein to provide the prospective investors with further illustrative financial information about how the Global Offering might have affected the consolidated net tangible assets of our Group after the completion of the Global Offering as if the Global Offering had taken place on 31 December 2016. Because of its hypothetical nature, the unaudited pro forma financial information may not give a true picture of the financial position of our Group had the Global Offering been completed on 31 December 2016 or at any future dates.

The unaudited pro forma adjusted consolidated net tangible assets of our Group as at 31 December 2016 is based on the audited consolidated net tangible assets of our Group as at 31 December 2016 as shown in the Accountant’s Report included in Appendix I to this prospectus and the adjustments described below.

	<b>Audited consolidated net tangible assets of our Group as at 31 December 2016</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of our Group</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets per Share</b>	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>HK\$</i>
	<i>(Note 1)</i>	<i>(Note 2, 4)</i>		<i>(Note 3, 4)</i>	
Based on Offer Price of HK\$0.92 per Offer Share	<u>739,909,000</u>	<u>104,336,000</u>	<u>844,245,000</u>	<u>1.36</u>	<u>1.56</u>
Based on Offer Price of HK\$1.20 per Offer Share	<u>739,909,000</u>	<u>142,210,000</u>	<u>882,119,000</u>	<u>1.42</u>	<u>1.63</u>

*Notes:*

- The audited consolidated net tangible assets of our Group as at 31 December 2016 are based on audited consolidated net assets of our Group as at 31 December 2016 as shown in the Accountants’ Report set out in Appendix I to this prospectus.
- The estimated net proceeds from the Global Offering are based on 160,000,000 new Shares to be issued at the minimum and maximum Offer Price of HK\$0.92 and HK\$1.20 per Share, respectively, after deduction of the underwriting fees and related expenses payable by our Company which has not been reflected in net tangible assets of our Group as at 31 December 2016. No account has been taken of any Shares which may be issued upon the exercise of the Over-allotment Option.

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3. The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 620,000,000 Shares in issue immediately following the completion of the Global Offering, but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates.
4. The pro forma adjusted consolidated net tangible assets per Share are converted from Renminbi and Hong Kong dollars at the rate of RMB0.87 = HK\$1.00. No representation is made that the amounts in Renminbi have been, could have been or could be converted into Hong Kong dollars, or vice versa, at the rate or at any other rates or at all.
5. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of our Group to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2016.

### LISTING EXPENSES

Our Listing expenses mainly consist of the aggregate underwriting commissions and professional fees relating to the Listing and the Global Offering. Assuming an Offer Price of HK\$1.06 per Share (being the mid-point of the indicative offer price range stated in this prospectus), Listing expenses which are payable by us are estimated to amount in aggregate to be approximately RMB44.5 million. We incurred Listing expenses during the Track Record Period in the amount of RMB22.8 million, of which RMB16.9 million was charged to our consolidated statement of profit or loss and the remaining RMB5.9 million was recorded as deferred expenses and will be deducted from equity. This RMB22.8 million was already settled and will not be paid off from the gross proceeds to be raised from the Global Offering. We expect to incur additional Listing expenses of approximately RMB21.7 million and among which, to charge RMB12.8 million of the estimated Listing expenses to our consolidated statements of profit or loss for the year ending 31 December 2017 and to capitalise RMB8.9 million against equity following the Listing under the relevant accounting standards. This RMB21.7 million additional Listing expenses to be incurred will be directly paid off from the gross proceeds to be raised from the Global Offering. The Listing expenses are subject to adjustments based on the actual amount incurred or to be incurred. The Listing expenses mentioned above do not include any expenses incurred in connection with the U.S. listing attempt which we decided not to proceed in November 2011. For detailed information regarding the U.S. listing attempt, please refer to the paragraphs headed “History, Reorganisation and Corporate Structure – Establishment and Major Changes Concerning Our Company and the Sole Operating Subsidiary of Our Company – Establishment and major changes concerning Dongguang Chemical, the sole operating subsidiary of our Company, which is established in the PRC – (b) U.S. listing attempt and entering into, and termination of, the contractual arrangements” in this prospectus.

### NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that save as disclosed in “– Listing Expenses” in this section, there has been no material adverse change in our financial or trading position since 31 December 2016 (being the date to which our Company’s latest consolidated financial results were prepared, as set forth in the Accountants’ Report included in Appendix I to this Prospectus) up to the date of this prospectus.

### DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, there was no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules upon Listing.



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## FUTURE PLANS AND USE OF PROCEEDS

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### REASONS FOR LISTING

Our Directors believe that the Listing will facilitate the implementation of our business strategies to maintain our current leading position as a major coal-based urea producer in the PRC and for continued growth and further business expansion. To continue to remain competitive and take advantage on the continued growth in urea industry in China, we intend to (i) increase our urea product offering; (ii) improve the quality and efficiency of our production process; (iii) expand our value chain into downstream products; (iv) strengthen our relationships with key customers and diversify our customer base; and (v) expand through targeted acquisitions, joint ventures and partnerships.

To achieve these, our Directors consider that additional funding will be required after having taken consideration of (1) the current market conditions and prospects in the urea industry in the PRC (i.e. growth of downstream applications in industrial and pharmaceutical applications, regulations and policies, urea prices, industry consolidation) as stated in the Frost & Sullivan Report; (2) our leading position and competitive strengths; (3) the current product offerings and production capacity; (4) the rising competitive environment in the urea industry in the PRC; and (5) our Directors believe that our Group can maintain our leading industry position, enhance our competitiveness, maximize our profitability and diversify our sources of revenue and product offerings if we can strengthen our available operational and financial resources.

As at 30 April 2017, which is the latest practicable date for indebtedness and liquidity, we had cash and cash equivalents of approximately RMB103.8 million, short-term bank and other borrowings of approximately RMB526.8 million and long-term bank and other borrowings of approximately RMB397.4 million. Our finance costs from bank loans for the years ended 31 December 2014, 2015 and 2016 amounted to approximately RMB42.4 million, RMB72.8 million, and RMB50.2 million, respectively while our gearing ratio was approximately 1.18, 1.32, and 1.22, respectively. The interest expenses from bank loans will be incurred when we pursue debt financing, which may adversely affect our profitability and financial performance. Our Directors also took into the fact that equity financing does not need to be repaid while bank borrowing does and most of our bank borrowings are repayable within one year. As such, a combination of equity financing and debt financing will be more beneficial to our Group as it can maximise the return for our Shareholders with a more balanced capital structure. In order to obtain additional funding while minimising interest expenses, our Directors believe that the net proceeds from the Global Offering will provide us with the necessary additional financial resources, which is interest-free, to achieve our business strategies.

In addition, our Directors believe that Listing is important and beneficial to our Company and our Shareholders as a whole for the following reasons:

1. during the Track Record Period, two Directors (being Controlling Shareholders) had provided personal guarantees for certain of our bank borrowings. For further details, please see note 28 of “Accountants’ Report” in Appendix I to this prospectus;
2. a public listing status will further enhance our brand, corporate profile and recognition, which in turn will provide higher confidence to banks, new customers and business partners; a public listing status also provides better corporate governance, transparent financial disclosures and regulatory supervision;

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## FUTURE PLANS AND USE OF PROCEEDS

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3. we believe that our internal control and corporate governance practices could be further enhanced after Listing;
4. people are an important asset to our business and it is important for us to retain and attract quality and competent staff, and our Directors believe that our ability to offer an equity-based incentive program after Listing will help us achieve such goal;
5. Listing will enhance the liquidity of our Shares which will be freely traded on the Stock Exchange as compared to the limited liquidity of our Shares as a private company; and
6. Listing will offer our Company a broader shareholder base which could lead to a more liquid market in the trading of our Shares.

### FUTURE PLANS

Please refer to the section headed “Business – Business Strategies” in this prospectus for a detailed description of our future plans.

### USE OF PROCEEDS

The table below sets forth the estimated net proceeds of the Global Offering that we will receive after deduction of underwriting fees and commissions, fees and anticipated expenses payable by us in connection with the Global Offering:

	<b>Assuming the Over-allotment Option is not exercised</b>	<b>Assuming the Over-allotment Option is exercised in full</b>
	<i>HK\$ in million</i>	<i>HK\$ in million</i>
Assuming an Offer Price of HK\$1.20 per Offer Share (being the high end of the Offer Price range stated in this prospectus)	171.2	199.1
Assuming an Offer Price of HK\$1.06 per Offer Share being the mid-point of the Offer Price range stated in this prospectus)	149.4	174.1
Assuming an Offer Price of HK\$0.92 per Offer Share (being the low end of the Offer Price range stated in this prospectus)	127.7	149.1

## FUTURE PLANS AND USE OF PROCEEDS

We intend to apply the net proceeds of approximately HK\$149.4 million for the following purposes assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$1.06 per Share, being the mid-point of the Offer Price range stated in this prospectus:

- Approximately 46.9%, or approximately HK\$70.0 million will be used for the purchase of production equipment and the construction of the new production facility in the PRC for the manufacturing of large granular urea products. The total investment cost of our development of large granular urea products is expected to be RMB61.0 million (equivalent to approximately HK\$70.0 million). Please refer to the paragraph headed “Business – Expansion Plan – Justification of the Expansion Plan” in this prospectus for details;
- Approximately 35.7%, or approximately HK\$53.3 million will be used to purchase, construct and install new environmental protection facility. The total investment cost of new environmental protection project is expected to be RMB46.5 million (equivalent to approximately HK\$53.3 million). Please refer to the paragraph headed “Business – Business Strategies – Improving the quality and efficiency of our production process” in this prospectus for details; and
- Approximately 10.0%, or approximately HK\$15.0 million will be used to repay part of our two outstanding term loans to two Independent Third Parties, details of which are set out as below:

<u>Term Loan</u>	<u>Maturity</u>	<u>Interest Rate Range</u>	<u>Outstanding Principal Amount as at 30 April 2017</u>
Term Loan A	August 2018	10.0%	HK\$58 million
Term Loan B	December 2018	5.0% to LIBOR+7.5%	HK\$70 million

The Term Loan A was borrowed from an Independent Third Parties in August 2016, which, together with other two term loans from other two Independent Third Parties, were used to finance the redemption of CCCO Bonds and CCCO CB. The other two term loans for the aggregate principal amount of HK\$120 million were fully repaid in December 2016 and January 2017, respectively. Part of the repayment for these other two term loans were refinanced by the Term Loan B from another Independent Third Party. Please refer to the section headed “Relationship with Our Controlling Shareholders – Independence from Our Controlling Shareholders – Financial independence” for further details.

- Approximately 7.4% or approximately HK\$11.1 million will be used for general replenishment of working capital and other general corporate purpose in order to improve our liquidity.

The above allocation of the net proceeds will be adjusted on a pro-rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range stated in this prospectus (assuming the Over-allotment Option is not exercised).

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## FUTURE PLANS AND USE OF PROCEEDS

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In the event that the Over-allotment Option is exercised in full, the net proceeds will increase to approximately HK\$174.1 million, assuming an Offer Price of HK\$1.06 per Share, being the mid-point of the Offer Price range stated in this prospectus. In such event, we intend to allocate the net proceeds to the above purposes on a pro-rata basis. Assuming the Over-allotment Option is exercised in full, the above allocation of the net proceeds will be further adjusted on a pro-rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range stated in this prospectus.

In each of the above circumstances, we expect that the respective portions of the net proceeds from the Global Offering will be fully utilised during the years ending 31 December 2017 and 2018 for the above purposes.

To the extent that the net proceeds are not immediately used for the above purposes, we intend to deposit the net proceeds into short-term demand deposits, interest-bearing bank accounts with licensed banks or financial institutions as permitted by the relevant laws and regulations. We will make an appropriate announcement if there is any change to the above proposed use of proceeds or if any amount of the proceeds will be used for general corporate purpose.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

KGI Capital Asia Limited  
Guotai Junan Securities (Hong Kong) Limited  
VC Brokerage Limited  
Dongxing Securities (Hong Kong) Company Limited

### UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Placing is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed among our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 16,000,000 Hong Kong Offer Shares and the International Placing of initially 144,000,000 International Placing Shares, subject, in each case, to reallocation on the basis as described in “Structure of the Global Offering” as well as to the Over-allotment Option in the case of the International Placing.

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

#### Hong Kong Underwriting Agreement

Under the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price, on the terms and subject to the conditions of this prospectus and the Application Forms.

Subject to the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering or otherwise as described in this prospectus and to certain other conditions set out in the Hong Kong Underwriting Agreement (including, among others, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company agreeing on the Offer Price), the Hong Kong Underwriters have agreed severally and not jointly to procure subscribers for, or themselves to subscribe for, their respective proportions of the Hong Kong Offer Shares which are being offered but are not taken up under 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 Hong Kong Underwriting Agreement is conditional on and subject to, among others, the International Placing Agreement having been signed and becoming unconditional.

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## UNDERWRITING

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### *Grounds for termination*

The Sole Global Coordinator, at its sole and absolute discretion, may, for itself and on behalf of the Sole Sponsor and the Hong Kong Underwriters, upon giving notice in writing to our Company and/or our Controlling Shareholders made pursuant to the Hong Kong Underwriting Agreement, terminate the respective obligations of the Hong Kong Underwriters and the respective obligations of the Sole Sponsor under the Hong Kong Underwriting Agreement with immediate effect if any of the following events occurs at or prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Sole Global Coordinator that:
  - (i) any statement contained in any this prospectus, the Application Forms, the formal notice to be published in connection with the Hong Kong Public Offering, and any other document published or issued by or on behalf of our Company for the purposes of or in connection with the Global Offering and, in each case, all amendments or supplements thereto (collectively, the “**Offer Documents**”) considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters and the Sole Sponsor) in its sole and absolute opinion to be material in the context of the Global Offering, was, when it was issued, or has become, untrue, incorrect or misleading in any respect or that any forecast, expression of opinion, intention or expectation expressed in any Offer Documents is not, in the sole and absolute opinion of the Sole Global Coordinator, in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or
  - (ii) any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission from any Offer Documents and considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters and the Sole Sponsor) in its sole and absolute opinion to be material in the context of the Global Offering; or
  - (iii) any of the representations and warranties given by the Company or the Controlling Shareholders in the Hong Kong Underwriting Agreement or the International Placing Agreement is (or would when repeated be) untrue, inaccurate or misleading or having been breached and considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters and the Sole Sponsor) in its sole and absolute opinion to be material in the context of the Global Offering; or

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## UNDERWRITING

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- (iv) any breach of any of the obligations or undertakings imposed upon any party (other than the Sole Global Coordinator or any of the Underwriters or the Sole Sponsor) to any of the Underwriting Agreements; or
- (v) any material adverse change or prospective material adverse change in the condition, business, assets and liabilities, shareholders' equity, properties, results of operations, in the financial or trading position or prospects of any member of our Group; or
- (vi) approval by the Listing Committee of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (vii) the Company withdraws any of the Offer Documents (and/or any other documents used in connection with the contemplated subscription of the Offer Shares) or the Global Offering; or
- (viii) any matter, event, act or omission which gives or is likely to give rise to any material liability of the Company or the Controlling Shareholders pursuant to the indemnities given by the Company, the Controlling Shareholders or any of them as set out in the Hong Kong Underwriting Agreement; or
- (ix) any person (other than the Hong Kong Underwriter) which has given its consent to the issue of this prospectus with the inclusion of its report, 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 it appears, has withdrawn its consent; or
- (x) that a material portion of the orders placed or confirmed in the book-building process, or of the investment commitments made by any cornerstone investors (if any) under the agreements signed with such cornerstone investors, have been withdrawn, terminated or cancelled; or

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## UNDERWRITING

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- (b) there shall develop, occur, exist or come into effect:
- (i) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in or representing any change or development in local, national, regional or international financial, political, military, industrial, legal, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies in or affecting Hong Kong, China, the Cayman Islands, the BVI, the United States, the United Kingdom, the European Union (or any member thereof) or any other relevant jurisdiction (each a “**Relevant Jurisdiction**”); or
  - (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
  - (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, acts of war, riot, outbreak or escalation of hostilities (whether or not war is declared), public disorder, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, outbreak of infectious disease (including without limitation SARS and Influenza A (H5N1), in or affecting any of the Relevant Jurisdictions; or
  - (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
  - (v) (A) any suspension or limitation (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the London Stock Exchange, the Shanghai Stock Exchange, or the Shenzhen Stock Exchange, or (B) a general moratorium or commercial banking activities in any of the Relevant Jurisdictions declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or



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## UNDERWRITING

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- (vi) any material adverse change or development or event involving a prospective material adverse change in taxation or exchange controls or the implementation of any exchange control, currency exchange rates (including a material devaluation of the Hong Kong dollars or the RMB against any foreign currencies) or foreign investment regulations in any of the Relevant Jurisdictions; or
- (vii) any imposition of economic sanctions, in whatever form, directly or indirectly, by any of the Relevant Jurisdictions; or
- (viii) any material adverse change or development or event involving a prospective material adverse change in the Group's assets, liabilities, shareholders' equity, profit, losses, performance, condition, business, financial, earnings, trading position or prospects; or
- (ix) the commencement by any judicial or regulatory body or organisation of any public action against a Director or an announcement by any judicial or regulatory body or organisation that it intends to take any such action; or
- (x) other than with the approval of the Sole Global Coordinator, the issue or requirement to issue by our Company of a supplementary prospectus or offering document pursuant to the Companies (WUMP) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC in circumstances where the matter to be disclosed is, in the opinion of the Sole Global Coordinator materially adverse to the marketing for or implementation of the Global Offering; or
- (xi) a petition is presented for the winding up or liquidation of our Company or any of its subsidiaries, or our Company or any of its subsidiaries make any compromise or arrangement with our Company's or its creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any of its subsidiaries or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any of its subsidiaries or anything analogous thereto occurs in respect of our Company or any of its subsidiaries; or
- (xii) a valid demand by any creditor for repayment or payment of any of our Company's indebtedness or those of any of its subsidiaries or in respect of which our Company or any of its subsidiaries are liable prior to its stated maturity, or any loss or damage sustained by our Company or any of its subsidiaries (howsoever caused and whether or not the subject of any insurance or claim against any person); or

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## UNDERWRITING

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- (xiii) a contravention by our Group or any of the member of our Group of the Listing Rules or applicable Laws; or
- (xiv) a prohibition on our Company for whatever reasons from offering, allotting, issuing or selling any of the Shares pursuant to the terms of the Global Offering; or
- (xv) any material litigation or claim being threatened or instigated against our Company or any of its subsidiaries or our Controlling Shareholders,

and which in any of the above cases and in the sole opinion of Sole Global Coordinator (for itself and on behalf of the Sole Sponsor and the Hong Kong Underwriters):

- (a) is or may or will be or is likely to be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of our Group as a whole; or
- (b) has or may have or will have or is likely to have an adverse material effect on the success of the Global Offering and/or make it impracticable or inadvisable for any part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or
- (c) makes or may make or will or is likely to make it inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or
- (d) has or may have or is likely to have the effect of making any part of the Hong Kong Underwriting 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.

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## UNDERWRITING

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### Restrictions and undertakings

#### *Restrictions and undertakings to the Stock Exchange under the Listing Rules*

(A) Restrictions on us

Under Rule 10.08 of the Listing Rules, at any time during the period commencing on the Listing Date and ending on the expiry of the 6-month period after the Listing Date, no shares or other securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue (whether or not such issue of shares or securities will be completed within six months from the Listing Date), except in circumstances prescribed by Rule 10.08 of the Listing Rules.

(B) Undertakings by our Controlling Shareholders

Our Controlling Shareholders has, jointly as a group and severally, irrevocably and unconditionally undertaken to the Stock Exchange that, except pursuant to the Global Offering, the exercise of the Over-allotment Option or, if applicable, the stock borrowing arrangement that may be entered into with the Stabilising Manager or its agent, it/he/she shall not and shall procure that the registered holders controlled by it/him/her shall not:

- (a) in the period commencing on the date by reference to which disclosure of its/his/her shareholding is made in this prospectus and ending on the date which is 6 months (“**End Date**”) from the Listing Date, dispose of, nor enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances (save pursuant to a pledge or charge as security 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) in respect of, any of those securities of our Company in respect of which it/he/she is shown by this prospectus to be the beneficial owners (the “**Relevant Securities**”); and
- (b) in the period of 6 months commencing from the End Date, dispose of, nor enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances (save pursuant to a pledge or charge as security 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) in respect of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he/she would cease to be a group of controlling shareholder (as defined under the Listing Rules).

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## UNDERWRITING

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Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has also, jointly as a group and severally, irrevocably and unconditionally undertaken to our Company and to the Stock Exchange that, within the period commencing on the date by reference to which disclosure of its/his/her shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it/he/she will:

- (a) when it/he/she pledge or charge any securities of our Company beneficially owned by it/him/her, whether directly or indirectly, in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong), immediately inform our Company in writing of such pledge or charge together with the number of securities of our Company so pledged or charged; and
- (b) when it/he/she receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be disposed of, immediately inform our Company 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 by way in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed by our Controlling Shareholders.

### *Undertakings under the Hong Kong Underwriting Agreement*

#### (A) Undertaking by us

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-managers and the Hong Kong Underwriters that, and each of the executive Directors and our Controlling Shareholders have undertaken to procure that, except pursuant to the Global Offering, the Over-allotment Option, options which may be granted under any share option scheme of any member of our Group or with the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, our Company will not, at any time within the period commencing from the date of the Hong Kong Underwriting Agreement and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”):

- (a) 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, any such share capital or other securities of our Company or any interest therein (including, but not limited to, any securities that are convertible into or exchangeable for, or that represent the right to receive any such capital or securities or any interest therein; or

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## UNDERWRITING

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- (b) enter into any transaction with the same economic effect as any transaction described in (a) above; or
- (c) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a) or (b) above,

whether any such transaction described in (a) or (b) above is to be settled by delivery of Shares or other securities, in cash or otherwise. Our Company will not enter into any of the transactions described above or agree or contract to or publicly announce any intention to enter into any such transactions such that our Controlling Shareholders would cease to be controlling shareholders (as defined in the Listing Rules) of our Company during the period of six months immediately following the expiry of the First Six-Month Period (“**Second Six Months Period**”); and our Company will ensure that if any of the transactions described above are carried out during the Second Six Months Period, we will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of our Company.

### (B) Undertaking by our Controlling Shareholders

Each of the Controlling Shareholders jointly and severally undertakes to each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-managers, and the Hong Kong Underwriters that:

- (i) during the First Six Months Period, he/she/it 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 (for itself and on behalf of the Hong Kong Underwriters) and unless pursuant to the Global Offering, the Over-allotment Option and/or if applicable, the stock borrowing agreement or otherwise in compliance with the requirements of the Listing Rules, (a) offer, pledge, charge (other than any pledge or charge of our Company’s issued share capital after the Global Offering in favour of an authorised institution as defined in the Banking Ordinance (Cap. 155 of the Laws of Hong Kong) for a bona fide commercial loan), sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any share capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein); or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a) or (b) or (c) above, whether any such transaction is to be settled by delivery of such capital or securities, in cash or otherwise;

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## UNDERWRITING

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- (ii) during the Second Six Months Period, he/she/it will not enter into any of the transactions specified in sub-paragraphs (i)(a), (b) or (c) above or agree or contract to or publicly announce any intention to enter into any such transaction if, immediately following such transfer or disposal, he/she/it will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company; and
- (iii) until the expiry of the Second Six Months Period, in the event that he/she/it enters into any such transactions or agrees or contracts to, or publicly announces any intention to enter into any such transactions, he/she/it shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Each of the Controlling Shareholders further undertakes to our Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-managers and the Hong Kong Underwriters that, from the date of the Hong Kong Underwriting Agreement up to and including the expiry of the Second Six Months Period, he/she/it will:

- (i) when he/she/it pledges or charges any securities or interests in the securities of our Company, immediately inform our Company and the Sole Global Coordinator in writing of such pledge or charge together with the number of securities and nature of interest so pledged or charged; and
- (ii) if and when he/she/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Global Coordinator in writing of such indications.

Our Company agrees and undertakes to each of the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-managers and the Hong Kong Underwriters, that, it will inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) from the relevant Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

### **Indemnity**

Our Company, our executive Directors and our Controlling Shareholders have agreed to, on joint and several basis, indemnify the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-managers, the Sole Sponsor and the Hong Kong Underwriters for certain losses which they may suffer, including, among others, losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us or any of our executive Directors and Controlling Shareholders of any of the provisions of the Hong Kong Underwriting Agreement.

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## UNDERWRITING

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### **International Placing**

#### *International Placing Agreement*

In connection with the International Placing, our Company, our Controlling Shareholders and our executive Directors, expect to enter into the International Placing Agreement with the International Underwriters. Under the International Placing Agreement, the International Underwriters, subject to certain conditions, will agree severally and not jointly to procure purchasers for, or themselves purchase, their respective proportions of the International Placing Shares being offered under the International Placing.

Under the International Placing Agreement, we expect to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) at any time from the Listing Date until the date which is the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, to require us to allot and issue up to an aggregate of 24,000,000 additional Shares, representing in aggregate of approximately 15% of the Offer Shares initially available under the Global Offering. These additional Shares will be issued at the Offer Price and will be for the purpose of, covering over-allocations in the International Placing, if any.

It is expected that the International Placing Agreement may be terminated on substantially similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that if the International Placing Agreement is not entered into, the Global Offering will not proceed.

Our Company will agree to indemnify the International Underwriters against certain liabilities.

### **Commissions and expenses**

The Hong Kong Underwriters will receive an underwriting commission of 3% of the aggregate Offer Price in respect of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering (provided that the underwriting commission for any International Placing Shares reallocated to the Hong Kong Public Offering shall be paid for in accordance with the terms of the Hong Kong Underwriting Agreement and the underwriting commission for any Hong Kong Offer Shares reallocated to the International Placing shall be paid in accordance with the terms of the International Placing Agreement). The commissions payable to the Underwriters will be borne by our Company in relation to the new Shares to be issued in relation to the Global Offering. Our Company may, in its sole discretion, pay the Sole Global Coordinator an additional incentive fee of up to 1.0% of the aggregate Offer Price of all Offer Shares. The Hong Kong Underwriters (other than the Sole Global Coordinator) are not entitled to any incentive fee.

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$1.06 (being the mid-point of the indicative Offer Price range), the underwriting commission, financial advisory fees, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Global Offering are estimated to amount to approximately HK\$51.1 million in total.

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## UNDERWRITING

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### **Underwriters' interest in our Group**

Save for their obligations under the Underwriting Agreements, none of the Underwriters has any shareholding interests in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Underwriting Agreements.

### **Independence of the Sole Sponsor**

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.



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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- the Hong Kong Public Offering of 16,000,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “Hong Kong Public Offering”; and
- the International Placing of 144,000,000 Shares (subject to adjustment and the Over-allotment Option as mentioned below), outside the United States (including with professional, institutional, corporate and other investors whom we anticipate may have a reasonable demand for the Shares in Hong Kong) in offshore transactions in reliance on Regulation S.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Placing Shares under the International Placing, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of the International Placing Shares to institutional and professional investors and other investors in other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the International Placing Shares in the International Placing. Prospective investors will be required to specify the number of International Placing Shares they would be prepared to acquire either at different prices or at a particular price.

The Shares will be traded in board lots of 4,000 each.

The number of Offer Shares to be offered under the Global Offering may be subject to reallocation as described in the section headed “Pricing and allocation” below.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate only to the Hong Kong Public Offering.

### PRICING AND ALLOCATION

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, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Monday, 3 July 2017 and in any event, no later than 5:00 p.m. on Thursday, 6 July 2017.

The Offer Price will not be more than HK\$1.20 per Offer Share and is expected to be not less than HK\$0.92 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. 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.

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## STRUCTURE OF THE GLOBAL OFFERING

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If, based on the level of interest expressed by prospective institutional and professional investors and other investors during the book-building process, the Sole Global Coordinator (on behalf of the Underwriters and with the consent of our Company) considers the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range to be inappropriate, the Sole Global Coordinator (on behalf of the Underwriters) may 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 at any time on or before 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 last day for lodging applications under the Hong Kong Public Offering on Monday, 3 July 2017, cause to publish in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.dg-chemical.com](http://www.dg-chemical.com) a notice of the reduction. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as set out in the section headed “Summary” and any other financial information which may change as a result of such reduction. Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering 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. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The Shares to be offered in the Global Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator. Allocation of the International Placing Shares under the International Placing will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the Listing. Such allocation may be made to professional, institutional or corporate investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid Shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based 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. The allocation of Hong Kong Offer Shares 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 the ballot may not receive any Hong Kong Offer Shares.

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## STRUCTURE OF THE GLOBAL OFFERING

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The final Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing, the basis of allocations of the Hong Kong Offer Shares and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available in a variety of channels in the manner described in the section headed “How to Apply for Hong Kong Offer Shares – Publication of results” in this prospectus.

### CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Hong Kong Offer Shares under the Hong Kong Public Offering will be conditional on, inter alia:

- (a) the granting of approval by 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 (including the Offer Shares to be issued pursuant to the Global Offering, any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the exercise of options granted under the Share Option Scheme), and such listing and permission not having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (b) the Offer Price having been determined on or around the Price Determination Date;
- (c) the execution and delivery of the International Placing Agreement on or around the Price Determination Date;
- (d) the obligations of the Underwriters under the Underwriting Agreements having become 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 respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times).

If, for any reason, the Offer Price is not agreed by 5:00 pm on Thursday, 6 July 2017 between the Sole Global Coordinator (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived before the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.dg-chemical.com](http://www.dg-chemical.com) on the next day following such lapse. In such eventuality, 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”. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

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## STRUCTURE OF THE GLOBAL OFFERING

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Share certificates for the Offer Shares are expected to be issued on Monday, 10 July 2017 but will only become valid certificates of title at 8:00 a.m. on the Listing Date, provided that (a) the Global Offering has become unconditional in all respects; and (b) neither of the Underwriting Agreements has been terminated in accordance with its terms.

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

### **HONG KONG PUBLIC OFFERING**

#### **Number of Shares initially offered**

We are initially offering 16,000,000 Shares at the Offer Price, representing 10% of the 160,000,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering, the number of Offer Shares offered under the Hong Kong Public Offering will represent approximately 2.58% of our enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

#### **Allocation**

For allocation purposes only, the Hong Kong Offer Shares initially being offered for subscription under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Global Offering) will be divided equally into two pools (subject to adjustment of odd lot size): Pool A comprises 8,000,000 Hong Kong Offer Shares and Pool B comprises 8,000,000 Hong Kong Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with an aggregate subscription price of HK\$5 million or less (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) will fall into Pool A and all valid applications that have been received for Hong Kong Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) and up to the total value of Pool B will fall into Pool B. For the purpose of this paragraph only, the “subscription price” for the Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Investors should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both 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. Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Hong Kong Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or in both pools will be rejected. No application will be accepted from applicants for more than 8,000,000 Hong Kong Offer Shares (being 50% of the initial number of Hong Kong Offer Shares).

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## STRUCTURE OF THE GLOBAL OFFERING

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### **Reallocation and clawback**

The allocation of Shares between the Hong Kong Public Offering and the International Placing is subject to adjustment. If the number of Offer Shares validly applied for in the Hong Kong Public Offering represents (a) 15 times or more but less than 50 times, (b) 50 times or more but less than 100 times, and (c) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 48,000,000, 64,000,000 and 80,000,000 Offer Shares, representing 30% (in the case of (a)), 40% (in the case of (b)) and 50% (in the case of (c)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Offer Shares allocated to the International Placing will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate, and such additional Offer Shares will be allocated to Pool A and Pool B.

If the Hong Kong Offer Shares are not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Sole Global Coordinator deems appropriate.

### **Applications**

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Placing, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Hong Kong Offer Shares under the Hong Kong Public Offering.

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 and any person for whose benefit he is making 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 of, any International Placing Shares under the International Placing, and such applicant's application is liable to be rejected if the undertaking and/or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated International Placing Shares under the International Placing.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$1.20 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK\$1.20, being the maximum Offer Price, we will refund the difference (including brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in "How to Apply for Hong Kong Offer Shares".

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## STRUCTURE OF THE GLOBAL OFFERING

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### INTERNATIONAL PLACING

#### Number of Offer Shares initially offered

The number of Offer Shares to be initially offered for subscription under the International Placing will be 144,000,000 Offer Shares (subject to adjustment and the Over-allotment Option), representing 90% of the Offer Shares under the Global Offering and 23.2% of our enlarged issued share capital immediately after the Global Offering assuming that the Over-allotment Option is not exercised. The International Placing is subject to the Hong Kong Public Offering becoming unconditional.

#### Allocation

The International Placing will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of International Placing Shares under the International Placing will be effected in accordance with the “book-building” process described in the section headed “Pricing and allocation” in this prospectus and based on a number of factors, including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional Shareholder base for the benefit of our Company and our Shareholders as a whole.

### APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and the Offer Shares being offered under the Global Offering (including the additional Offer Shares which may be made available under the exercise of the Over-allotment Option), Shares up to 10% of the Shares in issue as at the Listing Date, which may be issued on the exercise of any options which may be granted under the Share Option Scheme, and the Remuneration Shares to be issued as referred to in the section headed “Directors and Senior Management – Senior Management” in this prospectus.

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

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## STRUCTURE OF THE GLOBAL OFFERING

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### OVER-ALLOTMENT OPTION

We expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) at any time from the Listing Date until the date which is the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. Under the Over-allotment Option, the Sole Global Coordinator will have the right to require us to allot and issue up to an aggregate of 24,000,000 additional Shares representing in aggregate of approximately 15% of the Offer Shares initially available under the Global Offering, to cover over-allocations in the International Placing, if any. If the Over-allotment Option is exercised in full, the additional Shares will represent approximately 3.73% of our enlarged issued share capital following the completion of the Global Offering and the exercise of the Over-allotment Option. These Shares will be issued at the Offer Price. An announcement will be made by the Company on the Company's website at [www.dg-chemical.com](http://www.dg-chemical.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) if the Over-allotment Option is exercised.

### STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over allocations in connection with the Global Offering, the Stabilising Manager may choose to borrow, whether on its own or through its affiliates, up to 24,000,000 Shares, representing 15% of the Offer Shares, from Sino-Coal Holding under the stock borrowing arrangement (being the maximum number of Offer Shares which may be issued upon full exercise of the Over-allotment Option), or acquire Shares from other sources, including exercising the Over-allotment Option.

The Stabilising Manager will enter into the stock borrowing agreement with Sino-Coal Holding. Such stock borrowing arrangement will only be effected by the Stabilising Manager or its agent for settlement of over allocation in the International Placing and such arrangement is not subject to the restrictions of Rule 10.07(1) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with. The same number of Shares so borrowed must be returned to Sino-Coal Holding or its nominees on or before the third business day following the earlier of (a) the last day on which the Over-allotment Option may be exercised, or (b) the day on which the Over-allotment Option is exercised in full and the relevant Offer Shares subject to the Over-allotment Option have been issued.

The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Sino-Coal Holding by the Stabilising Manager or its agent in relation to such stock borrowing arrangement.

### STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price.

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## STRUCTURE OF THE GLOBAL OFFERING

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In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, as stabilising manager on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period up to the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. Any market purchases of 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 person acting for it, to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager, its affiliates or any person acting for it, and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 24,000,000 Shares, which is approximately 15% of the Offer Shares initially available under the Global Offering.

Stabilising actions permitted in Hong Kong under the Securities and Futures (Price Stabilizing) Rules, as amended, include: (a) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares; (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares; (c) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares under the Over-allotment Option in order to close out any position established under (a) or (b) above; (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares; (e) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (f) offering or attempting to do anything described in (b), (c), (d) or (e) above.

Specifically, prospective applications for and investors in the 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 the Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, its affiliates or any person acting for it, will maintain such a position;
- liquidation of any such long position by the Stabilising Manager, its affiliates or any person acting for it, may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date, and is expected to expire on Wednesday, 2 August 2017 being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by the taking of any stabilising action; and



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## STRUCTURE OF THE GLOBAL OFFERING

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- stabilising bids must be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules, as amended, will be made within seven days of the expiration of the stabilisation period.

### DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, 11 July 2017, it is expected that dealings in Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, 11 July 2017. The Shares will be traded in board lots of 4,000 Shares each. The stock code of the Shares is 1702.

### UNDERWRITING ARRANGEMENTS

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.

We expect that we will, on or about Monday, 3 July 2017, shortly after determination of the Offer Price, enter into the International Placing Agreement relating to the International Placing.

The terms of the underwriting arrangements, the Underwriting Agreement are summarised in the section headed “Underwriting” in this prospectus.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### (I) HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at [www.hkeipo.hk](http://www.hkeipo.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application. Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### (II) 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 U. S. person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion, and on any conditions it thinks fit, including evidence of the attorney's authority.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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The number of joint applicants may not exceed four and they may not apply by means of the **HK eIPO White Form** service 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 of its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- 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;
- an associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

### (III) 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.hkeipo.hk](http://www.hkeipo.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, 28 June 2017 until 12:00 noon on Monday, 3 July 2017 from:

- a. any of the following addresses of the Hong Kong Underwriters:

**KGI Capital Asia Limited**  
41/F, Central Plaza  
18 Harbour Road, Wanchai  
Hong Kong

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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**Guotai Junan Securities (Hong Kong) Limited**

27/F, Low Block, Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

**VC Brokerage Limited**

28/F, The Centrium  
60 Wyndham Street, Central  
Hong Kong

**Dongxing Securities (Hong Kong) Company Limited**

6805-6806A, International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

- b. or any of the following branches of the following receiving bank:

**Bank of China (Hong Kong) Limited**

	<u>Branch Name</u>	<u>Address</u>
<b>Hong Kong Island</b>	Gilman Street Branch	136 Des Voeux Road Central
	Causeway Bay Branch	505 Hennessy Road, Causeway Bay
	Taikoo Shing Branch	Shop G1006, Hoi Sing Mansion, Taikoo Shing
<b>Kowloon</b>	Wong Tai Sin Branch	Shop G13, Wong Tai Sin Plaza, Wong Tai Sin
<b>New Territories</b>	Kwai Chung Plaza Branch	A18-20, G/F Kwai Chung Plaza, 7-11 Kwai Foo Road, Kwai Chung
	Tai Po Branch	68-70 Po Heung Street, Tai Po Market

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 28 June 2017 until 12:00 noon on Monday, 3 July 2017 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or your stockbroker.

**Time for Lodging Application Forms**

Your completed **WHITE** 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 – DONGGUANG CHEMICAL PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

<b>Wednesday, 28 June 2017</b>	<b>– 9:00 a.m. to 5:00 p.m.</b>
<b>Thursday, 29 June 2017</b>	<b>– 9:00 a.m. to 5:00 p.m.</b>
<b>Friday, 30 June 2017</b>	<b>– 9:00 a.m. to 5:00 p.m.</b>
<b>Monday, 3 July 2017</b>	<b>– 9:00 a.m. to 12:00 noon</b>

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 3 July 2017, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Application Lists" in this section.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### (IV) TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- i. undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or their respective 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, the Companies (WUMP) 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 Placing nor participated in the International Placing;
- viii. agree to disclose to our Company, our Hong Kong Share Registrar, receiving banks, 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;
- 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;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- x. agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- xi. agree that your application will be governed by the laws of Hong Kong;
- xii. represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the 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-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- xvi. declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- xvii. understand that our Company and the 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 to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- xix. (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional Instructions for Yellow Application Form**

You may refer to the **YELLOW** Application Form for details.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### (V) APPLYING THROUGH HK eIPO WHITE FORM SERVICE

#### General

Individuals who meet the criteria in “Who can apply” section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

#### Time for Submitting Applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service Provider at [www.hkeipo.hk](http://www.hkeipo.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, 28 June 2017 until 11:30 a.m. on Monday, 3 July 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 3 July 2017 or such later time under the “Effect of Bad Weather on the Opening of the Application Lists” in this section.

#### No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** service to make an application for 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 **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

#### Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, 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 (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### (VI) 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 monies due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<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.

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;



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (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 Placing;
  - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors and the 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;
  - 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);

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving banks, 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 a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any 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 a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by 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 giving **electronic application instructions** to apply for 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 (WUMP) 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.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 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 4,000 Hong Kong Offer Shares. Instructions for more than 4,000 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.

### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

<b>Wednesday, 28 June 2017</b>	<b>– 9:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Thursday, 29 June 2017</b>	<b>– 8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Friday, 30 June 2017</b>	<b>– 8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Monday, 3 July 2017</b>	<b>– 8:00 a.m.<sup>(1)</sup> to 12:00 noon</b>

*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, 28 June 2017 until 12:00 noon on Monday, 3 July 2017 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, 3 July 2017, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of 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 (WUMP) 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 (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bankers, 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.

## (VII) 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 **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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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, 3 July 2017.

### (VIII) 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 the **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### (IX) 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 **HK eIPO White Form** service in respect of a minimum of 4,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 4,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering – Pricing and Allocation”.

### (X) EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 3 July 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, 3 July 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

### (XI) PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Monday, 10 July 2017 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on our Company’s website at [www.dg-chemical.com](http://www.dg-chemical.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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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.dg-chemical.com](http://www.dg-chemical.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 8:00 a.m. on Monday, 10 July 2017;
- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Monday, 10 July 2017 to 12:00 midnight on Friday, 14 July 2017;
- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Monday, 10 July 2017 to Thursday, 13 July 2017; and
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, 10 July 2017 to Wednesday, 12 July 2017 at all the receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the 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.

### (XII) 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 to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If any supplement to this prospectus is issued, applicants who have already submitted an application may withdraw 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 **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- our Company or the Sole Global Coordinator believes that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 8,000,000 Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### (XIII) 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\$1.20 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 “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 made on Monday, 10 July 2017.

### (XIV) 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 the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the 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).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Monday, 10 July 2017. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, 11 July 2017 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.

### **Personal Collection**

*(i) If you apply using a **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 Company's Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 10 July 2017 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 Monday, 10 July 2017, by ordinary post and at your own risk.

*(ii) If you apply using a **YELLOW** Application Form*

If you apply for 1,000,000 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 Monday, 10 July 2017, 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 Monday, 10 July 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- If you apply through a designated CCASS participant (other than a CCASS investor participant)

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- If you are applying as a CCASS investor participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 10 July 2017 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 **HK eIPO White Form** service*

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 Company's Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 10 July 2017, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Monday, 10 July 2017 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(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 Monday, 10 July 2017, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Monday, 10 July 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 10 July 2017 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of 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 Monday, 10 July 2017. 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.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- 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 Hong Kong 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 Monday, 10 July 2017.

### **(XV) ADMISSION OF THE SHARES INTO CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

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

*The following is the text of a report received from the Company's reporting accountants, BDO Limited, Certified Public Accountants, for the purpose of incorporation in this prospectus.*



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香港干諾道中111號  
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28 June 2017

*The Directors*

**Dongguang Chemical Limited**

**KGI Capital Asia Limited**

Dear Sirs,

We set out below our report on the financial information (the “**Financial Information**”) of Dongguang Chemical Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”), including the consolidated statements of financial position of the Group as at 31 December 2014, 2015 and 2016 and the statements of financial position of the Company as at 31 December 2014, 2015 and 2016 and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity of the Group for each of the years ended 31 December 2014, 2015 and 2016 (the “**Relevant Periods**”), and a summary of significant accounting policies and other explanatory notes thereon, for inclusion in the prospectus of the Company dated 28 June 2017 (the “**Prospectus**”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The Company was incorporated in the Cayman Islands on 26 July 2013 as an exempted company with limited liability under Companies Laws, Cap 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands.

Pursuant to a group reorganisation (the “**Reorganisation**”) as described in Note 1 of Section II of this report, the Company has since 28 November 2014 become the holding company of the subsidiaries now comprising the Group. The Company has not carried on any business since the date of its incorporation saves for the aforementioned Reorganisation.

No audited financial statements have been prepared by the Company as it was not subject to any statutory requirements under the relevant rules and regulations in its jurisdiction of incorporation. Particulars of the subsidiaries comprising the Group and the respective names of their statutory auditors are set out in Note 1 of Section II of this report.

For the purpose of the Financial Information of this report, consolidated financial statements (the “**Underlying Financial Statements**”) have been prepared by the directors of the Company based on the audited financial statements and, where appropriate, unaudited management accounts of all companies now comprising the Group, on the basis of preparation set out in Note 2 of Section II below, in accordance with the accounting policies set out in Note 4 of Section II below which are in conformity with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (the “**IASB**”).

The Financial Information sets out in this report for the Relevant Periods has been prepared by the directors of the Company based on the Underlying Financial Statements with no adjustments made thereon and in accordance with the basis of presentation set out in Note 1 of Section II below.

### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION**

The directors of the Company are responsible for the contents of the Prospectus, including preparation of the Financial Information that gives a true and fair view in accordance with IFRSs and the basis of presentation set out in Note 1 of Section II below, and for such internal control as the directors determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

### **REPORTING ACCOUNTANTS' RESPONSIBILITY**

Our responsibility is to form an opinion on the Financial Information based on our procedures and to report our opinion to you.

For the purpose of this report, we have carried out audit procedures on the Underlying Financial Statements for the Relevant Periods in accordance with International Standards on Auditing (“**ISAs**”) issued by the International Auditing and Assurance Standards Board. We have examined the Financial Information and carried out appropriate procedures as we considered necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

### **OPINION IN RESPECT OF THE FINANCIAL INFORMATION**

In our opinion, the Financial Information, for the purpose of this report, prepared on the basis of presentation set out in Note 1 of Section II and in accordance with accounting policies set out in Note 4 of Section II below, gives a true and fair view of the financial position of the Company and of the Group as at 31 December 2014, 2015 and 2016 and of the financial performance and cash flows of the Group for the Relevant Periods then ended.

## I. FINANCIAL INFORMATION

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December		
		2014	2015	2016
		RMB'000	RMB'000	RMB'000
<b>Revenue</b>	7	1,383,882	1,859,300	1,457,523
Cost of sales		(1,150,260)	(1,406,321)	(1,307,769)
<b>Gross profit</b>		233,622	452,979	149,754
Other income	7	6,195	7,779	9,924
Other gains and losses, net	8	133	(50,581)	(10,661)
Administrative expenses		(43,093)	(62,675)	(49,264)
Distribution expenses		(23,262)	(25,840)	(2,075)
Finance costs	10	(54,460)	(82,683)	(68,121)
<b>Profit from operations</b>		119,135	238,979	29,557
Change in fair value of convertible bonds		–	(30,517)	8,701
Loss on redemption of convertible bonds		–	–	(1,344)
<b>Profit before income tax</b>	9	119,135	208,462	36,914
Income tax expenses	11	(29,950)	(100,367)	(18,104)
<b>Profit for the year</b>		89,185	108,095	18,810
<b>Other comprehensive income that may be reclassified to profit or loss in subsequent periods</b>				
Exchange differences on translation of foreign operations		(311)	471	3,437
<b>Total comprehensive income for the year attributable to owners of the Company</b>		88,874	108,566	22,247



## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			
		2014	2015	2016	
Note		RMB'000	RMB'000	RMB'000	
<b>Non-current assets</b>					
	Property, plant and equipment	15	1,457,113	1,427,896	1,317,369
	Investment property	16	–	7,238	6,974
	Prepaid land lease payments	17	99,235	89,887	87,785
	Prepayments for equipment	20	22,241	4,045	3,416
	Deferred tax assets	18	11,195	–	2,181
	<b>Total non-current assets</b>		<u>1,589,784</u>	<u>1,529,066</u>	<u>1,417,725</u>
<b>Current assets</b>					
	Inventories	19	65,959	59,212	66,762
	Prepaid land lease payments	17	2,343	2,079	2,079
	Prepayments, deposits and other receivables	20	54,757	43,476	131,503
	Financial assets at fair value through profit or loss	21	6,000	–	–
	Income tax recoverable		–	9,638	–
	Amounts due from shareholders	22	174,689	–	–
	Amounts due from officers	22	16,700	–	–
	Notes receivables	23	390	2,530	1,170
	Restricted bank deposits	24	–	–	6,000
	Cash and bank balances	24	98,510	222,211	162,443
	<b>Total current assets</b>		<u>419,348</u>	<u>339,146</u>	<u>369,957</u>
<b>Current liabilities</b>					
	Trade payables	25	40,382	30,941	12,955
	Deferred revenue	26	2,428	3,980	3,130
	Deposits received, other payables and accruals	27	244,918	137,780	109,137
	Short-term bank and other borrowings	28	330,000	422,306	494,146
	Long-term bank and other borrowings – current portion	28	63,093	12,732	43,530
	Income tax payable		16,707	–	4,091
	Amounts due to shareholders	29	54,720	–	–
	Non-convertible bonds	30	–	67,378	–
	Convertible bonds	31	–	161,787	–
	<b>Total current liabilities</b>		<u>752,248</u>	<u>836,904</u>	<u>666,989</u>
	<b>Net current liabilities</b>		<u>(332,900)</u>	<u>(497,758)</u>	<u>(297,032)</u>

		As at 31 December			
		2014	2015	2016	
<i>Note</i>		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
<b>Non-current liabilities</b>					
	Long-term bank and other borrowings	28	488,590	283,241	364,857
	Deferred revenue	26	20,598	28,320	15,927
	Deferred tax liabilities	18	–	2,085	–
	<b>Total non-current liabilities</b>		509,188	313,646	380,784
	<b>Net assets</b>		747,696	717,662	739,909
<b>Capital and reserves attributable to owners of the Company</b>					
	Share capital	32	277	283	283
	Reserves		747,419	717,379	739,626
	<b>Total equity</b>		747,696	717,662	739,909

## STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2014	2015	2016
<i>Note</i>		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current asset</b>				
Interest in a subsidiary	<i>1(b)</i>	750,816	750,816	750,816
<b>Total non-current asset</b>		<u>750,816</u>	<u>750,816</u>	<u>750,816</u>
<b>Current assets</b>				
Prepayments and other receivables	<i>20</i>	600	441	8,110
Amount due from a subsidiary	<i>34(e)</i>	–	31,940	–
Cash and bank balances	<i>24</i>	–	70	15,633
<b>Total current assets</b>		<u>600</u>	<u>32,451</u>	<u>23,743</u>
<b>Current liabilities</b>				
Accruals		–	–	5
Amounts due to subsidiaries	<i>34(e)</i>	7,418	13,193	87,868
Long-term other borrowings				
– current portion	<i>28</i>	–	–	9,969
Non-convertible bonds	<i>30</i>	–	67,378	–
Convertible bonds	<i>31</i>	–	161,787	–
<b>Total current liabilities</b>		<u>7,418</u>	<u>242,358</u>	<u>97,842</u>
<b>Net current liabilities</b>		<u>(6,818)</u>	<u>(209,907)</u>	<u>(74,099)</u>
<b>Non-current liabilities</b>				
Long-term other borrowings	<i>28</i>	–	–	113,699
<b>Net assets</b>		<u>743,998</u>	<u>540,909</u>	<u>563,018</u>
<b>Capital and reserves</b>				
Share capital	<i>32</i>	277	283	283
Reserves	<i>33</i>	743,721	540,626	562,735
<b>Total equity</b>		<u>743,998</u>	<u>540,909</u>	<u>563,018</u>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Specific reserve	Merger reserve	Statutory reserve	Foreign currency translation reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	309	-	33,255	184,720	96,161	-	398,948	713,393
Profit for the year	-	-	-	-	-	-	89,185	89,185
Other comprehensive income								
- Exchange difference arising on translation of foreign operations	-	-	-	-	-	(311)	-	(311)
Total comprehensive income	-	-	-	-	-	(311)	89,185	88,874
Arising from reorganisation	-	-	-	(744,562)	-	-	-	(744,562)
Repurchase of shares	(309)	-	-	-	-	-	-	(309)
Issue of shares	277	744,743	-	-	-	-	-	745,020
Deemed distribution	-	-	-	-	-	-	(54,720)	(54,720)
Appropriation of reserve	-	-	7,474	-	-	-	(7,474)	-
Utilisation of specific reserve for the year	-	-	(2,634)	-	-	-	2,634	-
At 31 December 2014 and 1 January 2015	277	744,743	38,095	(559,842)	96,161	(311)	428,573	747,696
Profit for the year	-	-	-	-	-	-	108,095	108,095
Other comprehensive income								
- Exchange difference arising on translation of foreign operations	-	-	-	-	-	471	-	471
Total comprehensive income	-	-	-	-	-	471	108,095	108,566
Issue of shares	6	32,667	-	-	-	-	-	32,673
Appropriation of reserve	-	-	8,428	-	-	-	(8,428)	-
Utilisation of specific reserve for the year	-	-	(3,136)	-	-	-	3,136	-
Dividend paid	-	(171,273)	-	-	-	-	-	(171,273)
At 31 December 2015 and 1 January 2016	283	606,137	43,387	(559,842)	96,161	160	531,376	717,662

	Share capital	Share premium	Specific reserve	Merger reserve	Statutory reserve	Foreign currency translation reserve	Retained earnings	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2016	283	606,137	43,387	(559,842)	96,161	160	531,376	717,662
Profit for the year	-	-	-	-	-	-	18,810	18,810
Other comprehensive income								
- Exchange difference arising on translation of foreign operations	-	-	-	-	-	3,437	-	3,437
Total comprehensive income	-	-	-	-	-	3,437	18,810	22,247
Appropriation of reserve	-	-	7,776	-	-	-	(7,776)	-
Utilisation of specific reserve for the year	-	-	(7,266)	-	-	-	7,266	-
At 31 December 2016	<u>283</u>	<u>606,137</u>	<u>43,897</u>	<u>(559,842)</u>	<u>96,161</u>	<u>3,597</u>	<u>549,676</u>	<u>739,909</u>

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cash flows from operating activities</b>			
Profit before income tax	119,135	208,462	36,914
<i>Adjustments for:</i>			
Amortisation of prepaid land lease payments	2,322	2,330	2,102
Depreciation of investment property	–	44	264
Depreciation of property, plant and equipment	97,060	139,655	142,957
Government grant income	(3,472)	(4,770)	(8,063)
Dividend of financial assets at fair value through profit or loss	(247)	–	–
Change in fair value of convertible bonds	–	30,517	(8,701)
Exchange difference on non-convertible bonds, convertible bonds and other borrowings	–	12,670	10,496
Loss on redemption of convertible bonds	–	–	1,344
Loss on disposal of property, plant and equipment	–	23,016	–
Impairment loss on property, plant and equipment	–	13,275	–
Interest income	(1,567)	(832)	(826)
Interest expense	54,460	82,683	68,121
Operating profit before working capital changes	267,691	507,050	244,608
(Increase)/decrease in inventories	(628)	6,747	(7,550)
Decrease/(increase) in notes receivables	10,448	(2,140)	1,360
(Increase)/decrease in prepayments, deposits and other receivables	(1,701)	11,281	(88,027)
Increase/(decrease) in trade payables	12,908	(9,441)	(17,986)
Increase/(decrease) in deposits received, other payables and accruals	93,082	(107,138)	(28,643)
Increase/(decrease) in deferred revenue	8,820	14,045	(5,180)
Cash generated from operations	390,620	420,404	98,582
Income taxes paid	(29,136)	(113,432)	(8,642)
<b>Net cash generated from operating activities</b>	361,484	306,972	89,940

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(345,264)	(150,533)	(31,801)
Prepaid land lease payments	(927)	–	–
Purchase of financial assets at fair value through profit or loss	(26,050)	–	–
Proceeds from disposal of property, plant and equipment	–	22,000	–
Proceeds from disposal of financial assets at fair value through profit or loss	70,050	6,000	–
(Increase)/decrease in amounts due from shareholders	(172,173)	174,688	–
(Increase)/decrease in amounts due from officers	(16,700)	16,700	–
Dividend received from financial assets at fair value through profit or loss	247	–	–
Interest received	1,567	832	826
Increase in restricted bank deposits	–	–	(6,000)
<b><i>Net cash (used in)/generated from investing activities</i></b>	<b><u>(489,250)</u></b>	<b><u>69,687</u></b>	<b><u>(36,975)</u></b>

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cash flows from financing activities</b>			
Issue of shares	277	–	–
Proceeds from issue of non-convertible bonds	–	61,202	–
Proceeds from issue of convertible bonds	–	122,404	–
Repayment of non-convertible bonds	–	–	(66,615)
Repayment of convertible bonds	–	–	(159,876)
Repurchase of shares	(309)	–	–
Drawdown of bank and other borrowings	685,280	810,000	778,944
Repayment of bank and other borrowings	(308,471)	(973,404)	(603,810)
Dividend paid	–	(171,273)	–
Interest paid	(54,460)	(80,311)	(64,813)
Decrease in amount due to a related party	(313,457)	–	–
Increase/(decrease) in amounts due to shareholders	182	(22,047)	–
<b><i>Net cash generated from/(used in) financing activities</i></b>	<u>9,042</u>	<u>(253,429)</u>	<u>(116,170)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(118,724)	123,230	(63,205)
<b>Cash and cash equivalents at beginning of year</b>	217,545	98,510	222,211
<b>Effect on foreign exchange rate changes</b>	<u>(311)</u>	<u>471</u>	<u>3,437</u>
<b><i>Cash and cash equivalents at end of year</i></b>	<u><u>98,510</u></u>	<u><u>222,211</u></u>	<u><u>162,443</u></u>
<b><i>Analysis of cash and cash equivalents</i></b>			
Cash and bank balances	<u><u>98,510</u></u>	<u><u>222,211</u></u>	<u><u>162,443</u></u>



**II. NOTES TO THE FINANCIAL INFORMATION****1. GENERAL INFORMATION AND REORGANISATION AND BASIS OF PRESENTATION****(a) General information**

Dongguang Chemical Limited (東光化工有限公司) (the “**Company**”) is incorporated in the Cayman Islands on 23 July 2013 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the special resolutions of shareholders dated 17 June 2015, the Company changed its name from Sino-coal Chemical Limited (中煤化工有限公司) to Dongguang Chemical Limited (東光化工有限公司). The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The principal activity of the Company is investment holding. The Company and its subsidiaries (referred to as the “**Group**”) is principally engaged in manufacturing and selling urea in the People’s Republic of China (the “**PRC**”) (the “**Listing Business**”).

Pursuant to the Reorganisation (“**Reorganisation**”) as detailed in the subsection headed “Group Reorganisation” in Appendix V to the prospectus of the Company dated 28 June 2017 (the “**Prospectus**”), in preparation for the listing (the “**Listing**”) of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and for the purpose of rationalising the Group’s structure, the Company became the holding company of the subsidiaries now comprising the Group on 28 November 2014.

**(b) Reorganisation**

Prior to the Reorganisation, the Listing Business was owned by Sino Emirates and nine PRC individuals (namely Mr. Wang Zhihe (“**Mr Wang**”), Mr. Sun Yi (“**Mr Sun**”), collectively referred as the “**Controlling Shareholders**” together with seven persons, collectively referred to as the “**Ultimate Shareholders**”) as to 39.2% and 60.8% respectively.

In preparation for listing of the Company’s shares on the Main Board of the Stock Exchange, the Group underwent the Reorganisation to transfer the Listing Business to the Company principally through the following steps:

- (i) On 26 July 2013, the Company was incorporated in the Cayman Islands as part of the Reorganisation. Upon incorporation, one share was issued to a subscriber at US\$1 which was transferred on the same date to Gao Jun, an independent third party, at US\$1. On the same date, a total of 49,999 shares were allotted and issued to Gao Jun. On 15 April 2014, the authorised and issued share capital of the Company was subdivided from US\$50,000 divided into 50,000 shares having a par value of US\$1 each to US\$50,000 divided into 500,000,000 shares having a par value of US\$0.0001 each. On 12 June 2014, the Company had repurchased the 500,000,000 shares, representing the then entire issued share capital of the Company, from Gao Jun and such shares were cancelled against the then issued share capital of the Company. On the same date, a total of 200,000,000 shares were allotted and issued, by the Company to Sino-Coal Holding. As a result, the entire issued share capital of the Company was wholly owned by Sino-Coal Holding. Sino-Coal Holding is beneficially owned by the Ultimate Shareholders.
- (ii) On 27 February 2014, Sino-Coal Samoa was incorporated in Samoa as an international company with one million authorised shares of US\$1 each. On the same day, one million shares of US\$1 each was allotted and issued to the Company and it became a wholly-owned subsidiary of the Company.
- (iii) On 13 June 2014, Sino Nitrogen was incorporated in the British Virgin Islands as a limited liability company. On the same day, one share of US\$1 was allotted and issued to Bloom Ocean Investments Limited (“**Bloom Ocean**”) and it became a wholly owned subsidiary of Bloom Ocean. Bloom Ocean is wholly owned by the Controlling Shareholders and Mr Yip Kean Mun.

- (iv) On 18 July 2014, Sino Nitrogen acquired from the sole shareholder of Sino Emirates its entire issued share capital in, and shareholder's loan to, Sino Emirates by paying a cash consideration for an aggregate amount of US\$26,000,000, of which the consideration for the entire issued share capital in Sino Emirates was US\$8,041,729.9 and the consideration for the then shareholder's loan was US\$17,958,270.1. Following such acquisition, Sino Emirates became a wholly owned subsidiary of Sino Nitrogen.
- (v) Pursuant to an equity transfer agreement dated 25 November 2014 and entered into between the Ultimate Shareholders and Sino Emirates, the Ultimate Shareholders transferred his/her entire interest in the Listing Business to Sino Emirates, which in aggregate accounts for 60.8% of the equity interest in the Listing Business, for cash at the consideration of RMB54,720,000 which is equivalent to the amount of registered capital then held by each of the Ultimate Shareholders. The transfer became effective on 28 November 2014.
- (vi) On 28 November 2014, the Company, through Sino-Coal Samoa, a direct wholly owned subsidiary, acquired from Bloom Ocean its entire issued share capital in, and shareholder's loan to, Sino Nitrogen by issuing of 176,400,000 new shares of the Company's shares, for the entire issued share capital in Sino Nitrogen and the then shareholder's loan of US\$27,000,000. Following such acquisition, Sino Nitrogen became an indirect wholly owned subsidiary of the Company.
- (vii) On 19 May 2015, as part of the Reorganisation, certain non-interest bearing shareholder's loan due and owing by the Company to Sino-Coal Holding, which amounts to approximately US\$5 million, was settled by the Company by allotting and issuing, credited as fully paid, 6,080,000 new Shares by the Company to Sino-Coal Holding. In order for Bloom Ocean to maintain its then shareholding in the Company at 39.2%, Bloom Ocean subscribed for 3,920,000 Shares at par on the same date.

As at the date of this report, the particulars of the subsidiaries in which the Company has direct or indirect interests are set out as follows:

Company name	Date and place of incorporation/ establishment and kind of legal entity	Particulars of issued and fully paid up share capital/registered capital	Effective interest held by the Company		Principal activity and place of operation	Notes
			Directly	Indirectly		
Sino-Coal Chemical Limited ("Sino-Coal Samoa")	Samoa/ 27 February 2014/ International company	Fully paid up share capital US\$1,000,000	100%	–	Investment holding	<i>i</i>
Sino Nitrogen Industries Limited ("Sino Nitrogen")	British Virgin Islands/ 13 June 2014/ Limited liability company	Fully paid up share capital US\$1	–	100%	Investment holding	<i>i</i>
Sino Emirates Chemicals Limited ("Sino Emirates")	Hong Kong/ 4 October 2007/ Limited liability company	Fully paid up share capital HK\$1	–	100%	Investment holding	<i>ii</i>
Hebei Dongguang Chemical Co., Ltd.* (河北省東光化工 有限責任公司) ("Dongguang Chemical")	The PRC/ 1 July 1998/ Limited liability company	Registered and fully paid up capital RMB90,000,000	–	100%	Manufacturing and selling urea	<i>iii</i>
Sino-Coal Chemical Limited	Hong Kong/ 6 March 2014/ Limited liability company	Issued share capital HK\$10,000	–	100%	Not yet commenced business	

\* The English name of the subsidiaries established in the PRC represents management's best effort at translating the Chinese name of such subsidiaries for identification purpose only as no English name has been registered.

*Notes:*

- (i) There are no statutory audit requirements under the relevant rules and regulations in their jurisdiction of incorporation.
- (ii) The statutory financial statements of this subsidiary for the years ended 31 December 2014 and 2015 were audited by Douglas CPA (Practising) Limited.
- (iii) The statutory financial statements of this subsidiary for the years ended 31 December 2014, 2015 and 2016 were audited by Hebei Hua Lion Certified Public Accountants Office Co. Ltd..

**(c) Basis of presentation**

Prior to the Reorganisation, Mr. Wang Zhihe, Mr. Sun Yi and other seven individuals, including Mr. Sun Zushan, Mr. Xu Xijiang, Mr. Liu Yingdong, Mr. Li Hongliang, Mr. Guo Jianming, Ms. Li Guie and Mr. Song Jianning, (the “**Individual Shareholders**”), and Sino Emirates owned Dongguang Chemical 60.8% and 39.2%, respectively. Upon completion of the Reorganisation on 28 November 2014 as presented in note 1(b), the Group underwent the Reorganisation to transfer the Listing Business. For the purpose of this report, the Financial Information has been prepared on a consolidated basis by applying the principles of merger accounting is that this is a continuation of the Listing Business since the beginning of the Relevant Periods.

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group, as if the group structure upon the completion of the Reorganisation had been in exercise throughout the Relevant Periods or since the respective dates of acquisition/establishment, or up to the respective dates of deregistration/disposal, whichever is shorter. The consolidated statements of financial position of the Group as at 31 December 2014, 2015 and 2016 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses now comprising the Group using the existing book values as if the current group structure had been in existence at those dates, taken into account the respective dates of acquisition/establishment and deregistration/disposal. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Intercompany transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

**2. BASIS OF PREPARATION****(a) Statement of compliance**

The Financial Information has been prepared in accordance with the accounting policies set out in note 4, which comply with International Financial Reporting Standards (“**IFRSs**”), which comprise all standards and interpretations approved by the IASB, and International Accounting Standards (“**IASs**”) and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect.

**(b) Basis of measurement and going concern assumption**

The Financial Information has been prepared under the historical cost convention except for those financial assets stated at fair value and the convertible bonds (as defined in note 31), which are measured at fair value as explained in the accounting policies set out in note 4.

As at 31 December 2014, 2015 and 2016, the Group had current liabilities exceeded its current assets by RMB332,900,000, RMB497,758,000 and RMB297,032,000. The Group may not be able to realise its assets and discharge its liabilities in the normal course of business. The directors of the Company have considered the following factor when preparing the Financial Information of the Group.

The Group meets its day-to-day working capital requirements through its bank borrowings. The Group has good credit history and relationship with banks, and will be able to refinance or to consider alternative sources of financing, or to defer dividend payment and uncommitted capital expenditure, where applicable. In addition, the directors of the Company have carried out a detailed review of the working capital forecast of the Group. Based on the review, in the opinion of the directors, the Group will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the Financial Information on a going concern basis.

It should be noted that accounting estimates and assumptions are used in the preparation of the Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 5.

**(c) Functional and presentation currency**

The Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of the Company. All values in the Financial Information are rounded to the nearest thousand except when otherwise indicated.

**3. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")**

For the purpose of preparing and presenting the Financial Information, the Group has adopted all applicable new/revised IFRSs and amendments effective for the accounting periods commencing from 1 January 2016 throughout the Relevant Periods.

The Group has not early applied the following new and amendments to IFRSs and interpretation that have been issued but are not yet effective:

IFRS 9	Financial Instruments <sup>1</sup>
IFRS 15	Revenue from Contracts with Customers <sup>1</sup>
IFRS 16	Leases <sup>2</sup>
IFRS 17	Insurance Contract <sup>6</sup>
IFRIC 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
Amendments to IFRS 15	Clarification to IFRS 15 Revenue from Contracts with Customers <sup>1</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to IAS 7	Disclosure Initiative <sup>4</sup>
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses <sup>4</sup>
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts <sup>1</sup>
Amendments to IAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle <sup>5</sup>

*Notes:*

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2018
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2019
- <sup>3</sup> Effective for annual periods beginning on or after a date to be determined
- <sup>4</sup> Effective for annual periods beginning on or after 1 January 2017
- <sup>5</sup> Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate
- <sup>6</sup> Effective for annual periods beginning on or after 1 January 2021

Except as disclosed below, the directors of the Company anticipate that application of the new and amendments to IFRSs will have no material impact to the consolidated financial statements in the future.

**IFRS 9 (2014) – Financial Instruments**

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets.

Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at fair value through other comprehensive income. All other debt and equity instruments are measured at fair value through profit or loss.

IFRS 9 (2014) includes a new expected loss impairment model for all financial assets not measured at fair value through profit or loss replacing the incurred loss model in IAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

IFRS 9 (2014) carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 (2014) retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities.

**IFRS 15 – Revenue from Contracts with Customers**

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 supersedes existing revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

IFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

IFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under IFRSs. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

**Amendments to IFRS 15 – Revenue from Contracts with Customers (Clarifications to IFRS 15)**

The amendments to IFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

**IFRS 16 – Leases**

IFRS 16, which upon the effective date will supersede IAS 17 “Leases”, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As set out in note 35, the Group’s total future minimum lease payments under non-cancelable operating leases as at 31 December 2014, 2015 and 2016 are approximately RMB3,792,000, RMB3,699,000 and RMB3,562,000, respectively. The directors of the Company do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in a significant impact on the Group’s results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

The Group has already commenced an assessment of the impact of adopting the above new/revised IFRSs and amendments to the Group. It is not expected to have a significant impact on the Group’s result of operations and its financial position.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of the Financial Information are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

**(a) Business combination and basis of consolidation**

The Financial Information comprise the financial statements of the Company and its subsidiaries (“the Group”). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the Financial Information. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group’s previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree’s identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by IFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied IFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

**(b) Subsidiaries**

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

**(c) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs 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 recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	10 to 30 years or over the lease term, whichever is shorter
Plant and machinery	12 years
Furniture, fixtures and equipment	3 to 18 years
Motor vehicles	4 to 12 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

**(d) Investment property**

Investment property is a property held either to earn rentals or for capital appreciation or for both or held for undetermined future use, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Depreciation is charged so as to write off the cost of investment property net of estimated residual value over the estimated remaining useful life which is about 28 years using straight-line method. The useful life, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

**(e) Payments for leasehold land held for own use under operating leases**

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

**(f) Impairment of assets (other than financial assets)**

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment/ investment property under cost model;
- interests in leasehold land held for own use under operating leases; and
- investments in subsidiaries

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.



Value in use is based on the estimated future cash flows expected to be derived from the asset, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

**(g) Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

*The Group as lessee*

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

**(h) Financial instruments**

*(i) Financial assets*

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

*Financial assets at fair value through profit or loss*

These assets include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

*Loans and receivables*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) *Impairment loss on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

*For loans and receivables*

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

(iii) *Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

*Financial liabilities at amortised cost*

Financial liabilities at amortised cost including trade payables, other payables and accruals, amounts due to shareholders, amount due to a related party, bank and other borrowings and non-convertible bonds, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

*Borrowings*

Borrowings are recognised initially at fair value, net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

*Convertible bonds*

Convertible bonds issued by the Group contain both liability and conversion option components. The entire hybrid contracts were designated as financial liabilities at fair value through profit or loss and are initially measured at fair value. The difference between the fair value at initial recognition and the transaction price is recognised as deferred day-1 profit or loss. Such deferred day-1 profit or loss is recognised throughout the period of the convertible bonds only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the liability.

Subsequent to initial recognition, convertible bonds are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise when the bonds are converted, the carrying amount of the liability portion together with the fair value of the conversion derivative at the same time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the convertible bonds are redeemed, the difference between the redemption amount and the carrying amounts of both components is recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are charged directly to profit or loss immediately.

(iv) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) *Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(i) **Inventories**

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. At 31 December 2014, 2015 and 2016, all of the Group's amounts consisted of cash held in bank and cash on hand.

(k) **Revenue recognition**

Revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer, on the following basis:

- (i) from the sales of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. This is usually taken as the time when the goods are delivered and the customers have accepted the goods; and
- (ii) interest income is recognised on a time-proportion basis using the effective interest method.

(l) **Income tax**

Income tax comprises current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

**(m) Foreign currency**

Transactions entered into by the Group in currencies other than the functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the rates approximating to those ruling when the transactions took place is used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign currency translation reserve. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign currency translation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign currency translation reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal. Goodwill and fair value adjustments arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign currency translation reserve.

**(n) Employee benefits**

Retirement benefits to employees are provided through a defined contribution plan.

*Defined contribution plans*

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

*Short-term employee benefits*

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits are recognised in the year when the employees render the related service.

*Termination benefits*

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

*Share-based payments*

Remuneration shares are share-based payments. Employees of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (“**equity-settled transactions**”).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which the remuneration shares are granted. The cost of equity-settled transactions is recognised in profit or loss with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss and other comprehensive income for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Where the terms and conditions of remuneration shares are modified before they vest, the increase in the fair value of the remuneration shares, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

**(o) Borrowing costs**

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**(p) Government grants**

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred revenue and consequently are effectively recognised in profit or loss over the useful life of the asset.

**(q) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(r) Related parties**

- (1) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of key management personnel of the Group or the Company's parent.
- (2) An entity is related to the Group if any of the following conditions apply:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (1).
  - (vii) A person identified in (1)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

**(s) Segment reporting**

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

**5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

Estimates and judgements 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's management 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 discussed below:

**(a) Estimated useful lives of property, plant and equipment**

The Group's management determines the estimated useful lives and residual values 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. Management will increase the depreciation charge where useful lives are less than previously estimated lives. It will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

**(b) Net realisable value of inventory**

Inventory is stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated distribution and selling expenses. Management reassesses the estimations at each reporting date to ensure inventory is shown at the lower of cost and net realisable value.

**(c) Impairment of receivables**

The Group's management reviews receivables on a regular basis to determine if any provision for impairment is necessary. This estimate is based on the credit history of its customers, past settlement and industry practice and current market conditions. Management reassesses the impairment of receivables at each reporting date.

**(d) Impairment of non-financial assets**

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of the asset. This requires an estimation of the value-in-use of the cash-generating unit to which the asset is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

**(e) Income tax and deferred tax**

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.



**(f) Fair value measurement**

A number of assets and liabilities included in the Financial Information require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

- Level 1: Quoted prices (unadjusted) in active markets for identical assets/liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets/liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the assets/liabilities that are not based on observable market data (unobservable inputs).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

For more detailed information in relation to the fair value measurement of the items above, please refer to the application notes.

**6. SEGMENT INFORMATION****(a) Operating segment information**

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. There is only one business component in the internal reporting to the executive directors, which is manufacturing and selling urea. The Group's assets and capital expenditure are principally attributable to this business component.

**(b) Geographical segment information**

The management determines the Group is domiciled in the People's Republic of China (the "PRC"), which is the location of the Group's principal place of operations and majority of the non-current assets are located in the PRC. All of the Group's revenue is from external customers in the PRC.

**(c) Information about major customers**

Revenue attributed from a customer that accounted for 10% or more of the Group's total revenue during the Relevant Periods is as follow:

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	*	*	206,998

\* Less than 10% of the Group's revenue.

## 7. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover represents the net invoiced value of goods sold by the Group, after deducting relevant taxes. An analysis of the Group's revenue and other income is as follows:

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>			
Sales of urea	1,255,193	1,719,671	1,308,987
Sales of by-products	128,689	139,629	148,536
	<u>1,383,882</u>	<u>1,859,300</u>	<u>1,457,523</u>
<b>Other income</b>			
Sales of scrap materials	59	49	164
Government grants ( <i>Note</i> )	3,472	4,770	8,063
Bank interest income	1,567	832	826
Dividend of financial assets at fair value through profit or loss	247	–	–
Compensation income	–	1,324	–
Others	850	804	871
	<u>6,195</u>	<u>7,779</u>	<u>9,924</u>
	<u><u>1,390,077</u></u>	<u><u>1,867,079</u></u>	<u><u>1,467,447</u></u>

*Note:* Government grants are received from the local government that are related to qualified long-lived assets and such grants were deferred and released to profit or loss as other income over the expected useful life of the relevant assets.

For the years ended 31 December 2014, 2015 and 2016, RMB7,700,000, RMB11,790,000 and nil were received respectively from the PRC government as government grants for construction of property, plant and equipment. These subsidies are recognised in the consolidated statement of profit or loss and other comprehensive income over the expected useful life of the property, plant and equipment. During the years ended 31 December 2014, 2015 and 2016, RMB2,352,000, RMB2,516,000 and RMB3,043,000 were recognised as other income, respectively.

In addition, the Group obtained government grants of RMB1,120,000, RMB2,254,000 and RMB5,020,000 from the PRC government and recognised directly under other income as subsidies for operations of production plants for the years ended 31 December 2014, 2015 and 2016, respectively.

**8. OTHER GAINS AND LOSSES, NET**

Other gains and losses, net has been arrived at:

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Foreign exchange gain/(loss)	133	(14,290)	(10,661)
Impairment loss on property, plant and equipment	–	(13,275)	–
Loss on disposal of property, plant and equipment	–	(23,016)	–
	<u>133</u>	<u>(50,581)</u>	<u>(10,661)</u>

**9. PROFIT BEFORE INCOME TAX**

Profit before income tax has been arrived at:

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Auditors' remuneration	120	158	50
Cost of inventories sold recognised as expense	1,150,260	1,406,321	1,307,769
Depreciation of property, plant and equipment	97,060	139,655	142,957
Amortisation of prepaid land lease payments	2,322	2,330	2,102
Depreciation of investment property	–	44	264
Listing expenses	974	5,698	10,255
Employee benefit expenses (including directors' remuneration) (note 12)			
– Wages and salaries	39,918	46,555	47,177
– Discretionary bonuses	13,676	16,712	20,708
– Retirement benefit scheme contributions	11,858	12,920	14,943
– Staff welfare and other benefits	12,981	15,982	13,030
	<u>78,433</u>	<u>92,169</u>	<u>95,858</u>

## 10. FINANCE COSTS

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Interest expense in relation to:			
Bank and other loans wholly repayable			
within five years	42,370	72,778	55,978
Non-convertible bonds and convertible bonds	–	13,309	12,143
Advance from a related party wholly repayable			
within five years	34,595	–	–
	76,965	86,087	68,121
Less: Amount capitalised ( <i>note</i> )	(22,505)	(3,404)	–
	54,460	82,683	68,121

*Note:* Borrowing costs capitalised during the Relevant Periods arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5% and 9% and nil for the years ended 31 December 2014, 2015 and 2016 respectively, to expenditure on qualifying assets.

## 11. INCOME TAX EXPENSES

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Current tax – PRC			
Current tax	35,384	79,087	16,370
Withholding tax on dividends	–	8,000	6,000
Deferred tax ( <i>note 18</i> )			
– (Credited)/charged for the year	(5,434)	13,280	(4,266)
Income tax expenses	29,950	100,367	18,104

The Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group's subsidiaries incorporated in the Cayman Islands and British Virgin Islands are not subject to any income tax. The Group's subsidiaries incorporated in Hong Kong are not liable for income tax as they did not have any assessable income arising in Hong Kong during the Relevant Periods.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profit of the PRC subsidiary of the Group as determined in accordance with the PRC Corporation Income Tax Law which was approved and became effective on 1 January 2008 (the "New Corporate Income Tax Law").

The income tax expense for the Relevant Periods can be reconciled to the profit before income tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Profit before income tax	119,135	208,462	36,914
Tax calculated at a taxation rate of 25%	29,784	52,116	9,229
Effect of different tax rates operating in other jurisdictions ( <i>Note i</i> )	232	16,287	8,271
Tax effect of non-deductible expenses	3,862	736	697
Tax effect of non-taxable income	(3,377)	(567)	(239)
Withholding tax on dividends	–	8,000	–
Withholding tax on unremitted earnings	–	23,911	–
Others	(551)	(116)	146
	29,950	100,367	18,104

*Note:*

- (i) The Company is exempt from the Cayman Islands income tax. As such, the operating results reported by the Company on a stand-alone basis, including mainly interest expense, foreign exchange loss and fair value loss in relation to non-convertible bonds and convertible bonds issued during 2015, is not subject to any income tax.

## 12. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' emoluments

Directors' emoluments disclosed pursuant to the Listing Rules and section 78(1) of Schedule 11 to the Hong Kong Companies Ordinance, Cap. 622 for the Relevant Periods are as follows:

	Directors' fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Year ended 31 December 2014</b>					
<i>Directors</i>					
Mr. Wang Zhihe (王治河)	–	70	138	7	215
Mr. Sun Yi (孫毅)	–	56	138	7	201
Mr. Sun Zushan (孫祖善)	–	69	139	7	215
Mr. Xu Xijiang (徐希江)	–	56	42	7	105
	–	251	457	28	736

Directors' fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement benefit scheme contributions	Total
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

## Year ended 31 December 2015

*Directors*

Mr. Wang Zhihe (王治河)	–	75	150	4	229
Mr. Sun Yi (孫毅)	–	62	145	1	208
Mr. Sun Zushan (孫祖善)	–	71	152	1	224
Mr. Xu Xijiang (徐希江)	–	60	46	4	110
	–	268	493	10	771

Directors' fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement benefit scheme contributions	Total
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

## Year ended 31 December 2016

*Directors*

Mr. Wang Zhihe (王治河)	–	72	149	–	221
Mr. Sun Yi (孫毅)	–	61	137	–	198
Mr. Sun Zushan (孫祖善)	–	108	149	–	257
Mr. Xu Xijiang (徐希江)	–	60	39	4	103
	–	301	474	4	779

**(b) Five highest paid individuals**

The five highest paid individuals of the Group included 3, 3 and 3 directors for the years ended 31 December 2014, 2015 and 2016, respectively, whose emoluments are reflected in note (a).

The analysis of the emolument of the remaining 2, 2 and 2 highest paid individuals for the years ended 31 December 2014, 2015 and 2016, respectively, are set out below:

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and allowance	98	786	1,162
Discretionary bonuses	218	146	406
Retirement benefit scheme contributions	14	17	19
	330	949	1,587

The number of non-director highest paid individuals whose remuneration fell within the following band is as follows:

Number of individuals	Year ended 31 December		
	2014	2015	2016
Nil to HK\$1,000,000	2	2	1
HK\$1,000,001 to HK\$2,000,000	–	–	1

(c) During the Relevant Periods, no director or any of the highest paid individuals waived or agreed to waive any emoluments. No emoluments were paid by the Group to the directors or any of the highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

(d) The Independent Non-executive Directors were appointed with effect from 20 June 2017 and have not received any emoluments during the Relevant Periods.

(e) **Senior management emolument band**

The number of senior management whose remuneration fell within the following band is as follows:

Number of individuals	Year ended 31 December		
	2014	2015	2016
Nil to HK\$1,000,000	3	4	3
HK\$1,000,001 to HK\$2,000,000	–	–	1

### 13. DIVIDENDS AND DISTRIBUTION

The dividends paid during the Relevant Periods were as follows:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Dividends paid by:			
– the Company ( <i>Note (i)</i> )	–	171,273	–
Deemed distribution to the Company's Ultimate Shareholders ( <i>Note (ii)</i> )	54,720	–	–
	54,720	171,273	–

*Notes:*

(i) It represented the special dividend paid of US\$28,000,000 (equivalent approximately to RMB171,273,000) to the shareholders of the Company on 15 June 2015.

(ii) Deemed distribution in 2014 represented the cash consideration payable to the Ultimate Shareholders for the acquisition of 60.8% equity interest in the Listing Business through Sino Emirates under the Reorganisation. As the Ultimate Shareholders are also the shareholders of the Company at the date of completion of the Reorganisation, the consideration was a refund of capital to the Ultimate Shareholders and so it was treated as a deemed distribution.

The dividend rates and the number of shares ranking for dividends are not presented as such information is not meaningful for the purpose of this report.

**14. EARNINGS PER SHARE**

Earnings per share information is not presented as its inclusion, for the purpose of the Financial Information, is not considered meaningful with regard to the Reorganisation and the presentation of the results for the Relevant Periods on a consolidated basis as disclosed in notes 1(b) and 1(c) respectively.

**15. PROPERTY, PLANT AND EQUIPMENT**

	Buildings	Motor vehicles	Plant and machinery	Furniture, fixtures and equipment	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Year ended 31 December 2014</b>						
Opening net carrying amount	104,271	2,734	479,535	43,248	496,644	1,126,432
Additions	–	–	29,542	–	398,199	427,741
Transfer in/(out)	133,835	2,559	592,231	124,483	(853,108)	–
Depreciation	(8,812)	(1,112)	(77,261)	(9,875)	–	(97,060)
Closing net carrying amount	<u>229,294</u>	<u>4,181</u>	<u>1,024,047</u>	<u>157,856</u>	<u>41,735</u>	<u>1,457,113</u>
<b>As at 31 December 2014</b>						
Cost	273,639	10,225	1,493,777	199,716	41,735	2,019,092
Accumulated depreciation	(44,345)	(6,044)	(469,730)	(41,860)	–	(561,979)
Net carrying amount	<u>229,294</u>	<u>4,181</u>	<u>1,024,047</u>	<u>157,856</u>	<u>41,735</u>	<u>1,457,113</u>
<b>Year ended 31 December 2015</b>						
Opening net carrying amount	229,294	4,181	1,024,047	157,856	41,735	1,457,113
Additions	31,539	1,110	34,689	3,616	97,775	168,729
Transfer in/(out)	25,312	–	93,876	19,296	(138,484)	–
Depreciation	(13,699)	(1,124)	(108,603)	(16,229)	–	(139,655)
Impairment loss	(13,275)	–	–	–	–	(13,275)
Disposals	–	(11)	(38,598)	(6,407)	–	(45,016)
Closing net carrying amount	<u>259,171</u>	<u>4,156</u>	<u>1,005,411</u>	<u>158,132</u>	<u>1,026</u>	<u>1,427,896</u>
<b>As at 31 December 2015</b>						
Cost	301,948	11,177	1,374,448	203,197	1,026	1,891,796
Accumulated depreciation and impairment	(42,777)	(7,021)	(369,037)	(45,065)	–	(463,900)
Net carrying amount	<u>259,171</u>	<u>4,156</u>	<u>1,005,411</u>	<u>158,132</u>	<u>1,026</u>	<u>1,427,896</u>



	<u>Buildings</u>	<u>Motor vehicles</u>	<u>Plant and machinery</u>	<u>Furniture, fixtures and equipment</u>	<u>Construction in progress</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Year ended 31 December 2016</b>						
Opening net carrying amount	259,171	4,156	1,005,411	158,132	1,026	1,427,896
Additions	8,420	1,288	20,667	1,579	476	32,430
Transfer in/(out)	240	–	588	145	(973)	–
Depreciation	<u>(14,656)</u>	<u>(1,371)</u>	<u>(109,710)</u>	<u>(17,220)</u>	<u>–</u>	<u>(142,957)</u>
Closing net carrying amount	<u>253,175</u>	<u>4,073</u>	<u>916,956</u>	<u>142,636</u>	<u>529</u>	<u>1,317,369</u>
<b>As at 31 December 2016</b>						
Cost	310,608	12,465	1,395,703	204,921	529	1,924,226
Accumulated depreciation and impairment	<u>(57,433)</u>	<u>(8,392)</u>	<u>(478,747)</u>	<u>(62,285)</u>	<u>–</u>	<u>(606,857)</u>
Net carrying amount	<u>253,175</u>	<u>4,073</u>	<u>916,956</u>	<u>142,636</u>	<u>529</u>	<u>1,317,369</u>

As at 31 December 2014, 2015 and 2016, the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB281,913,000, RMB552,062,000 and RMB537,657,000 respectively were pledged to secure general banking facilities granted to the Group (note 28).

#### 16. INVESTMENT PROPERTY

	<u>As at 31 December</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount at beginning of the year	–	–	7,238
Reclassification from prepaid land lease payments (note 17)	–	7,282	–
Depreciation during the year	–	<u>(44)</u>	<u>(264)</u>
Carrying amount at end of the year	<u>–</u>	<u>7,238</u>	<u>6,974</u>

The balance represented a piece of industrial land held by the Group under medium term lease in the PRC. The Group has not yet determined the future use of the land and currently holds the land for capital appreciation since disposal of plant and machinery and furniture, fixtures and equipment of an old production plant on 23 October 2015 (the date of disposal). As such, the carrying amount of land was reclassified from prepaid land lease payments to investment property from the date of disposal. At the end of reporting period, the directors consider no impairment of the investment property is necessary.

The fair values of the investment property as at 31 December 2015 and 28 February 2017 were approximately RMB21,170,000 and RMB20,980,000, respectively. The fair value was determined by independent professional qualified valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, with reference to recent market prices of similar properties as observable inputs.

The valuation is carried out on a Market Value basis. Market Value is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeable, prudently and without compulsion”.

The fair values of the investment property are determined based on the market value of comparable properties. The fair values are not based on quoted price and are therefore within level 2 hierarchy.

As at 31 December 2014, 2015 and 2016, the Group's investment property with an aggregate amount of approximately nil, RMB7,238,000 and RMB6,974,000 respectively were pledged to secure general banking facilities granted to the Group (note 28).

#### 17. PREPAID LAND LEASE PAYMENTS

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Carrying amount at beginning of the year	102,973	101,578	91,966
Addition	927	–	–
Reclassification to investment property (note 16)	–	(7,282)	–
Amortised during the year	(2,322)	(2,330)	(2,102)
Carrying amount at end of the year	<u>101,578</u>	<u>91,966</u>	<u>89,864</u>
Represented by:			
Current portion	2,343	2,079	2,079
Non-current portion	<u>99,235</u>	<u>89,887</u>	<u>87,785</u>
	<u>101,578</u>	<u>91,966</u>	<u>89,864</u>

The Group's leasehold land is held under medium term leases and situated in Mainland China where the Group's manufacturing and storage facilities reside.

As at 31 December 2014, 2015 and 2016, the Group's leasehold land with an aggregate carrying amount of approximately RMB95,122,000, RMB85,645,000 and RMB83,678,000 respectively were pledged to secure general banking facilities granted to the Group (note 28).

#### 18. DEFERRED TAX ASSETS/(LIABILITIES)

Details of the deferred tax assets/(liabilities) recognised and movements during the Relevant Periods:

	Withholding tax on unremitted earnings	Deferred revenue	(Decelerated)/ accelerated depreciation	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	–	4,419	(813)	2,155	5,761
Credited to profit or loss	–	1,337	1,939	2,158	5,434
At 31 December 2014	–	5,756	1,126	4,313	11,195
(Charged)/credited to profit or loss	(23,911)	819	10,119	(307)	(13,280)
At 31 December 2015	(23,911)	6,575	11,245	4,006	(2,085)
Credited/(charged) to profit or loss	6,000	(1,605)	(261)	132	4,266
At 31 December 2016	<u>(17,911)</u>	<u>4,970</u>	<u>10,984</u>	<u>4,138</u>	<u>2,181</u>

**PRC dividend withholding income tax**

Pursuant to the Detailed Implementation Regulations for implementation of the New Corporate Income Tax Law issued on 6 December 2007, dividends distributed from the profits generated by the PRC companies after 1 January 2008 to their foreign investors shall be subject to this withholding income tax of 10%. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are incorporated in Hong Kong and fulfil the requirements to the tax treaty arrangements between the PRC and Hong Kong. For the Group, the applicable withholding tax rate is 10%.

At the end of each of the Relevant Periods, deferred tax liabilities have been recognised for withholding taxes that would be payable on the planned unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in the PRC. In the opinion of the directors, based on the Group's future expansion plan in the PRC, it is not possible that the subsidiary will distribute the entire earnings in the foreseeable future at the end of each of the Relevant Periods, except for the special dividend of RMB80,000,000 declared on 28 April 2015 for settling the outstanding payables to an ex-shareholder during reorganisation, RMB60,000,000 declared on 26 July 2016 for settling the redemption payment of the convertible bonds and RMB45,000,000 declared on 20 December 2016 for partially settling the other borrowings. No temporary differences associated with investment in a subsidiary in the PRC for which deferred tax liabilities have not been recognised during the Relevant Periods.

**19. INVENTORIES**

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	54,061	43,688	50,914
Finished goods	3,269	10,801	9,827
Parts and spares	8,629	4,723	6,021
	<u>65,959</u>	<u>59,212</u>	<u>66,762</u>

As at 31 December 2014, 2015 and 2016, the Group's raw materials with an aggregate carrying amount of nil, RMB30,000,000 and RMB30,000,000 respectively were pledged to secure general banking facilities granted to the Group (note 28).

**20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES****The Group**

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments for distribution expenses	5,134	46	57
Prepayments for equipment	23,710	4,958	3,915
Deferred listing expenses	325	441	5,888
Value-added tax recoverable	–	8,529	51,135
Prepayments for electricity	–	9,400	20,000
Prepayments for coal suppliers	–	–	24,282
Other prepayments, deposits and other receivables	47,829	24,147	29,642
	<u>76,998</u>	<u>47,521</u>	<u>134,919</u>
Less: non-current portion	(22,241)	(4,045)	(3,416)
	<u>54,757</u>	<u>43,476</u>	<u>131,503</u>

## The Company

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Deferred listing expenses	325	441	5,888
Others	275	–	2,222
	<u>600</u>	<u>441</u>	<u>8,110</u>

## 21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Unlisted fund ( <i>Note</i> )	<u>6,000</u>	<u>–</u>	<u>–</u>

*Note:* The fair value of the unlisted fund was determined based on net asset value of the relevant fund. The fair value was not based on quoted price and is therefore within level 2 hierarchy.

## 22. AMOUNTS DUE FROM SHAREHOLDERS AND OFFICERS

Particulars of the amounts due were disclosed as follows pursuant to section 78(1) of Schedule 11 to the Hong Kong Companies Ordinances, Cap. 622:

	Amount outstanding		Maximum amount outstanding during the year
	As at 1 January	As at 31 December	
	RMB'000	RMB'000	
<b>2014</b>			
Shareholders	2,516	174,689	175,841
Officers	–	16,700	16,700
	<u>2,516</u>	<u>191,389</u>	
<b>2015</b>			
Shareholders	174,689	–	175,525
Officers	16,700	–	16,700
	<u>191,389</u>	<u>–</u>	
<b>2016</b>			
Shareholders	–	–	13,312
Officers	–	–	–
	<u>–</u>	<u>–</u>	

The balances due were unsecured, interest-free, repayable on demand and non-trade in nature. Details of relationship are set out in note 34.

**23. NOTES RECEIVABLES**

All notes receivables were due within 6 months from the end of each reporting period. None of the notes receivables were either discounted to the banks in exchange for cash and cash equivalents, or derecognised upon surrender to the banks. No impairment provision for notes receivables has been made during the Relevant Periods as there is no history of default.

At 31 December 2014, 2015 and 2016, the Group endorsed notes receivables accepted by banks in Mainland China (the “**Endorsed Bills**”) with aggregate carrying amount of RMB50,597,000, RMB22,392,000 and RMB11,636,000, respectively, with maturity ranging from one to six months at the end of the reporting period, to certain of its suppliers for settlement of the trade payables due to these suppliers (the “**Endorsement**”). In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Bills have a right of recourse against the Group if the PRC banks default (the “**Continuing Involvement**”). In the opinion of the directors, all risks and rewards relating to the Endorsed Bills have been substantially transferred upon the Endorsement. Accordingly, the Group has derecognised the full carrying amounts of the Endorsed Bills and the associated trade payables. The maximum exposure arising from the Group’s Continuing Involvement in the Endorsed Bills and the undiscounted cash flows to repurchase these Endorsed Bills equal to their carrying amounts. In the opinion of the directors, the fair values of the Group’s Continuing Involvements in the Endorsed Bills are not significant.

During the years ended 31 December 2014, 2015 and 2016, the Group has not recognised any gain or loss on the date of transfer of the Endorsed Bills. No gain or loss were recognised from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the year.

**24. CASH AND BANK BALANCES AND RESTRICTED BANK DEPOSITS****The Group**

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances	98,510	222,211	162,443
Restricted bank deposits	–	–	6,000
	<u>98,510</u>	<u>222,211</u>	<u>168,443</u>

As at 31 December 2014, 2015 and 2016, the Group has cash and bank balances denominated in RMB amounted to approximately RMB98,467,000, RMB219,229,000 and RMB144,137,000, respectively, which are deposited with banks in the PRC. RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks in the PRC that is authorised to conduct foreign exchange business.

Bank balances earn interest at floating rates based on daily bank deposit rates.

The bank balances are deposited with creditworthy banks. The directors of the Company considered that the fair value of the cash and bank balances is not materially different from their carrying amount because of the short maturity period on their inception.

Restricted bank deposits is to secure short-term bank borrowings of RMB20,000,000 (note 28). The restricted bank deposits will be released upon settlement of short-term bank borrowings.

**The Company**

As at 31 December 2015 and 2016, cash and bank balances of the Company comprised of short term bank deposits with an original maturity of three months or less. The short term deposits are denominated in US\$ and HK\$.

**25. TRADE PAYABLES**

Trade payables are non-interest bearing and normally have a credit period of 0 to 90 days.

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	40,382	30,941	12,955

An ageing analysis of the Group's trade payables, based on the invoice dates is as follows:

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 to 90 days	35,735	25,387	4,784
91 to 180 days	402	2,553	4,736
181 to 365 days	1,076	1,728	907
Over 365 days	3,169	1,273	2,528
	40,382	30,941	12,955

**26. DEFERRED REVENUE**

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:			
At beginning of the year	22,940	30,640	42,430
Received during the year	7,700	11,790	–
Refunded during the year	–	–	(10,200)
At end of the year	30,640	42,430	32,230
Accumulated amortisation:			
At beginning of the year	5,262	7,614	10,130
Amortised during the year	2,352	2,516	3,043
At end of the year	7,614	10,130	13,173
Net carrying amount:			
Current	2,428	3,980	3,130
Non-current	20,598	28,320	15,927
	23,026	32,300	19,057

Deferred revenue related to government grants given to the Group for installation and building of machinery with the aim to implement energy-saving production methods and reduce production cost. The grants are subject to final approval by the government upon the completion of the project.

## 27. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Deposits received	107,503	41,520	60,721
Accruals	12,297	7,219	9,667
Other payables	125,118	89,041	38,749
	<u>244,918</u>	<u>137,780</u>	<u>109,137</u>

## 28. BANK AND OTHER BORROWINGS

## The Group

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
<b>Current</b>			
Interest bearing			
Secured			
– short-term bank loans ( <i>Note (i)</i> )	120,000	179,000	202,000
– short-term other loans ( <i>Note (i)</i> )	–	48,306	47,146
– current portion of long-term bank and other loans ( <i>Notes (i) and (v)</i> )	63,093	12,732	33,561
Unsecured			
– bank loans	210,000	195,000	245,000
– current portion of long-term other loans ( <i>Note (iv)</i> )	–	–	9,969
	<u>393,093</u>	<u>435,038</u>	<u>537,676</u>
<b>Non-current</b>			
Interest bearing			
Secured			
– long-term bank loans ( <i>Note (i)</i> )	148,590	33,077	–
– long-term other loans ( <i>Note (v)</i> )	–	250,164	311,621
Unsecured			
– long-term other loans ( <i>Notes (ii) and (iv)</i> )	340,000	–	53,236
	<u>488,590</u>	<u>283,241</u>	<u>364,857</u>
	<u>881,683</u>	<u>718,279</u>	<u>902,533</u>

As at 31 December 2014, 2015 and 2016, total current and non-current bank and other borrowings were scheduled to repay as follows:

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	393,093	435,038	537,676
More than one year, but not exceeding two years	142,514	33,574	364,857
More than two years, but not exceeding five years	346,076	249,667	–
	<u>881,683</u>	<u>718,279</u>	<u>902,533</u>

#### The Company

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Current</b>			
Interest bearing			
Unsecured current portion of long-term other loans ( <i>Note (iv)</i> )	–	–	9,969
<b>Non-current</b>			
Interest bearing			
Secured long-term other loans ( <i>Note (v)</i> )	–	–	60,463
Unsecured long-term other loans ( <i>Note (iv)</i> )	–	–	53,236
	–	–	113,699
	<u>–</u>	<u>–</u>	<u>123,668</u>

#### Notes:

- (i) As at 31 December 2014, 2015 and 2016, the Group's secured short-term bank and other loans were secured by certain of the Group's property, plant and equipment (note 15), investment property (note 16), leasehold land (note 17), inventories (note 19) and bank deposits (note 24). Short-term secured other loans as at 31 December 2015 and 2016 were granted from financial leasing companies in the PRC.
- (ii) Other loan as at 31 December 2014 was an entrusted loan of RMB340 million granted from Agricultural Bank of China ("ABC"). A pledged deposit was provided by a third party to ABC. ABC then provided the equivalent loan amount to Dongguang Chemical. The loan was fully repaid on 27 March 2015.
- (iii) All of the banking facilities are subject to the fulfilment of covenants relating to certain of the financial position ratios of Dongguang Chemical, as are commonly found in lending arrangements with financial institutions. If Dongguang Chemical was to breach the covenants the drawn down facilities would become repayable on demand.



- (iv) Other loans as at 31 December 2016 represented borrowings granted from two independent third parties in total of HK\$68 million in August 2016, which carry fixed interest rate 10.0% per annum, were repayable within two years. These loans were guaranteed by two directors of the Company. On 6 January 2017, HK\$10 million of such borrowings was settled.
- (v) Long-term secured other loans of RMB251,342,000 and RMB251,669,000 as at 31 December 2015 and 2016 were granted from non-bank financial institution and a financial leasing company in the PRC, with the pledge of certain of the Group's property, plant and equipment (note 15), investment property (note 16) and leasehold land (note 17).

The remaining other loan as at 31 December 2016 represented borrowings granted from an independent third party of HK\$70 million on 29 December 2016, bearing an interest rate of 5.0% per annum and 7.5% per annum plus London Interbank Offered Rate for the first and second year respectively, was repayable within two years (the "Offshore Loan"). The Offshore Loan was secured by 100% equity interest in Sino Emirates and with personal guarantee by two directors of the Company. In connection with the Offshore Loan, the lender had requested that Dongguang Chemical lent a sum of RMB60 million to Min-Silver-Gold Investment Management (Beijing) Co. Ltd. (the "Borrower"), an affiliated company of the lender in the PRC. Accordingly, on or around the same time, the Group had entered into an entrustment loan agreement with the Dongguang Branch of the Agricultural Bank of China ("Dongguang ABC") and the Borrower to regulate the foregoing (the "Entrusted Loan A"). At the request of the lender, Dongguang Chemical entered into another similar entrustment loan agreement with Dongguang ABC and the Borrower in March 2017 and granted an entrusted loan to the Borrower for the sum of RMB30.0 million in April 2017. Such loan was granted in connection with an offshore loan obtained for the redemption of the PNB-SBI Exchangeable Note (as defined in this prospectus) (collectively with the Entrusted Loan A, the "Entrusted Loans"). The Entrusted Loans are unsecured and has a term of one year with an interest rate of 4.5%.

- (vi) At 31 December 2014, 2015 and 2016, secured borrowings amounted to RMB30,000,000, RMB95,000,000 and RMB92,000,000 and unsecured borrowings amounted to RMB100,000,000, RMB100,000,000 and RMB163,205,000 were guaranteed by directors of the Company, respectively.

The ranges of effective interest rates per annum of the Group's bank and other borrowings are as follows:

	As at 31 December		
	2014	2015	2016
Fixed-rate borrowings	6.15%-8.00%	4.14%-15.27%	4.3%-11.28%

## 29. AMOUNTS DUE TO SHAREHOLDERS

As at 31 December 2014, the amounts due to shareholders were unsecured, interest-free and repayable on demand. Such amount was fully repaid on 25 March 2015.

**30. NON-CONVERTIBLE BONDS**

	<b>As at 31 December</b>	
	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year	–	67,378
Issue of non-convertible bonds	61,202	–
Repayments	–	(66,615)
Interest expense incurred	4,559	2,349
Interest paid	(2,187)	(4,823)
Exchange difference	3,804	1,711
	<u>67,378</u>	<u>–</u>
At end of the year	<u>67,378</u>	<u>–</u>

On 28 May 2015, the Company issued 12% secured non-convertible bonds with an aggregate principal amount of US\$10,000,000 (equivalent to approximately RMB61,202,000) at 100% of the face value, with US\$5,000,000 (equivalent to approximately RMB30,601,000) matured on 31 December 2015, and US\$5,000,000 (equivalent to approximately RMB30,601,000) matured on 31 August 2016, respectively. The non-convertible bonds were secured by share charges of 51.809% interest in Sino-Coal Holding and 100% interests in Bloom Ocean, the Company, Sino-Coal Samoa, Sino Nitrogen and Sino Emirates.

With the consent of the holders, the Company redeemed the outstanding principal of US\$5,000,000 and US\$5,000,000 secured bonds together with unpaid interest on 15 January 2016 and 8 August 2016, respectively.

**31. CONVERTIBLE BONDS**

	<b>As at 31 December</b>	
	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Convertible bonds	161,787	–
Analysed for reporting purposes as:		
– Current liabilities	161,787	–

The Company issued convertible bonds with a principal amount of US\$20,000,000 (equivalent to RMB122,404,000) on 28 May 2015. The convertible bonds carried 12% coupon interest rate payable semi-annually and had a maturity period of 15 months from the date of issue. The expiry date was 27 August 2016. The convertible bonds were secured by share charges of 51.809% interest in Sino-Coal Holding and 100% interests in Bloom Ocean, the Company, Sino-Coal Samoa, Sino Nitrogen and Sino Emirates.

The holders were entitled to convert the convertible bonds into ordinary shares of the Company at an initial conversion ratio of 13.82% of issued ordinary shares of the Company immediately before the conversion. The conversion was available at any time during the period commencing from the date of issue of the convertible bonds, except for the two-month period from the eighth business day before the date scheduled for bulk printing of earlier of the red herring Prospectus or preliminary offering circular or, if none, the final Prospectus. The conversion ratio was subject to adjustments from the actual net profit after tax of the Group.

The redemption of convertible bonds by the Company is subject to the below conditions on the maturity date:

- (i) In the event of a Qualifying IPO having been completed by the maturity date, the Company shall redeem the outstanding principal amount of the bonds on the maturity date at a redemption price equivalent to 110% of the principal amount of the bonds so redeemed;
- (ii) In the event of no IPO having been completed by the maturity date, the Company shall redeem the outstanding principal amount of the bonds on the maturity date at a redemption price equivalent to 120% of the principal amount of the bonds so redeemed; or
- (iii) In the event of an IPO which is not a Qualifying IPO having been completed by the maturity date, the Company shall redeem the outstanding principal amount of the bonds on the maturity date at a redemption price equivalent to 100% of the principal amount of the bonds so redeemed.

A Qualifying IPO means an IPO whereby the post-money market capitalisation of the Company of at least HK\$1.75 billion.

The entire convertible bonds were measured at fair value on initial recognition and remeasured at the end of each reporting period with the changes in fair value recognised in profit or loss. The fair values of the convertible bonds over the Relevant Periods were carried out by International Valuation Limited (“IVL”), independent professional valuer not connected to the Group. The valuer has appropriate qualifications and recent experience in the valuation of the relevant financial instruments.

The fair value measurement of the convertible bonds at the end of each reporting period is level 3 recurring fair value measurement which calculated by using Binomial Tree Pricing Model. Details of the variables and assumptions were as follows:

	<b>As at 31 December 2015</b>
Risk-free rate	0.52%
Expected volatility ( <i>Note a</i> )	70.04%
Redemption return ( <i>Note b</i> )	20%
Discount rate	17.33%
Coupon rate	12.00%
Expected dividend yield	0.00%

*Notes:*

- (a) Expected volatility was estimated based on the annualised volatility calculated from the daily closing stock price of the comparable companies. The higher the amount, the higher the fair value.
- (b) It represented the weighted average of the probabilities of the occurrence and non-occurrence of the IPO event corresponding to their respective redemption returns has been applied.

In accordance with IFRS 13 and IAS 39, the fair value of the convertible bonds at inception is normally the transaction price. If the transaction price differs from the amount determined at inception using a level 3 valuation technique, that difference is deferred and not recognised in profit or loss and referred to as deferred day-1 profit or loss. The table below reflects the movements in deferred day-1 profit or loss for the convertible bonds, including the aggregate difference yet to be recognised in profit or loss at the beginning and end of the reporting periods and a reconciliation of changes during the reporting periods.

	Year ended 31 December	
	2015	2016
	RMB'000	RMB'000
Deferred day-1 loss arising from issue of convertible bonds:		
At beginning of the year	–	17,935
Issue of convertible bonds	33,629	–
Recognised in profit or loss	(15,694)	(17,935)
At end of the year	17,935	–

Fair value changes subsequent to initial recognition are not recognised in profit or loss to the extent of the unrecognised loss on initial recognition.

On 8 August 2016, the Company has early redeemed the convertible bonds at consideration of US\$24,000,000 (equivalent to RMB159,876,000) which represented 120% of the principal amount.

Movements of balance of convertible bonds were as follows:

	As at 31 December	
	2015	2016
	RMB'000	RMB'000
At beginning of the year	–	161,787
Issue of convertible bonds	122,404	–
Redemption for the year	–	(159,876)
Exchange difference	8,866	5,446
Change in fair value	30,517	(8,701)
Loss on redemption	–	1,344
At end of the year	161,787	–

### 32. SHARE CAPITAL

Authorised share capital:	Number of shares	Amount	Amount
		US\$	RMB'000
As at 1 January 2014			
Ordinary shares at US\$1 each (Note (a))	50,000	50,000	309
Sub-division of ordinary shares (Note (b))	499,950,000	–	–
As at 31 December 2014, 2015 and 2016			
Ordinary shares at US\$0.0001 each	500,000,000	50,000	309

Issued share capital:	Number of	Amount	Amount
	shares	US\$	RMB'000
As at 1 January 2014			
Ordinary shares at US\$1 each ( <i>Note (a)</i> )	50,000	50,000	309
Sub-division of ordinary shares ( <i>Note (b)</i> )	499,950,000	–	–
Repurchase of shares ( <i>Note (c)</i> )	(500,000,000)	(50,000)	(309)
Issue of new shares ( <i>Note (d)</i> )	450,000,000	45,000	277
As at 31 December 2014	450,000,000	45,000	277
Issue of new shares ( <i>Note (e)</i> )	10,000,000	1,000	6
As at 31 December 2015 and 2016	460,000,000	46,000	283

*Notes:*

- (a) The Company was incorporated in the Cayman Islands on 26 July 2013 with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of par value of US\$1 each, 50,000 ordinary shares were issued.
- (b) On 15 April 2014, the authorised share capital of the Company was subdivided from US\$50,000 divided into 50,000 shares having a par value of US\$1 each to US\$50,000 divided into 500,000,000 shares having a par value of US\$0.0001 each.
- (c) On 12 June 2014, the Company had repurchased the 500,000,000 shares, representing the then entire issued share capital of the Company and such shares were cancelled against the then issued share capital of the Company.
- (d) On 12 June 2014, a total of 200,000,000 shares were allotted and issued, credited as fully paid, by the Company. On 28 November 2014, as part of the Reorganisation, the Company issued 176,400,000 shares to Bloom Ocean. On the same date, 73,600,000 shares were allotted and issued to Sino-Coal Holding for cash.
- (e) On 19 May 2015, certain non-interest bearing shareholder's loan due and owing by the Company to Sino-Coal Holding, which amounts to approximately US\$5 million, was settled by the Company by allotting and issuing, credited as fully paid, 6,080,000 shares by the Company to Sino-Coal Holding. On the same date, 3,920,000 shares at par were also allotted and issued to Bloom Ocean. Such shares were fully paid.

**33. RESERVES****Group**

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity of the Financial Information.

*(a) Statutory reserve*

Pursuant to relevant laws and regulations in the PRC and the Articles of Association of Dongguang Chemical, both are required to make appropriation from profit after taxation as reported in the PRC statutory financial statements to reserve fund at rates not less than 10% until the reserve fund balance reaches 50% of its registered capital.

The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

*(b) Share premium*

The amount represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired plus the shareholder loan pursuant to the Reorganisation.

*(c) Merger reserve*

The merger reserve of the Group represents the reserve arose pursuant to the Reorganisation as mentioned in note 1 of Section II to the Financial Information. Details of the movements in the merger reserve are set out in the consolidated statements of changes in equity.

*(d) Foreign currency translation reserve*

The reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

*(e) Specific reserve*

According to relevant PRC regulations, the Group is required to set up a specific reserve for the safety production fund based on the sales of goods.

**Company**

	<b>Share premium</b>	<b>Foreign currency translation reserve</b>	<b>Accumulated losses</b>	<b>Total reserves</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2014	–	–	–	–
Issue of shares pursuant to the Reorganisation	744,743	–	–	744,743
Loss for the year	–	–	(974)	(974)
Other comprehensive income	–	(48)	–	(48)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2014	744,743	(48)	(974)	743,721
Issue of shares	32,667	–	–	32,667
Dividends declared	(171,273)	–	–	(171,273)
Loss for the year	–	–	(64,387)	(64,387)
Other comprehensive income	–	(102)	–	(102)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2015	606,137	(150)	(65,361)	540,626
Profit for the year	–	–	21,610	21,610
Other comprehensive income	–	499	–	499
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2016	<u>606,137</u>	<u>349</u>	<u>(43,751)</u>	<u>562,735</u>

## 34. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship

Name of related party	Relationship with the Group
Wang Zhihe (王治河)	Shareholder
Sun Yi (孫毅)	Shareholder
Sun Zushan (孫祖善)	Shareholder
Xu Xijiang (徐希江)	Shareholder
Song Jianning (宋建寧)	Shareholder
Liu Yingdong (劉英棟)	Shareholder
Li Hongliang (李洪亮)	Shareholder
Li Guie (李桂娥)	Shareholder
Guo Jianming (郭建明)	Shareholder
Hebei Zhaohu Ecology Technology Co., Ltd. (河北昭合生態科技有限公司)* (“Zhaohu”)	Controlled by Wang Zhihe
Wang Zhijiang (王志江)	The relative person of Wang Zhihe
Wang Yuhong (王玉紅)	The relative person of Wang Zhihe

\* Zhaohu is not the related party of the Group since 17 November 2014, the date that Wang Zhihe transferred all his interest in Zhaohu to a third party.

(b) In addition to the transactions and balances detailed elsewhere in this report, the Group had the following material transactions with related parties during the Relevant Periods:

*Nature of transactions*

Group

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
– Purchase of raw materials from related parties			
Wang Zhijiang	52,449	46,178	7,335
Wang Yuhong	133,487	166,969	21,077

As Wang Zhijiang and Wang Yuhong are not connected persons according to the Listing Rules, the related party transactions in respect of above items did not constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(c) Outstanding balances with related parties

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due from Ultimate Shareholders:			
Sun Yi	174,650	–	–
Guo Jianming	39	–	–
	<u>174,689</u>	<u>–</u>	<u>–</u>

- (d) As disclosed in note 1(b)(v), the Ultimate Shareholders transferred his/her entire interest in the Listing Business to Sino Emirates, which in aggregate accounts for 60.8% of the equity interest in the Listing Business, for cash at the consideration which is equivalent to the amount of registered capital then held by each of the Ultimate Shareholders. The total amount of registered capital held by the Ultimate Shareholders were RMB54,720,000 which are payable at 31 December 2014. All payables to Ultimate Shareholders were settled during the year ended 31 December 2015.
- (e) Amounts due from/(to) subsidiaries are unsecured, non-interest bearing and repayable on demand.
- (f) Compensation of key management personnel of the Group

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Short-term employee benefits	241	1,005	1,641
Retirement benefit scheme contributions	21	22	25
Total compensation paid to key management personnel	<u>262</u>	<u>1,027</u>	<u>1,666</u>

Further details of directors' emoluments are included in note 12.

### 35. OPERATING LEASE COMMITMENTS

At each reporting date, the Group's total future minimum rental payable under non-cancellable operating lease in respect of land and buildings are as follows:

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	168	243	259
In the second to fifth year	672	672	672
Over five years	2,952	2,784	2,631
	<u>3,792</u>	<u>3,699</u>	<u>3,562</u>

The leases run for an initial period of four to thirty years.

As at 31 December 2014, 2015 and 2016, none of these lease arrangements include contingent rentals.

### 36. CAPITAL COMMITMENTS

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Commitments for the acquisition of property, plant and equipment:			
– contracted for but not provided	<u>81,140</u>	<u>31,065</u>	<u>14,968</u>



## 37. FINANCIAL RISK MANAGEMENT

## (a) Financial risk factors

The Group is exposed to a variety of financial risks in the normal course of business. The Group does not have written risk management policies and guidelines. However, the directors meet periodically to analyse and formulate strategies to manage the Group's exposure to market risks (specifically to foreign currency risk, interest rate risk, price risk and fair value risk), credit risk and liquidity risk. Generally, the Group utilises conservative strategies on its risk management. The Group's exposure to market risk is kept to minimum. The Group has not used any derivatives or other instruments for hedging purposes. The Group does not issue derivative financial instruments for trading purposes.

The most significant financial risks to which the Group is exposed are described below. A summary of the Group's financial assets and liabilities by category is shown in note 37(b).

## (i) Foreign currency risk

Currency risk refers to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group mainly operated in the PRC with most of the transactions settled in Renminbi and did not have significant exposure to risk resulting from changes in foreign currency exchange rates in 2014.

In 2015, the Company has issued non-convertible bonds and convertible bonds in total of US\$30,000,000. In 2016, the Company has redeemed all the outstanding principal of non-convertible bonds and convertible bonds, which was partially funded by other borrowings of HK\$178,000,000 granted in August 2016. On 29 December 2016, other borrowings of HK\$70,000,000 was further granted. During the year ended 31 December 2016, other borrowings of HK\$110,000,000 has been repaid. As at 31 December 2016, the Group's assets and liabilities denominated in Hong Kong dollars, of which the financial currency of group entities is Renminbi, were as follows:

	<b>2016</b>
	<i>HK\$'000</i>
Bank and other borrowings	138,252
Cash and bank balances	<u>(18,071)</u>
Overall net exposure	<u><u>120,181</u></u>

The following table indicates the approximate change in the Group's profit for the year and retained earnings and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances between Group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower. A positive number below indicates an increase in profit for the year and retained earnings and other components of consolidated equity where RMB strengthens against the relevant currency. For a weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit for the year and retained earnings and other components of consolidated equity, and the balances below would be negative.

31 December 2015		
Increase in foreign exchange rate	Effect on profit for the year and retained earnings	Effect on other components of consolidated equity
	<i>RMB'000</i>	<i>RMB'000</i>
United States dollars ("US\$")	1%	(1,719)
		–
31 December 2016		
Increase in foreign exchange rate	Effect on profit for the year and retained earnings	Effect on other components of consolidated equity
	<i>RMB'000</i>	<i>RMB'000</i>
Hong Kong dollars ("HK\$")	1%	(806)
		–

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the group entities; exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

(ii) *Credit risk*

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instruments and cause a financial loss to the Group. The Group has no significant concentration of credit risk.

The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem. Most of the Group's cash and cash equivalents are held in major reputable financial institutions in the PRC, which management believes are of high credit quality.

Management makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

The related parties are in good settlement records and reputation. The management believes that the credit risk on the amount due is minimal.

The Group has assessed the recoverability of all overdue receivables. The directors of the Group consider that no provision is necessary to cover the credit risk by reference to the counterparty's default history.

The measures to manage credit risk have been followed by the Group since prior years and are considered to be effective.

(iii) *Interest rate risk*

Interest rate risk means the risk on the fluctuation of fair value on future cash flows of financial instruments which arise from changes in interest rates. Floating interest rate instruments will result in the Group facing the risk of changes in market interest rate, and fixed interest rate instruments will result in the Group facing fair value interest rate risk.

Other than cash and bank balances (note 24), bank and other borrowings (note 28), amounts due to shareholders (note 29), non-convertible bonds (note 30) and convertible bonds (note 31), the Group does not have any other significant interest-bearing financial assets and liabilities. All financial liabilities bear fixed rate. As a result, any change in the interest rate promulgated by banks from time to time is not considered to have significant impact to the Group.

The measures to manage interest rate risk have been followed by the Group since prior years and are considered to be effective.

Sensitivity analysis

At 31 December 2014, 2015 and 2016, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year and retained earnings by approximately RMB2 million, RMB3 million and RMB3 million.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

(iv) *Liquidity risk*

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings, also regularly monitor its liquidity requirements, its compliance with lending covenants and its relationship with its bankers to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. In addition, banking facilities have been put in place for contingency purposes.

The Group's liquidity position is monitored on a daily basis by the management.

The following table summarises the remaining contractual maturities at the reporting dates of the Group's financial liabilities, which are based on contractual undiscounted payments.

	Carrying amount	Total contractual undiscounted cash flow	On demand	Within 1 year	More than 1 year
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>As at 31 December 2014</b>					
Trade payables	40,382	40,382	40,382	–	–
Other payables and accruals	137,415	137,415	137,415	–	–
Amounts due to shareholders	54,720	54,720	54,720	–	–
Bank and other borrowings	881,683	986,563	–	442,241	544,322
	<u>1,114,200</u>	<u>1,219,080</u>	<u>232,517</u>	<u>442,241</u>	<u>544,322</u>
<b>As at 31 December 2015</b>					
Trade payables	30,941	30,941	30,941	–	–
Other payables and accruals	96,260	96,260	96,260	–	–
Bank and other borrowings	718,279	820,777	479,393	–	341,384
Non-convertible bonds	67,378	69,964	69,964	–	–
Convertible bonds	161,787	140,333	–	140,333	–
	<u>1,074,645</u>	<u>1,158,275</u>	<u>676,558</u>	<u>140,333</u>	<u>341,384</u>
<b>As at 31 December 2016</b>					
Trade payables	12,955	12,955	12,955	–	–
Other payables and accruals	48,416	48,416	48,416	–	–
Bank and other borrowings	902,533	982,119	–	587,578	394,541
	<u>963,904</u>	<u>1,043,490</u>	<u>61,371</u>	<u>587,578</u>	<u>394,541</u>

The measures to manage liquidity risk have been followed by the Group since prior years and are considered to be effective.

(v) *Other price risk*

Convertible bonds

The Group are required to estimate the fair values of the convertible bonds issued at the end of each reporting period, which therefore exposed the Group to equity price risk. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in risk-free rate, expected volatility and the expected dividend yield. Details of the convertible bonds issued by the Company are set out in note 31.

Sensitivity analysis

The sensitivity analysis disclosed in note 37(b)(ii) have been determined based on the exposure to the expected volatility at the reporting date only as the directors of the Company consider the change in risk-free rate may not have significant financial impact on the fair values of convertible bonds as disclosed in note 31.

**(b) Summary of financial assets and liabilities by category**

The carrying amounts of the Group's financial assets and liabilities as recognised at each reporting dates are also analysed into the following categories. See note 4(h) for explanations about how the category of financial instruments affects their subsequent measurement.

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Financial assets</b>			
Financial assets at fair value through profit or loss	6,000	–	–
Loans and receivables			
– Notes receivables	390	2,530	1,170
– Deposits and other receivables	39,396	24,813	71,430
– Amounts due from shareholders	174,689	–	–
– Amounts due from officers	16,700	–	–
– Restricted bank deposits	–	–	6,000
– Cash and bank balances	98,510	222,211	162,443

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Financial liabilities</b>			
Fair value through profit or loss			
– Convertible bonds	–	161,787	–
Amortised cost			
– Trade payables	40,382	30,941	12,955
– Other payables and accruals	137,415	96,260	48,416
– Amounts due to shareholders	54,720	–	–
– Bank and other borrowings	881,683	718,279	902,533
– Non-convertible bonds	–	67,378	–

*(i) Financial instruments not measured at fair value*

Financial instruments not measured at fair value include notes receivables, deposits and other receivables, amounts due from shareholders, amounts due from officers, cash and bank balances, restricted bank deposits, trade payables, other payables and accruals, amounts due to shareholders, bank and other borrowings and non-convertible bonds.

Due to their short-term nature, their carrying values approximate their fair values.

(ii) *Financial instruments measured at fair value*

The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 financial instruments:

The financial assets at fair value through profit or loss in Level 2 is determined by reference to the explicit interest rate which is observable input adopted.

Information about level 3 fair value measurements:

The fair value of the convertible bonds is estimated using Binomial Tree Pricing Model approach and the significant unobservable input used in the fair value measurement is expected volatility as below:

	<u>At 28 May 2015</u>	<u>At 31 December 2015</u>	<u>At 31 December 2016</u>
Expected volatility	40%	70%	–

The fair value measurement is positively related to the expected volatility. The following table shows the change in Group's profit with increase/decrease in the expected volatility by 5%, with all other variables held constant:

	<u>Effect to the Group's profit At 31 December 2015</u>
	<i>RMB'000</i>
Expected volatility +5%	2,009
Expected volatility -5%	<u>(2,021)</u>

The movements during the Relevant Periods in the balance of the Level 3 fair value measurement are disclosed in note 31.

The following table presents financial instruments measured at fair value in the consolidated statements of financial position in accordance with the fair value hierarchy. The hierarchy groups financial instruments into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial instruments. The fair value hierarchy has the following levels:

Level 1:	quoted prices (unadjusted) in active markets for identical assets;
Level 2:	inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3:	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial instrument is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial assets and financial liabilities measured at fair value as at 31 December 2014, 2015 and 2016 in the consolidated statements of financial position are grouped into the fair value hierarchy as follows:

<b>Recurring fair value measurement</b>	<u>Level 1</u> <i>RMB'000</i>	<u>Level 2</u> <i>RMB'000</i>	<u>Level 3</u> <i>RMB'000</i>	<u>Total</u> <i>RMB'000</i>
<b>As at 31 December 2014</b>				
Financial assets at fair value through profit or loss	–	6,000	–	6,000
<b>As at 31 December 2015</b>				
Financial liabilities at fair value through profit or loss				
– Convertible bonds	–	–	161,787	161,787
<b>As at 31 December 2016</b>				
Financial liabilities at fair value through profit or loss				
– Convertible bonds	–	–	–	–

There have been no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 in the Relevant Periods.

Reconciliation for financial instruments at recurring fair value measurement based on significant unobservable inputs (Level 3) is as follows:

<b>Convertible bonds</b>	<u>2015</u> <i>RMB'000</i>	<u>2016</u> <i>RMB'000</i>
At beginning of the year	–	161,787
Issue of convertible bonds	122,404	–
Redemption for the year	–	(159,876)
Exchange difference recognised in profit or loss	8,866	5,446
Total loss/(gain) recognised in profit or loss	<u>30,517</u>	<u>(7,357)</u>
At end of the year	<u>161,787</u>	<u>–</u>
Loss/(gain) recognised in consolidated statement of profit or loss and other comprehensive income relating to financial instruments held by the Group at the reporting date	<u>39,383</u>	<u>(1,911)</u>

**38. CAPITAL MANAGEMENT**

The Group's capital management objectives are:

- (i) to ensure the Group's ability to continue as a going concern; and
- (ii) to provide an adequate return to equity holders.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher owners' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. The directors of the Company also balance its overall capital structure through the payment of dividends or issue new shares. No changes were made in the objectives, policies or processes during the Relevant Periods.

The Group sets the amount of equity in proportion to its overall financing structure. The equity-to-overall financing ratios at the end of each reporting period were as follows:

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Total equity</b>	<u>747,696</u>	<u>717,662</u>	<u>739,909</u>
<b>Overall financing</b>			
Bank and other borrowings	881,683	718,279	902,533
Non-convertible bonds	–	67,378	–
Convertible bonds	–	161,787	–
	<u>881,683</u>	<u>947,444</u>	<u>902,533</u>
<b>Equity-to-overall financing ratio</b>	<u>0.85</u>	<u>0.76</u>	<u>0.82</u>

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through optimisation of the debt and equity balance. The Group's overall strategy remained unchanged throughout the Relevant Periods.

**39. CONTINGENT LIABILITIES**

As at 31 December 2014, 2015 and 2016, neither the Group nor the Company had any significant contingent liabilities.

**40. EVENTS AFTER THE END OF RELEVANT PERIOD**

Except as disclosed elsewhere in this Financial Information, the following significant events took place subsequent to 31 December 2016:

On 20 June 2017, the shareholders of the Company resolved to increase the authorised share capital of the Company from US\$50,000 to US\$50,000,000 divided into 500,000,000,000 shares each by the creation of an additional 499,500,000,000 shares.



**41. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 31 December 2016.

Yours faithfully,

**BDO Limited**

*Certified Public Accountants*

**Chow Tak Sing, Peter**

Practising Certificate Number: P04659

Hong Kong

The information set forth in this appendix does not form part of the Accountants' Report prepared by BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

**(A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF OUR GROUP**

The following unaudited pro forma financial information prepared in accordance with paragraph 4.29 of the Main Board Listing Rules and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants is for illustrative purpose only, and is set out herein to provide the prospective investors with further illustrative financial information about how the Global Offering might have affected the consolidated net tangible assets of the Group after the completion of the Global Offering as if the Global Offering had taken place on 31 December 2016. Because of its hypothetical nature, the unaudited pro forma financial information may not give a true picture of the financial position of our Group had the Global Offering been completed on 31 December 2016 or at any future dates.

The unaudited pro forma adjusted consolidated net tangible assets of the Group as at 31 December 2016 is based on the audited consolidated net tangible assets of the Group as at 31 December 2016 as shown in the Accountants' Report set out in Appendix I to this prospectus and the adjustments described below.

	<b>Audited consolidated net tangible assets of the Group as at 31 December 2016</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets per Share</b>	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>HK\$</i>
	<i>(Note 1)</i>	<i>(Note 2, 4)</i>		<i>(Note 3, 4)</i>	
Based on Offer Price of HK\$0.92 per Offer Share	<u>739,909,000</u>	<u>104,336,000</u>	<u>844,245,000</u>	<u>1.36</u>	<u>1.56</u>
Based on Offer Price of HK\$1.20 per Offer Share	<u>739,909,000</u>	<u>142,210,000</u>	<u>882,119,000</u>	<u>1.42</u>	<u>1.63</u>

*Notes:*

1. The audited consolidated net tangible assets of the Group as at 31 December 2016 are based on audited consolidated net assets of the Group as at 31 December 2016 as shown in the Accountants' Report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Global Offering are based on 160,000,000 new Shares to be issued at the minimum and maximum Offer Price of HK\$0.92 and HK\$1.20 per Share, respectively, after deduction of the underwriting fees and related other expenses expected to be incurred by the Group subsequent to 31 December 2016 (excluding listing related expenses of approximately RMB16.9 million already recognised in profit or loss prior to 31 December 2016) payable by our Group. No account has been taken of any Shares which may be issued upon the exercise of the Over-allotment Option.
3. The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 620,000,000 Shares in issue immediately following the completion of the Global Offering, but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates.
4. The pro forma adjusted consolidated net tangible assets per Share are converted from Renminbi and Hong Kong dollars at the rate of RMB0.87 = HK\$1.00, the exchange rate set by the People's Bank of China for foreign exchange transactions prevailing at 31 December 2016. No representation is made that the amounts in Renminbi have been, could have been or could be converted into Hong Kong dollars, or vice versa, at the rate or at any other rates or at all.
5. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2016.

**(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report, prepared for the sole purpose of inclusion in this prospectus, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, in relation to the Group's unaudited pro forma financial information.*



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永安中心25樓

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of Dongguang Chemical Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Dongguang Chemical Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 31 December 2016 and related notes as set out in Section A of Appendix II on pages II-1 to II-2 of the prospectus dated 28 June 2017 (the “**Prospectus**”) issued by the Company (the “**Unaudited Pro Forma Financial Information**”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Notes 2 to 5 in Section A of Appendix II to the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the proposed global offering of shares of the Company (the “**Global Offering**”) on the Group's financial position as at 31 December 2016 as if the Global Offering had taken place on the same date. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information included in the accountants' report as set out in Appendix I to the Prospectus.

**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 “**Main Board Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

**Our Independence and Quality Control**

We have complied with the independence and other ethical 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 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” 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 Accountants' Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Main Board Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus”, issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Main Board 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 the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2016 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors 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 Main Board Listing Rules.

### **BDO Limited**

*Certified Public Accountants*

**Chow Tak Sing, Peter**

Practising Certificate Number: P04659

Hong Kong, 28 June 2017

*The following is the text of a letter and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 30 April 2017 of the property interests of the Group.*



仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited  
6/F Three Pacific Place 1 Queen's Road East Hong Kong  
tel +852 2846 5000 fax +852 2169 6001  
Licence No: C-030171

28 June 2017

The Board of Directors  
**Dongguang Chemical Limited**  
Chengdong Industrial Zone Dongguang County,  
Hebei Province,  
The PRC

Dear Sirs,

In accordance with your instructions to value the properties in which Dongguang Chemical Limited (“**the Company**”) and its subsidiaries (hereinafter together referred to as “**the Group**”) have interests in the People’s Republic of China (the “**PRC**”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 30 April 2017 (the “**valuation date**”).

Our valuation is carried out on a market value basis. Market value is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

Due to the nature of the buildings and structures of properties and the particular locations in which they are situated, there are unlikely to be relevant market comparable sales readily available, the property interests of property Nos. 1, 2, 4, 5 and 6 have therefore been valued by the cost approach with reference to their depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of the land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation, it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

We have valued property Nos. 3 and 7 by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited; the RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers – Tianyuan Law Firm, concerning the validity of the Group's titles of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.



Inspection of the properties was carried out in the period from 28 June 2016 to 1 July 2016 by Mr. Sifan Lau and Mr. Tony Xu. Mr. Sifan Lau has 9 years' experience in valuation of properties in the PRC and Mr. Tony Xu has obtained the bachelor degree in real estate appraisal and has 3 years' experience in real estate industry of the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarised before and the valuation certificates are attached.

Yours faithfully,  
For and on behalf of  
**Jones Lang LaSalle Corporate Appraisal and Advisory Limited**  
**Eddie T. W. Yiu**  
*MRICS MHKIS RPS (GP)*  
*Director*

*Note:* Eddie T.W. Yiu is a Chartered Surveyor who has 23 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

## SUMMARY OF VALUES

## Property interests held and occupied by the Group in the PRC

<u>No.</u>	<u>Property</u>	<b>Market value in existing state as at 30 April 2017</b>
		<i>RMB</i>
1.	A parcel of land and 12 buildings located at the southern side of Hezhuang Dongguang Town Dongguang County Cangzhou City Hebei Province The PRC	26,769,000
2.	A parcel of land and 19 buildings located at the eastern side of Hezhuang Village East of City District Dongguang County Cangzhou City Hebei Province The PRC	62,489,000
3.	A parcel of land located at the eastern side of No. 104 National Highway Dongguang County Cangzhou City Hebei Province The PRC	20,980,000
	<b>Sub-total:</b>	<b>110,238,000</b>

<b>No.</b>	<b>Property</b>	<b>Market value in existing state as at 30 April 2017</b>
		<i>RMB</i>
4.	2 parcels of land, 26 buildings and various structures located at Hezhuang Village Dongguang County Cangzhou City Hebei Province The PRC	38,199,000
5.	A parcel of land, 26 buildings and a structure located at Chengdong Development Zone Dongguang County Cangzhou City Hebei Province The PRC	100,208,000
6.	5 parcels of land, 43 buildings and various structures located at the northern side of Wuqian Road Chengdong Industrial Zone Dongguang County Cangzhou City Hebei Province The PRC	126,531,000
7.	2 office units (Nos. 2-9010 and 2-9011) on 9th floor of a building No. 100 Third Ring North Road Haidian District West Beijing The PRC	12,180,000
	<b>Sub-total:</b>	<b><u>277,118,000</u></b>
	<b>Grand total:</b>	<b><u>387,356,000</u></b>

## VALUATION CERTIFICATE

## Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 April 2017 RMB
1.	A parcel of land and 12 buildings located at the southern side of Hezhuang Dongguang Town Dongguang County Cangzhou City Hebei Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 56,196.71 sq.m. and 12 buildings erected thereon which were completed between 2011 and 2014.</p> <p>The buildings have a total gross floor area of approximately 8,917.49 sq.m.</p> <p>The buildings mainly include office and industrial buildings.</p> <p>The land use rights of the property have been granted for a term expiring on 2 April 2058 for industrial use.</p>	The property is currently occupied by the Group for production and ancillary office purposes.	26,769,000

## Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Dong Guo Yong (2008) Di No. 025, the land use rights of a parcel of land with a site area of approximately 56,196.71 sq.m. have been granted to Hebei Dongguang Chemical Industry Co., Ltd. (“**Dongguang Chemical**”), an indirect wholly owned subsidiary of the Company, for a term expiring on 2 April 2058 for industrial use.
2. Pursuant to 4 Building Ownership Certificates – Dong Fang Quan Zheng Cheng Zi Di No. 2011033, Dong Fang Quan Zheng Cheng Qu Zi Di Nos. 201601527, 201601528 and 201601529, 12 buildings with a total gross floor area of approximately 8,917.49 sq.m. are owned by Dongguang Chemical.
3. Pursuant to a Mortgage Contract of Maximum Amount, the parcel of land mentioned in note 1 and the buildings with a total gross floor area approximately 7,206.82 sq.m. (under Building Ownership Certificate – Dong Fang Quan Zheng Cheng Zi Di No. 2011033) mentioned in note 2 are subject to a mortgage in favour of China Construction Bank Corporation (Dongguang Branch) (the “**Bank**”), as security to guarantee the principal obligation under a contract entered into between the Bank and Dongguang Chemical for a maximum amount of RMB49,100,000 with the security term from 13 March 2017 to 12 March 2020.
4. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
  - a. The property was mortgaged as mentioned in note 3; and
  - b. The Group is entitled to occupy, use, lease, transfer, mortgage or otherwise dispose of the property.

## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 April 2017 <i>RMB</i>
2.	A parcel of land and 19 buildings located at the eastern side of Hezhuang Village East of City District Dongguang County Cangzhou City Hebei Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 162,208 sq.m. and 19 buildings erected thereon which were completed between 2006 and 2015.</p> <p>The buildings have a total gross floor area of approximately 22,077.5 sq.m.</p> <p>The buildings mainly include office buildings, canteens and industrial buildings.</p> <p>The land use rights of the property have been granted for a term expiring on 30 December 2056 for industrial use.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	62,489,000

*Notes:*

1. Pursuant to a State-owned Land Use Rights Certificate – Dong Guo Yong (2006) Di No. 176, the land use rights of a parcel of land with a site area of approximately 162,208 sq.m. have been granted to Hebei Dongguang Chemical Industry Co., Ltd. (“**Dongguang Chemical**”), an indirect wholly owned subsidiary of the Company, for a term expiring on 30 December 2056 for industrial use.
2. Pursuant to 13 Building Ownership Certificates – Dong Fang Quan Zheng Cheng Zi Di No. 0400460, Dong Fang Quan Zheng Cheng Qu Zi Di Nos. 201601472, 201601484, 201601485, 201601510, 201601511, 201601512, 201601513, 201601514, 201601515, 201601516, 201601517 and 201601518, 19 buildings with a total gross floor area of approximately 22,077.5 sq.m. are owned by Dongguang Chemical.
3. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
  - a. The Group is entitled to occupy, use, lease, transfer, mortgage or otherwise dispose of the property.

## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value
				in existing state as at 30 April 2017
				<i>RMB</i>
3.	A parcel of land located at the eastern side of No. 104 National Highway Dongguang County Cangzhou City Hebei Province The PRC	The property comprises a parcel of land with a site area of approximately 90,449.98 sq.m.  The land use rights of the property have been granted for a term expiring on 28 June 2043 for industrial use.	The property is currently a vacant bare land.	20,980,000

*Notes:*

1. Pursuant to a State-owned Land Use Rights Certificate – Dong Guo Yong (2004) Di No. 196, the land use rights of a parcel of land with a site area of approximately 90,449.98 sq.m. have been granted to Hebei Dongguang Chemical Industry Co., Ltd. (“**Dongguang Chemical**”), an indirect wholly owned subsidiary of the Company, for a term expiring on 28 June 2043 for industrial use.
2. Pursuant to a Mortgage Contract of a Maximum Amount, this property and the parcels of land mentioned in notes 1, 2 and 3 of property No. 6 (under State-owned Land Use Rights Certificates – Dong Guo Yong (2010) Di No. 051, Dong Guo Yong (2012) Di No. 114 and Dong Guo Yong (2013) Di No. 083) are subject to a mortgage in favour of China Construction Bank Corporation (Dongguang Branch) (the “**Bank**”), as security to guarantee the principal obligation under a contract entered into between the Bank and Dongguang Chemical for a maximum amount of RMB103,000,000 with the security term from 28 May 2015 to 28 May 2018.
3. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, inter alia, the following:
  - a. The property was mortgaged as mentioned in note 2; and
  - b. The Group is entitled to occupy, use, lease, transfer, mortgage or otherwise dispose of the property.
4. In our valuation, we have identified and analysed various relevant sales evidence in the locality which have similar characteristic as the subject property. The unit price of these comparables range from RMB225/sq.m. to RMB255/sq.m. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the subject property to arrive at an assumed unit value of RMB232/sq.m. for the property.

## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value
				in existing state as at 30 April 2017
				<i>RMB</i>
4.	2 parcels of land, 26 buildings and various structures located at Hezhuang Village Dongguang County Cangzhou City Hebei Province The PRC	<p>The property comprises a parcel of granted land with a site area of approximately 66,700 sq.m., a parcel of leased land and 26 buildings and various ancillary structures erected thereon these two land parcels. These buildings and structures were completed in 2009 and 2016.</p> <p>The buildings have a total gross floor area of approximately 16,952.23 sq.m.</p> <p>The buildings mainly include guard room and industrial buildings.</p> <p>The structures mainly include a dry ash store and a chimney.</p> <p>The land use rights of the granted land parcel have been granted for a term expiring on 16 May 2060 for industrial use.</p>	The property is currently occupied by the Group for production and ancillary purposes.	38,199,000

*Notes:*

- Pursuant to a State-owned Land Use Rights Certificate – Dong Guo Yong (2010) Di No. 052, the land use rights of a parcel of land with a site area of approximately 66,700 sq.m. have been granted to Hebei Dongguang Chemical Industry Co., Ltd. (“**Dongguang Chemical**”), an indirect wholly owned subsidiary of the Company, for a term expiring on 16 May 2060 for industrial use.
- Pursuant to 5 Building Ownership Certificates – Dong Fang Quan Zheng Cheng Zi Di No. 2011034, Dong Fang Quan Zheng Cheng Qu Zi Di Nos. 201601464, 201601487, 20161460 and 201601530, 25 buildings with a total gross floor area of approximately 16,580.94 sq.m. are owned by Dongguang Chemical. As at the valuation date, 1 industrial building with gross floor area of approximately 191.71 sq.m. was demolished.
- According to a Land Lease Agreement dated 16 July 2007, entered into between Industrial Administrative Committee of Dongguang County and Dongguang Chemical, a parcel of land with site area of approximately 174,282.2 sq.m. was leased to Dongguang Chemical for a term 30 years at an annual rent of RMB522,844. As at the valuation date, according to the confirmation letter dated 10 June 2015 and the survey report provided by the Company, the existing leased land (for property No. 4 and No. 6) has a total site area of approximately 10,590.2 sq.m. A portion of leased land with 2 industrial buildings with a total gross floor area of approximately 563 sq.m. is located in property No. 4 and the remaining portion of leased land with 7 buildings with a total gross floor area of approximately 2,816.75 sq.m. is located in property No. 6.

4. Pursuant to a Mortgage Contract of Maximum Amount, the parcel of land mentioned in note 1 is subject to a mortgage in favour of Agricultural Bank of China Limited (Dongguang County Branch) (the “**Bank**”), as security to guarantee the principal obligation under a contract entered into between the Bank and Dongguang Chemical for a maximum amount of RMB30,000,000 with the security term from 9 September 2015 to 8 September 2018.
5. For the 2 buildings with a total gross floor area of approximately 563 sq.m. erected on the leased land mentioned in note 3, no building ownership certificates for them have been obtained.
6. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, inter alia, the following:
  - a. The property was mortgaged as mentioned in note 4;
  - b. For the land use rights of the granted land mentioned in note 1, the Group is entitled to occupy, use, lease, transfer, mortgage or otherwise dispose of the land parcel;
  - c. For the 24 buildings mentioned in note 2 which are erected on the granted land of the property, the Group is entitled to occupy, use, lease, transfer, mortgage or otherwise dispose of the buildings; and
  - d. The Group is entitled to occupy and use the leased land.
7. In the valuation of this property, we have attributed no commercial value to the leased land parcel and the 2 buildings with a total gross floor area of approximately 563 sq.m. erected thereon due to the leased land nature and no proper title certificates for the 2 buildings have been obtained. However, for reference purpose, we are of the opinion that the depreciated replacement cost of these buildings (excluding the land) as at the valuation date would be RMB557,000.



## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 April 2017
				RMB
5.	A parcel of land, 26 buildings and a structure located at Chengdong Development Zone Dongguang County Cangzhou City Hebei Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 166,049 sq.m. and 26 buildings and an ancillary structure erected thereon which were completed between 2006 and 2015.</p> <p>The buildings have a total gross floor area of approximately 23,687.31 sq.m.</p> <p>The buildings mainly include office buildings, warehouses and industrial buildings.</p> <p>The structure is a prilling tower.</p> <p>The land use rights of the property have been granted for a term expiring on 7 May 2058 for industrial use.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	100,208,000

*Notes:*

1. Pursuant to a State-owned Land Use Rights Certificate – Dong Guo Yong (2008) Di No. 036, the land use rights of a parcel of land with a site area of approximately 166,049 sq.m. have been granted to Hebei Dongguang Chemical Industry Co., Ltd. (“**Dongguang Chemical**”), an indirect wholly owned subsidiary of the Company, for a term expiring on 7 May 2058 for industrial use.
2. Pursuant to 6 Building Ownership Certificates – Dong Fang Quan Zheng Cheng Zi Di No. 2011032, Dong Fang Quan Zheng Cheng Qu Zi Di Nos. 201601461, 201601462, 201601463, 201601477 and 201601478, 27 buildings with a total gross floor area of approximately 23,774.88 sq.m. are owned by Dongguang Chemical. As at the valuation date, 1 industrial building with gross floor area 87.57 sq.m. was demolished.
3. Pursuant to a Mortgage Contract of Maximum Amount, the parcel of land mentioned in note 1 is subject to a mortgage in favour of Agricultural Bank of China Limited Dongguang County Branch (the “**Bank**”), as security to guarantee the principal obligation under a contract entered into between the Bank and Dongguang Chemical for a maximum amount of RMB75,000,000 with the security term from 16 November 2015 to 15 November 2018.
4. Pursuant to a Mortgage Contract of Maximum Amount, 22 buildings with a total gross floor area of approximately 22,024.72 sq.m. (under Building Ownership Certificate – Dong Fang Quan Zheng Cheng Zi Di No. 2011032) mentioned in note 2 are subject to a mortgage in favour of Agricultural Bank of China Limited Dongguang County Branch (the “**Bank**”), as security to guarantee the principal obligation under a contract entered into between the Bank and Dongguang Chemical for a maximum amount of RMB19,500,000 with the security term from 16 November 2015 to 15 November 2018.
5. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, inter alia, the following:
  - a. Portion of the property was mortgaged as mentioned in note 3 and 4;
  - b. For the land use rights of the granted land mentioned in note 1, the Group is entitled to occupy, use, lease, transfer, mortgage or otherwise dispose of the land; and
  - c. For the 26 buildings mentioned in note 2 which are erected on the granted land of the property, the Group is entitled to occupy, use, lease, transfer, mortgage or otherwise dispose of the buildings.

## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value
				in existing state as at 30 April 2017
				<i>RMB</i>
6.	5 parcels of land, 43 buildings and various structures located at the northern side of Wuqian Road Chengdong Industrial Zone Dongguang County Cangzhou City Hebei Province The PRC	<p>The property comprises 4 parcels of granted land with a total site area of approximately 195,312.85 sq.m., a parcel of leased land and 43 buildings and various ancillary structures erected thereon these two land parcels. These buildings and structures were completed in 2014 and 2016.</p> <p>The buildings have a total gross floor area of approximately 30,793.58 sq.m.</p> <p>The buildings mainly include office buildings, warehouses and industrial buildings.</p> <p>The structures mainly include a prilling tower and a dry ash store.</p> <p>The land use rights of 4 parcels of granted land of the property have been granted for various terms with the expiry date between 16 May 2060 and 25 September 2063 for industrial use.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	126,531,000

*Notes:*

- Pursuant to a State-owned Land Use Rights Certificate – Dong Guo Yong (2010) Di No. 051, the land use rights of a parcel of land with a site area of approximately 30,504.85 sq.m. have been granted to Hebei Dongguang Chemical Industry Co., Ltd. (“**Dongguang Chemical**”), an indirect wholly owned subsidiary of the Company, for a term expiring on 16 May 2060 for industrial use.
- Pursuant to a State-owned Land Use Rights Certificate – Dong Guo Yong (2012) Di No. 114, the land use rights of a parcel of land with a site area of approximately 67,816 sq.m. have been granted to Dongguang Chemical for a term expiring on 30 November 2062 for industrial use.
- Pursuant to a State-owned Land Use Rights Certificate – Dong Guo Yong (2013) Di No. 083, the land use rights of a parcel of land with a site area of approximately 73,394 sq.m. have been granted to Dongguang Chemical for a term expiring on 28 May 2063 for industrial use.
- Pursuant to a State-owned Land Use Rights Certificate – Dong Guo Yong (2013) Di No. 140, the land use rights of a parcel of land with a site area of approximately 23,598 sq.m. have been granted to Dongguang Chemical for a term expiring on 25 September 2063 for industrial use.

5. Pursuant to 36 Building Ownership Certificates – Dong Fang Quan Zheng Cheng Qu Zi Nos. 201601465, 201601466, 201601467, 201601468, 201601469, 201601470, 201601471, 201601473, 201601474, 201601475, 201601476, 201601480, 201601481, 201601482, 201601483, 201601486, 201601488, 201601371, 201601372, 201601373, 201601374, 201601375, 201601376, 201601377, 201601378, 201601420, 201601421, 201601523, 201601524, 201601512, 201601519, 201601525, 201601531, 201601522, 201601520 and 201601526, 36 buildings with a total gross floor area of approximately 27,976.83 sq.m. are owned by Dongguang Chemical.
6. Pursuant to a Mortgage Contract of Maximum Amount, the parcels of land mentioned in note 1 of property No. 3 (Dong Guo Yong (2004) Di No. 196) and notes 1, 2 and 3 of property No. 6 (State-owned Land Use Rights Certificates – Dong Guo Yong (2010) Di No. 051, Dong Guo Yong (2012) Di No. 114 and Dong Guo Yong (2013) Di No. 083) are subject to a mortgage in favour of China Construction Bank Corporation (Dongguang Branch) (the “Bank”), as security to guarantee the principal obligation under a contract entered into between the Bank and Dongguang Chemical for a maximum amount of RMB103,000,000 with the security term from 28 May 2015 to 28 May 2018.
7. According to a Land Lease Agreement dated 16 July 2007, entered into between Industrial Administrative Committee of Dongguang County and Dongguang Chemical, a parcel of land with site area of approximately 174,282.2 sq.m. was leased to Dongguang Chemical for a term 30 years at an annual rent of RMB522,844. As at the valuation date, according to the confirmation letter dated 10 June 2015 and the survey report provided by the Company, the existing leased land (for property No. 4 and No. 6) has a total site area of approximately 10,590.2 sq.m. A portion of leased land with 2 industrial buildings with a total gross floor area of approximately 563 sq.m. is located in property No. 4 and the remaining portion of leased land with 7 buildings with a total gross floor area of approximately 2,816.75 sq.m. is located in property No. 6.
8. For the 7 buildings with a total gross floor area of approximately 2,816.75 sq.m. erected on the leased land mentioned in note 7, no building ownership certificates for them have been obtained.
9. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, inter alia, the following:
  - a. Portion of the property was mortgaged as mentioned in note 6;
  - b. For the land use rights of the granted land mentioned in notes 1, 2, 3 and 4, the Group is entitled to occupy, use, lease, transfer, mortgage or otherwise dispose of the land parcels;
  - c. For the 36 buildings mentioned in note 5 which are erected on the granted land of the property, the Group is entitled to occupy, use, transfer, mortgage or otherwise dispose of the buildings;
  - d. The Group is entitled to occupy and use the leased land.
10. In the valuation of this property, we have attributed no commercial value to the leased land and the 7 buildings with a total gross floor area of approximately 2,816.75 sq.m. erected thereon due to the leased land nature and no proper title certificates for the 7 buildings have been obtained. However, for reference purpose, we are of the opinion that the depreciated replacement cost of these buildings (excluding the land) as at the valuation date would be RMB3,634,000.

## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value
				in existing state as at 30 April 2017
				<i>RMB</i>
7.	2 office units (Nos. 2-9010 and 2-9011) on 9th floor of a building No. 100 Third Ring North Road Haidian District West Beijing The PRC	The property comprises 2 office units on 9th floor of an 18-storey (plus three levels basement) office building which was completed in 1999.  The property has a gross floor area of approximately 265.31 sq.m.  The land use rights of the property have been granted for a term expiring on 10 October 2046 for commercial and ancillary use.	The property is currently occupied by the Group for office purpose.	12,180,000

*Notes:*

1. Pursuant to two Property Sale & Purchase Contracts dated 26 January 2015, two office units with total gross floor area of approximately 265.31 sq.m. were contracted to be sold to Hebei Dongguang Chemical Industry Co., Ltd. ("**Dongguang Chemical**"), an indirect wholly owned subsidiary of the Company, at a total consideration of RMB11,786,362.
2. Pursuant to 2 Building Ownership Certificates – Jing Fang Quan Zheng Hai Zi Di Nos. 459915 and 459920, 2 office units with a total gross floor area of approximately 265.31 sq.m. are owned by Dongguang Chemical for office use.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
  - a. The property was not subject to mortgage; and
  - b. For the 2 units mentioned in note 2, the Group is entitled to occupy, use, lease, transfer, mortgage or otherwise dispose of them.
4. In our valuation, we have identified and analysed various relevant sales evidence in the locality which have similar characteristic as the subject property. The unit price of these comparables ranges from RMB43,000/sq.m. to RMB53,000/sq.m. for office units. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the subject property to arrive at an assumed average unit rate of RMB45,900/sq.m. for the subject property.

Set out below is a summary of certain provisions of the memorandum and articles of association of our Company and of certain aspects of Cayman Islands company law.

**1.        MEMORANDUM OF ASSOCIATION**

The memorandum of association provides that our Company's objects are unrestricted. The objects of our Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the paragraph headed "Documents available for inspection" specified in Appendix VI to this Prospectus. As an exempted company, our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.

**2.        ARTICLES OF ASSOCIATION**

The articles of association of our Company (the "**Articles**") were adopted on 20 June 2017. The following is a summary of certain provisions of the Articles.

**(a)       Directors**

*(i)       Power to allot and issue shares*

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as our Company may from time to time 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 Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of our Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of our Company on such terms as they may from time to time determine.

All unissued shares in our Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

*(ii)      Power to dispose of the assets of our Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or relevant statutes of the Cayman Islands to be exercised or done by our Company in general meeting.

*(iii) Compensation or payments for loss of office*

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 our Company in general meeting.

*(iv) Loans and the giving of security for loans to Directors*

Where the shares of our Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, our Company may not make, without the approval of, or ratification by, our Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred for any business of our Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80 per cent. of the fair market value of such residence nor 5 per cent. of the consolidated net asset value of our Company as shown in its latest audited accounts; provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence; or, (iii) of any amount to, or in respect of a liability of, a company in which our Company has an equity interest, and the amount of such loan, or the liability assumed by our Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

*(v) Financial assistance to purchase shares of our Company or its holdings company*

There are no provisions in the Articles relating to the giving by our Company of financial assistance for the purchase, subscription or other acquisition of shares of our Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

*(vi) Disclosure of interests in contracts with our Company or any of its subsidiaries*

A Director may hold any other office or place of profit with our Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such

other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as they think 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. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with our Company or any other company in which our Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with our 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 will any contract with regard thereto 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 our 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. If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company, he must declare the nature of his or, as the case may be, his associate(s)' interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case at the first meeting of the Directors after he knows that he or his associate(s) is or has become so interested.

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors approving any contract or arrangement in which he or any of his close associate(s) (as defined in the Articles) is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

- (aa) any contract or arrangement for the giving to the Director or his close associate(s) of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him for the benefit of our Company;
- (bb) any contract or arrangement for the giving by our Company of any security to a third party in respect of a debt or obligation of our Company or any company in which our Company has an interest for which the Director or his close associate(s) has himself/themselves guaranteed or secured in whole or in part;

- (cc) any contract or arrangement by a Director or his close associate(s) to subscribe for shares or debentures or other securities of our Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director and his close associate(s) any privilege not accorded to any other members or debenture or other securities holders or to the public;
- (dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by our Company 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 and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;
- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested by virtue only of his/their interest in shares or debentures or other securities of our Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;
- (ff) any proposal or arrangement for the benefit of employees of our Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director, his close associate(s) and employees of our Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates to Directors, close associate(s) of Directors and employees of our Company or any of its subsidiaries and does not give the Director or his close associate(s) any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;
- (gg) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by our Company to, or for the benefit of, the employees of our Company or its subsidiaries under which the Director or his close associate(s) may benefit; and
- (hh) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his close associate(s), officer or employee pursuant to the Articles.



*(vii) Remuneration*

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by our 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 they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in our Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of our Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of our Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of the managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of our Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of our Company, or of any company which is a subsidiary of our Company, or is allied or associated with our Company or with any such subsidiary company, or who are or were at any time directors or officers of our Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in our Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

*(viii) Retirement, appointment and removal*

At each annual general meeting, one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than one. A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and our Company). Subject to the statutes and the provisions of the Articles, our Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, the Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election at the meeting.

The Directors may from time to time entrust to and confer upon the chairman, deputy chairman, managing director, joint managing director, deputy managing director or executive director of our Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they 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 shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

(ix) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of our Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of our Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Law, by the issue of debentures, debenture stock, bonds or other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

*Note:* The provisions summarised above, in common with the Articles in general, may be varied with the sanction of a special resolution of our Company.

(x) *Qualification shares*

Directors of our Company are not required under the Articles to hold any qualification shares.

(xi) *Indemnity to Directors*

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

**(b) Alterations to constitutive documents**

The memorandum of association of our Company may be altered by our Company in general meeting. The Articles may also be amended by our Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles and to change the name of our Company.

**(c) Alterations of capital**

Our Company may from time to time by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the

generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares ratably in accordance with their rights and interests or may be paid to our Company for our Company's benefit;

- (iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
- (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;
- (v) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any shares are sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares;
- (vi) change the currency of denomination of its share capital; and
- (vii) make provision for the issue and allotment of shares which do not carry any voting rights.

Our Company may by special resolution reduce its issued share capital, any capital redemption reserve fund or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law. Our Company may apply its share premium account in any manner permitted by law.

**(d) Variation of rights of existing shares or classes of shares**

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied 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 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, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

**(e) Special resolutions – majority required**

For so long as any part of the issued capital of our Company remains listed on the Stock Exchange, a special resolution of our 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 respective duly authorised representatives, or by proxy, at a general meeting of which notice has been duly given in accordance with Article 2(i) below for further details.

**(f) Voting rights**

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). So long as the shares are listed on the Stock Exchange, where any member is, under the Listing Rules (as defined in the Articles), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall 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 authorised 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.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any meeting of our Company or at any meeting of any class of shareholders provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of our Company held by the clearing house (or its nominees) in respect of the number and class of shares specified in the relevant authorisation including, where a show of hands is allowed, the right to vote individually on a show of hands.

**(g) Requirements for annual general meetings**

For so long as any part of the issued capital of our Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of our Company are listed with the permission of our Company.

**(h) Accounts and audit**

The Directors shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by law or are necessary to give a true and fair view of the state of our Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal office of our Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors. No member (not being a Director) or other person has any right to inspect any account or book or document of our Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Directors or by our Company in general meeting. However, an exempted company shall 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.

The Directors shall from time to time cause to be prepared and laid before our Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in our Company are listed on the Stock Exchange, the accounts of our Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Financial Reporting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of our Company shall be signed on behalf of the Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before our Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, our Company and every other person entitled to receive notices of general meetings of our Company under the Companies Law or of the Articles. Subject to due compliance with the Companies Law and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Companies Law and instead of such copies, a summary financial statement derived from our Company's annual financial statements and the

directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person who is otherwise entitled to the annual financial statements of our Company and the directors' report thereon may, if he so requires by notice in writing served on our Company, demand that our Company sends to him, in addition to a summary financial statement, a complete printed copy of our Company's annual financial statement and the directors' report thereon. If all or any of the shares or debentures of our Company are for the time being (with the consent of our Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

Auditors shall be appointed and their duties regulated in accordance with the Articles. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of our Company at each annual general meeting, but in respect of any particular year, our Company in general meeting may delegate the fixing of such remuneration to the Directors.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting shall 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 (including an extraordinary general meeting) must be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business days. The notice shall specify the place, the day and the hour of meeting and particulars of resolutions to be considered at the meeting and, in case of special business, the general nature of that business.

**(j) Transfer of shares**

All transfers of shares must be effected by transfer in writing in the usual or common form or so long as any shares in our Company are listed on the Stock Exchange, such standard form prescribed by the Stock Exchange or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to 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.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which our Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with our Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reason(s) for such refusal.

The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they 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, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

**(k) Power for our Company to purchase its own shares**

The Articles provide that the power of our Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law.

**(l) Power of any subsidiary to own securities in our Company**

There are no provisions in the Articles relating to ownership of securities in our Company by a subsidiary.



**(m) Dividends and other methods of distribution**

Our Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. Our Company may also make a distribution out of share premium account subject to the provisions of the Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which our Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise.

Whenever the Directors or our Company in general meeting have resolved that a dividend be paid or declared on the share capital of our Company, the Directors 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, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

Our Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Directors or our Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared may be forfeited by the Directors and, upon such forfeiture, shall revert to our Company and, in the case where any of the same are securities in our Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

**(n) Proxies**

Any member of our Company entitled to attend and vote at a meeting of our Company or a meeting of the holders of any class of shares in our 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 to vote on his behalf at a general meeting of our Company or at a class meeting. At any general meeting, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of our Company.

A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

**(o) Corporate representatives**

A corporate member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint any person or persons as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a poll on any resolution put at such meeting.

**(p) Calls on shares and forfeiture of shares**

The Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced our Company may pay interest at such rate (if any) not exceeding 20 per cent. per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day

(not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors 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 our Company all moneys which, at the date of forfeiture, were payable by him to our Company in respect of the shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent. per annum as the Board may prescribe.

**(q) Inspection of register of members**

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of our Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respect as if our Company were incorporated under and is subject to the Companies Ordinance (Cap. 622) of the laws of Hong Kong.

**(r) Inspection of register of Directors**

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of our Company, since the register is not open to inspection (as to which see paragraph 4(k) below).

**(s) Quorum for meetings and separate class meetings**

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (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 convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

**(t) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of our Company under Cayman Islands company law as summarised in paragraph 4(e) below.

**(u) Procedures on liquidation**

A resolution for a court or voluntary winding up of our Company must be passed by way of a special resolution.

If our Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If our Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of our Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, 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 is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property 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 sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

**(v) Untraceable members**

Our Company may sell the shares of any member if: (i) dividends or other distributions have been declared by our Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) our Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of our Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) our Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) our Company has notified the stock exchange on which the ordinary share capital of our Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to our Company and upon the receipt of such net proceeds by our Company, our Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

**(w) Stock**

Our Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding-up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of our Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words “share” and “shareholder” and “member” therein shall include “stock” and “stockholder”.

**(x) Other provisions**

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies Law, if any rights attaching to any warrants which our Company may issue after the date of this prospectus shall remain exercisable and our Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

**3.     **VARIATION OF MEMORANDUM AND ARTICLES OF ASSOCIATION****

Subject to the rights of our Company set out in paragraph 2(c) above to amend its capital by ordinary resolution, the memorandum of association of our Company may be altered by our Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of our Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of our Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than 21 clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of not less than 21 clear days' notice and not less than ten (10) clear business days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together not less than 95 per cent. of the total voting rights at the meeting of all the members.

**4.     **CAYMAN ISLANDS COMPANY LAW****

Our Company is incorporated in the Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the 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)    **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 or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine including, but without limitation:

- (i)    in paying distributions or dividends to members;
- (ii)   in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (iii)  in redeeming or purchasing its shares as provided in the Companies Law; or

- (iv) in writing off
  - (aa) the preliminary expenses of the company; or
  - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, the company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

**(b) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

**(c) Redemption and Purchase of shares and warrants by a company and its subsidiaries**

A company may, if authorised by its articles of associations issue redeemable shares and, purchase its own shares, including any redeemable shares 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. Purchases and redemptions may only be effected out of the profits of the company or the share premium account of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment our company is able to pay its debts as they fall due in the ordinary course of

business. Shares purchased by a company shall 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 shall not be treated as a member for any purpose and shall 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 shall not be voted, directly or indirectly, at any meeting of the company and shall 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. Further, 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.

A company is not prohibited from purchasing and may purchase its own subscription 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.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its articles of association.

**(d) Dividends and distributions**

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, our company is able to pay its debts as they fall due in the ordinary course of business.

**(e) Protection of minorities**

The Cayman Islands 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 a 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 wrong doers are themselves in control of the company, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of 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 our 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 shall be wound up.



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 memorandum and articles of association of the company.

**(f) Management**

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 is required, 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.

**(g) Accounting and auditing requirements**

The Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters 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. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(h) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(i) Taxation**

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law (2011 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Caymans Islands or elsewhere and that dividends of our Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

**(j) Stamp duty**

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

**(k) Inspection of corporate records**

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. 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. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

**(l) Winding up**

A company may be wound up by the Cayman Islands court on application presented by our company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles of association expires, or the event occurs on the occurrence of which the memorandum or articles of association provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business 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. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

## **5. GENERAL**

Conyers Dill & Pearman, our Company's legal advisers on Cayman Islands law, have sent to our 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 Delivered to the Registrar of Companies in Hong Kong and 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.

**FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES****1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 26 July 2013.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant laws and regulations of the Cayman Islands and our constitution which comprises a memorandum of association and the Articles of Association. A summary of the relevant laws and regulations of the Cayman Islands and of our Company's constitution is set out in Appendix IV to this prospectus.

**2. Changes in share capital of our Company***(a) Changes in share capital*

- (i) As at the date of incorporation of our Company, the authorised share capital was US\$50,000 divided into 50,000 Shares having a par value of US\$1 each.
- (ii) On 15 April 2014, the authorised share capital of our Company was subdivided from US\$50,000 divided into 50,000 Shares having a par value of US\$1 each to US\$50,000 divided into 500,000,000 Shares having a par value of US\$0.0001 each.
- (iii) The authorised share capital of our Company was increased from US\$50,000 to US\$50,000,000 by the creation of 499,500,000,000 new Shares pursuant to a resolution passed by our Shareholders referred to in paragraph 3 below and subject to the conditions contained therein.
- (iv) Immediately following completion of the Global Offering but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and upon the exercise of the Over-allotment Option, our authorised share capital will be US\$50,000,000 divided into 500,000,000,000 Shares, of which 620,000,000 Shares will be issued fully paid or credited as fully paid, and 499,380,000,000 Shares will remain unissued.
- (v) Other than the Remuneration Shares to be issued to Mr. Cheng as referred to in the section headed "Directors and Senior Management – Senior Management" in this prospectus, pursuant to the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Controlling Shareholders over us.

Save as disclosed herein and in the paragraphs headed "3. Resolutions in writing of our Shareholders passed on 20 June 2017" and "4. Group reorganisation" of this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

*(b) Founder shares*

Our Company has no founder shares, management shares or deferred shares.

**3. Resolutions in writing of our Shareholders passed on 20 June 2017**

By resolutions in writing of our Shareholders passed on 20 June 2017:

- (a) we approved and adopted the amended and restated Articles of Association;
- (b) we approved and adopted the amended and restated memorandum of association with effect upon the increase of the authorised share capital of our Company becoming effective as set out in the resolution in paragraph (c)(i) below;
- (c) conditional on (aa) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; (bb) the Offer Price having been determined; (cc) the execution and delivery of the Underwriting Agreements; and (dd) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
  - (i) the authorised share capital of our Company was increased from US\$50,000 to US\$50,000,000 by the creation of 499,500,000 new Shares;
  - (ii) the Global Offering and the grant of the Over-allotment Option by our Company were approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering and such number of Shares as may be allotted and issued upon the exercise of the Over-allotment Option;
  - (iii) the grant of the Remuneration Shares to Mr. Cheng on and subject to the terms of his letter of appointment, the principal terms of which are set out in the section headed “Directors and Senior Management – Senior Management” of this prospectus, was approved and our Directors were authorised to allot and issue the Remuneration Shares in accordance with the terms of the letter of employment;
  - (iv) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Share Option Scheme” of this Appendix, were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;
  - (v) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles of Association, or pursuant to the exercise of any options which may be granted under the Share

Option Scheme, or under the Global Offering or upon the exercise of the Over-allotment Option, an aggregate number of Shares not exceeding the sum of (aa) 20% of the aggregate number of Shares in issue immediately following completion of the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, and (bb) the aggregate nominal number of Shares which may be purchased by us pursuant to the authority granted to the Directors as referred to in subparagraph (vi) below, until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles of Association, the Companies Law or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first;

- (vi) a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed or recognised by the SFC and the Stock Exchange for this purpose with an aggregate number of Shares not exceeding 10% of the aggregate number of Shares in issue immediately following the completion of the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles of Association, the Companies Law or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first;
  - (vii) the extension of the general mandate to allot, issue and deal with Shares to include the number of Shares which may be purchased or repurchased pursuant to paragraph (vi) above; and
- (d) the form and substance of each of the service agreements made between our executive Directors and our Company, and the form and substance of each of the appointment letters made between each of our independent non-executive Directors with our Company were approved.

#### **4. Group reorganisation**

The companies comprising our Group underwent a reorganisation to rationalise our Group’s structure in preparation for the listing of the Shares on the Stock Exchange, details of which are set out in the section headed “History, Reorganisation and Corporate Structure – The Reorganisation” in this prospectus.

#### **5. Changes in share capital of our subsidiaries**

Our subsidiaries are listed in the Accountants’ Report set out in Appendix I to this prospectus.

There has been no alteration in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

**6. Further information about our Group's PRC establishment**

Our Group has interest in the registered capital of a wholly foreign-owned enterprise in the PRC, a summary of its corporate information as at the Latest Practicable Date is set out as follows:

- |   |  |
|---|--|
| (i) Name of the enterprise:             | Hebei Dongguang Chemical Co., Ltd*<br>(河北省東光化工有限責任公司)  |
| (ii) Economic nature:                   | Wholly foreign-owned enterprise  |
| (iii) Registered owner:                 | Sino Emirates  |
| (iv) Total investment:                  | RMB240,872,800   |
| (v) Registered capital:                 | RMB90 million (fully paid up)  |
| (vi) Attributable interest to our Group | 100%   |
| (vii) Term of operation:                | From 1 July 1998 to 15 January 2028  |
| (viii) Scope of business:               | manufacture and sale of urea, ammonia, methanol, autoclaved aerated concrete blocks, liquid carbon dioxide, sulphur, ammonium sulfate, LNG, lactones, raw materials of fertiliser additives, coal scraps (dangerous chemicals production licence valid till 31 December 2016), operate its export business of its own manufactured products and developed technologies and the import business of its required machinery and equipment, spare parts, raw and auxiliary materials and technologies (excluding the operation of, or import and/or export of, products and technologies by the entity as restricted by the country) |

**7. Repurchase by our Company of our own securities**

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of our own securities.

*(a) Shareholders' approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution in writing passed by our Shareholders on 20 June 2017, the Repurchase Mandate was given to the Directors authorising any repurchase by us of Shares on the Stock Exchange or any other stock exchange on which our securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the number of Shares in issue immediately following completion of the Global Offering but excluding any 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, such mandate to expire at the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles of Association or applicable law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to the Directors, whichever occurs first.

*(b) Source of funds*

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles of Association and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Under the Cayman Islands laws, any repurchases by us may be made out of our profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or from sums standing to the credit of our share premium account or, if so authorised by the Articles of Association and subject to the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of the profits of us or from sums standing to the credit of our share premium account or, if authorised by the Articles of Association and subject to the provisions of the Companies Law, out of capital.



(c) *Reasons for repurchases*

The Directors believe that it is in the best interest of our Company and the Shareholders for the Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit our Company and the Shareholders as a whole.

(d) *Funding of repurchases*

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or our gearing position as compared to the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or our gearing levels which, in the opinion of the Directors, are from time to time appropriate for us.

(e) *General*

The exercise in full of the Repurchase Mandate, on the basis of 620,000,000 Shares in issue immediately after the Listing, would result in up to 62,000,000 Shares being repurchased by us during the period in which the Repurchase Mandate remains in force.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

The Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person of our Company has notified us that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

## **8. Registration under Part 16 of the Companies Ordinance**

Our Company has established our principal place of business in Hong Kong for the purpose of registration under Part 16 of the Companies Ordinance at Unit 1201-5, China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 1 December 2016. Mr. Cheng Shing Hay, our company secretary, has been appointed as agents of our Company for the acceptance of service of process in Hong Kong.

## **FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY**

### **9. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the deed of variations dated 8 August 2016 entered into between our Company and CCCO in relation to the amendments to the terms and conditions of the CCCO Second Tranche Bond;
- (b) the deed of variations dated 8 August 2016 entered into between our Company and CCCO in relation to the amendments to the terms and conditions of the CCCO CB;
- (c) the deed of termination dated 8 August 2016 entered into between (i) CCCO; (ii) Mr. Wang, Mr. Sun, Timely Moon, Plenty Sun, Sino-Coal Holding and Bloom Ocean; (iii) Mr. Yip; and (iv) our Company in relation to the termination of the CCCO SHA;
- (d) a deed of indemnity dated 20 June 2017 executed by our Controlling Shareholders with and in favour of our Company (for ourselves and as trustee for our subsidiaries stated therein) containing the indemnities more particularly referred to in the paragraph headed “17. Estate duty, tax and other indemnity” of this Appendix; and
- (e) the Hong Kong Underwriting Agreement.

**10. Material properties of our Group**

As at the Latest Practicable Date, our Group had the following material properties with the details set out below:

Address and Description of Location	Main usage	(1) Total site area of land	Restrictions on use	(1) Type of Ownership	Details of encumbrances, liens, pledges and mortgages
		(2) Total gross floor area of buildings		(2) Term of land use rights	
<i>(approximate sq.m.)</i>					
1. A parcel of land and 12 buildings located at the southern side of Hezhuang, Dongguang Town, Dongguang County, Cangzhou City, Hebei Province, The PRC	Production and ancillary office	(1) 56,000 (2) 8,900	Industrial use	(1) Owned by our Group  (2) Land use rights with a term expiring on 2 April 2058	The land and buildings (with a total gross floor area of approximately 7,200 sq.m.) were mortgaged to bank
These land and buildings are located in the industrial zone of Dongguang County					
2. A parcel of land and 19 buildings located at the eastern side of Hezhuang Village, East of City District, Dongguang County, Cangzhou City, Hebei Province, The PRC	Production, office and ancillary purposes	(1) 162,000 (2) 22,000	Industrial use	(1) Owned by our Group  (2) Land use rights with a term expiring on 30 December 2056	None
These land and buildings are located in the industrial zone of Dongguang County					

Address and Description of Location	Main usage	(1) Total site area of land	Restrictions on use	(1) Type of Ownership	Details of encumbrances, liens, pledges and mortgages
		(2) Total gross floor area of buildings		(2) Term of land use rights	
<i>(approximate sq.m.)</i>					
3. A parcel of land located at eastern side of No. 104 National Highway, Dongguang County, Cangzhou City, Hebei Province, The PRC	Vacant bare land	(1) 90,400	Industrial use	(1) Owned by our Group  (2) Land use in rights with a term expiring on 28 June 2043	Mortgaged to bank
These land and buildings are located in the industrial zone of Dongguang County					
4. Two parcels of land, 26 buildings and various structures located at Hezhuang Village, Dongguang County, Cangzhou City, Hebei Province, The PRC	Production and ancillary purposes	(1) 66,700 (2) 16,900	Industrial use	(1) Owned by our Group  (2) Land use rights with a term expiring on 16 May 2060	The land was mortgaged to bank
These properties is located in the industrial zone of Dongguang County					
5. A parcel of land, 26 buildings and a structure located at Chengdong Development Zone, Dongguang County, Cangzhou City, Hebei Province, The PRC	Production, office and ancillary purposes	(1) 166,000 (2) 23,600	Industrial use	(1) Owned by our Group  (2) Land use rights with a term expiring on 7 May 2058	The land and buildings (with a total gross floor area of approximately 22,000 sq.m.) were mortgaged to bank
These properties is located in the industrial zone of Dongguang County					




Address and Description of Location	Main usage	(1) Total	Restrictions on use	(1) Type of Ownership	Details of encumbrances, liens, pledges and mortgages
		site area of land		(2) Total gross floor area of buildings	
<i>(approximate sq.m.)</i>					
6. Four parcels of land, 43 buildings and various structures located at the northern side of Wuqian Road, Chengdong Industrial Zone, Dongguang County, Cangzhou City, Hebei Province, The PRC	Production, office and ancillary purposes	(1) 195,000 (2) 30,700	Industrial use	(1) Owned by our Group  (2) Land use rights with various terms with expiry date between 16 May 2060 and 25 September 2063	Three parcels of land were mortgaged to bank
These properties is located in the industrial zone of Dongguang County					

Save as disclosed in the section headed “Business – Legal Non-Compliance and Proceedings – (3) Lack of construction permits before the commencement of building construction”, there were no investigations, notices, pending litigation, breaches of law or title defects in relation to our above material properties.

## 11. Intellectual property rights of our Group

### (a) Trademarks

As at the Latest Practicable Date, our Group was the registered owner and beneficial owner of the following trademarks which is material in relation to our Group's business:

	<u>Trademark</u>	<u>Registered owner</u>	<u>Place of registration</u>	<u>Class</u>	<u>Registration number</u>	<u>Duration of validity</u>
1.		Dongguang Chemical	PRC	1 (Note 1)	11478236	7 June 2014 to 6 June 2024
2.		Dongguang Chemical	Hong Kong	1 (Note 2)	303273309	20 January 2015 to 19 January 2025
3.		Dongguang Chemical	Hong Kong	1 (Note 2)	303273309	20 January 2015 to 19 January 2025

*Notes:*

- The specific products under class 1 in respect of which the trademark was applied for registration are ammonia, liquid carbon dioxide, sulphur, dimethyl carbonate, methanol, fertiliser, urea, polypeptide aggregation, agricultural fertiliser, urea, multi-element composite (mixed) fertiliser.
- The specific products under class 1 in respect of which the trademark was applied for registration are chemicals used in industry, science, as well as in agriculture, horticulture and forestry; ammonia; urea, methanol, liquid carbon dioxide; fertilisers/ manure for agriculture.

### (b) Domain Name

As at the Latest Practicable Date, our Group was the registered owner of, or otherwise has the right to use, the following domain name which is material in relation to our Group's business:

<u>Domain Name</u>	<u>Registration Date</u>	<u>Expiry Date</u>
www.dg-chemical.com	8 June 2015	8 June 2018

## 12. Related party transactions

Save as disclosed in Note 34 of Section II in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, we have not engaged in any other material related party transactions.

**FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS****13. Directors***(a) Disclosure of interests of Directors*

- (i) Mr. Wang, Mr. Sun, Mr. ZS Sun and Mr. Xu are interested in the Reorganisation.
- (ii) Save as disclosed in this prospectus, none of our Directors or their associates engaged in any dealings with our Group during the two years preceding the date of this prospectus.

*(b) Particulars of Directors' service contracts*

## Executive Directors

Each of our executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 20 June 2017 which may be terminated by either party by giving not less than three months' written notice. The term of service contract shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months' written notice to the other.

During the term of the service contract, each of these executive Directors is entitled to the respective basic salary set out below (subject to an annual increment after 1 January 2018 at the discretion of the Directors of not more than 10% of the average annual salary for the 12 months immediately prior to such increase).

In addition, during the term of the service contract, each of the executive Directors is also entitled to a discretionary management bonus in such sum as the Board may in its absolute discretion determine provided that the aggregate amount of bonuses payable to all the executive Directors for any financial year of our Company shall not exceed 10% of the audited consolidated or combined net profit attributable to the shareholders of us (after taxation and minority interests and payment of such bonuses but before extraordinary or exceptional items) in respect of that financial year of our Company. An executive Director may not vote on any resolution of the Directors regarding the amount of management bonus payable to him.

The current basic annual salaries of the executive Directors payable under their service contracts are as follows:

<u>Name</u>	<u>Annual salary</u> (HK\$)
Mr. Wang	2,520,000
Mr. Sun	2,160,000
Mr. ZS Sun	1,200,000
Mr. Xu	1,200,000

Mr. Xu has also entered into an employment contract with Dongguang Chemical, an indirect wholly-owned subsidiary of our Company in the PRC, for a term commencing from 1 September 2006 and will continue thereafter until terminated by either party by giving not less than 30 days written notice. The current basic annual salary of Mr. Xu under such employment with Dongguang Chemical is RMB83,000.

#### Independent non-executive Directors

Each of the independent non-executive Directors has been appointed for an initial term of three years commencing from 20 June 2017 which may be terminated by either party by giving not less than three months' written notice. The term of appointment shall be renewed and extended automatically for successive terms of two years upon expiry of the then current term until terminated by either party giving not less than three months' written notice to the other. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of the independent non-executive Directors is entitled to a director's fee of HK\$180,000 per annum during the term of the appointment. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).



(c) *Remuneration of Directors*

- (i) The aggregate emoluments paid and benefits in kind granted by our Group to our Directors in respect of the financial year ended 31 December 2014, 2015 and 2016 were approximately RMB736,000, RMB771,000 and RMB779,000, respectively.
- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including our independent non-executive Directors) for the year ending 31 December 2017, are expected to be approximately RMB3,455,000.
- (iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the years ended 31 December 2014, 2015 and 2016 as (i) an inducement to join or upon joining our Company; or (ii) 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.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the years ended 31 December 2014, 2015 and 2016.

(d) *Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and our associated corporations following the Global Offering*

Immediately following completion of the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the interests and short positions of the Directors in the shares, underlying shares or debentures of our Company and our associated corporations (within the meaning of Part XV 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 (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed, will be as follows:

<u>Name of Director</u>	<u>Name of Group member</u>	<u>Capacity/ nature of interest</u>	<u>Number and class of securities</u>	<u>Approximate percentage of shareholding</u>
			(Note 1)	
Mr. Wang	Our Company	Interest of controlled corporation (Note 2)	460,000,000 Shares (L)	74.19%
Mr. Sun	Our Company	Interest of controlled corporation (Note 3)	180,320,000 Shares (L)	29.08%

*Notes:*

1. The letter “L” denotes our Directors’ long position in the shares of our Company or the relevant associated corporation.
2. Among these 460,000,000 Shares, 279,680,000 Shares are held by Sino-Coal Holding (which is owned as to approximately 33.059% by Timely Moon); and 180,320,000 Shares are held by Bloom Ocean (which is owned as to approximately 44.27% by Timely Moon). Timely Moon is wholly owned by Mr. Wang. By virtue of the SFO, each of Timely Moon and Mr. Wang is taken to be interested in the Shares held by each of Sino-Coal Holding and Bloom Ocean.
3. These 180,320,000 Shares are held by Bloom Ocean, the entire issued shares of which are owned as to approximately 44.01% by Plenty Sun. Plenty Sun is wholly owned by Mr. Sun. By virtue of the SFO, each of Plenty Sun and Mr. Sun is taken to be interested in the Shares held by each of Sino-Coal Holding and Bloom Ocean.

**14. Interest discloseable under the SFO and substantial shareholders**

So far as is known to the Directors, immediately following completion of the Global Offering (but without taking account of any Shares which may be taken up or acquired under the Global Offering and any Shares which may be allotted, and issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme), other than a Director or chief executive of our Company whose interests are disclosed under the sub-paragraph headed “Interests and short positions of the Directors in the shares, underlying shares or debentures of our Company and our associated corporations following the Global Offering” above, the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

<u>Name of Shareholders</u>	<u>Capacity/ nature of interest</u>	<u>Number and class of securities</u>	<u>Approximate percentage of shareholding</u>
		(Note 1)	
Timely Moon	Interest in controlled corporation (Note 2)	460,000,000 Shares (L)	74.19%

<u>Name of Shareholders</u>	<u>Capacity/ nature of interest</u>	<u>Number and class of securities</u> <i>(Note 1)</i>	<u>Approximate percentage of shareholding</u>
Ms. Sun Yukun	Interest of spouse <i>(Note 3)</i>	460,000,000 Shares (L)	74.19%
Sino-Coal Holding	Beneficial owner	279,680,000 Shares (L)	45.11%
Bloom Ocean	Beneficial owner	180,320,000 Shares (L)	29.08%
Plenty Sun	Interest in controlled corporation <i>(Note 4)</i>	180,320,000 Shares (L)	29.08%
Ms. Yao Juan	Interest of spouse <i>(Note 5)</i>	180,320,000 Shares (L)	29.08%

*Notes:*

- The letter "L" denotes the shareholder's long position in the Shares.
- Among these 460,000,000 Shares, 279,680,000 Shares are held by Sino-Coal Holding (which is owned as to approximately 33.059% by Timely Moon); and 180,320,000 Shares are held by Bloom Ocean (which is owned as to approximately 44.27% by Timely Moon). Timely Moon is wholly owned by Mr. Wang. By virtue of the SFO, each of Timely Moon and Mr. Wang is taken to be interested in the Shares held by each of Sino-Coal Holding and Bloom Ocean.
- Ms. Sun Yukun is the spouse of Mr. Wang. Under the SFO, Ms. Sun Yukun is taken to be interested in the same number of Shares in which Mr. Wang is interested.
- These 180,320,000 Shares are held by Bloom Ocean (which is owned as to approximately 44.01% by Plenty Sun). Plenty Sun is wholly owned by Mr. Sun. By virtue of the SFO, each of Plenty Sun and Mr. Sun is taken to be interested in the Shares held by each of Sino-Coal Holding and Bloom Ocean.
- Ms. Yao Juan is the spouse of Mr. Sun. Under the SFO, Ms. Yao Juan is taken to be interested in the same number of Shares in which Mr. Sun is interested.

**15. Disclaimers**

Save as disclosed in this appendix and the sections headed “History, Reorganisation and Corporate Structure” and “Underwriting” in this prospectus:

- (a) and taking no account of any Shares which may be taken up or acquired under the Global Offering or upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the Directors are not aware of any person (not being a Director or chief executive of our Company) who immediately following the completion of the Global Offering will have an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will, either directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of us;
- (b) none of the Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV 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 (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register 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, in each case once the Shares are listed;
- (c) none of the Directors nor any of the parties listed in the paragraph 23 below has been interested in the promotion of, or has any direct or indirect interest 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 our Company or any of the subsidiaries of our Company, or are proposed to be acquired or disposed of by or leased to our Company or any other member of us nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;
- (d) none of the Directors nor any of the parties listed in the paragraph 23 below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to business of us; and
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph 23 below:
  - (i) is interested legally or beneficially in any securities of any member of us; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of us.

## OTHER INFORMATION

## 16. Share Option Scheme

*(a) Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by the then Shareholders on 20 June 2017:

*(i) Purposes of the scheme*

The purpose of the Share Option Scheme is to enable us to grant options to selected participants as incentives or rewards for their contribution to us. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable us to reward the employees, the Directors and other selected participants for their contributions to us. Given that the Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by the Directors, it is expected that grantees of an option will make an effort to contribute to the development of us so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

*(ii) Who may join*

The Directors may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (aa) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity (“**Invested Entity**”) in which any member of us holds an equity interest;
- (bb) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of us or any Invested Entity;
- (dd) any customer of any member of us or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to any member of us or any Invested Entity;
- (ff) any shareholder of any member of us or any Invested Entity or any holder of any securities issued by any member of us or any Invested Entity;

- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of us or any Invested Entity;
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of us;

and, for the purposes of the Share Option Scheme, the offer for the grant of option may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants.

For avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of us to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to an offer for the grant of any option shall be determined by the Directors from time to time on the basis of the Directors' opinion as to his contribution to the development and growth of us.

(iii) Maximum number of the Shares

- (aa) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by us must not in aggregate exceed 30% of the share capital of our Company in issue from time to time.
- (bb) The total number of the Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of us) to be granted under the Share Option Scheme and any other share option scheme of us must not in aggregate exceed 10% of the number of Shares in issue on the Listing Date, being 62,000,000 Shares (“**General Scheme Limit**”).
- (cc) Subject to (aa) above but without prejudice to (dd) below, our Company may seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of us must not exceed 10% of the number of Shares in issue as at the date of approval of the limit and, for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of us) previously granted under the Share Option Scheme and any other share option scheme of us will not be counted. The circular sent by our Company to the Shareholders shall contain, among other

information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

- (dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a generic description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

- (iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of us (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the number of Shares in issue for the time being ("**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the Shareholders in general meeting of our Company with such grantee and his close associates (or his associates if the grantee is a connected person) abstaining from voting. The number and terms (including the exercise price) of options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

- (v) Grant of options to the Directors, chief executive or substantial shareholders of our Company or their respective associates

- (aa) Any grant of options under the Share Option Scheme to a Director, chief executive or substantial shareholder of our Company or any of their respective associates must be approved by independent non-executive Directors (excluding independent non-executive Director who or whose associates is the proposed grantee of the options).

- (bb) Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and

- (ii) having an aggregate value, based on the closing price of the Shares at the date of each offer for the grant, in excess of HK\$5 million;

such further grant of options must be approved by Shareholders in general meeting. Our Company must send a circular to the Shareholders, within such time as may be specified in the Listing Rules. All connected persons of our Company must abstain from voting in favour at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive Director or any of their respective associates must be approved by the Shareholders in general meeting (with such grantee, his associates and all core connected persons of our Company abstaining from voting in favour).

- (vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

- (vii) Performance targets

Unless the Directors otherwise determined and stated in the offer for the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

- (viii) Subscription price for the Shares and consideration for the option

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.



A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(ix) Ranking of the Shares

The Shares allotted and issued upon the exercise of an option will be subject to all the provisions of the articles of association of our Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members (the “**Exercise Date**”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been entered on the register of members of our Company as the holder thereof.

Unless the context otherwise requires, references to “Shares” in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of our Company from time to time.

(x) Restrictions on the time of the offer for the grant of options

No offer for grant of options shall be made after inside information has come to our Company’s knowledge until we have announced the information. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and (bb) the deadline for our Company to publish an announcement of our results for any year, half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, no offer for the grant of options may be made.

The Directors may not make any offer for the grant of option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(xi) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and shall not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with us or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of our Company, any of our subsidiaries or any Invested Entity.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with us or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as the Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or us or the Invested Entity into disrepute), his option (to the extent not already exercised) will lapse automatically on the date of cessation to be an Eligible Employee.

## (xv) Rights on breach of contract

If the Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and us or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of us by reason of the cessation of its relations with us or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option Scheme shall lapse as a result of any event specified in sub-paragraph (1), (2) or (3) above, his option will lapse automatically on the date on which the Directors have so determined.

## (xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date which such offer (or, as the case may be, revised offer) closed or the relevant date for entitlements under such scheme of arrangement, as the case may be.

## (xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolutions to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(xviii) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

(aa) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, mutatis mutandis, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and

(bb) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that the Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company while an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to our Company as fair and reasonable will be made to the number of Shares to which the Share Option Scheme or any option relates (insofar as it is/they are unexercised) and/or the subscription price of the option concerned and/or (unless the grantee of the option elects to waive such adjustment) the number of Shares comprised in an option or which remains comprised in an option, provided that (aa) any adjustments shall give a grantee the same proportion of the number of issued shares as that to which he was entitled prior to such alteration; (bb) the issue of Shares or other securities of us as consideration in a transaction may not be regarded as a circumstance requiring adjustment; (cc) no alteration may be made to the extent that a Share would be issued at less than its nominal value; and (dd) any adjustment must be made in compliance with the Listing Rules and such rules, codes and guidance notes of the Stock Exchange from time to time. In addition, in respect of any such adjustments, other than any adjustment made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of the Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant sub-paragraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(xxiii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the option period in respect of such option;
- (bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii); and
- (cc) the date on which the Directors exercise our Company's right to cancel the option by reason of a breach of paragraph (xxii) above by the grantee.

(xxiv) Miscellaneous

- (aa) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the Shareholders in general meeting.
- (cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (ee) Any change to the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the shareholders of our Company in general meeting.

(b) *Present status of the Share Option Scheme*

- (i) Approval of the Listing Committee required

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

- (ii) Application for approval

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

- (iii) Grant of option

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) Value of options

The Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

(v) Compliance with the Listing Rules

The Share Option Scheme complies with Chapter 17 of the Listing Rules.

#### 17. Estate duty, tax and other indemnity

The Controlling Shareholders (together, the “**Indemnifiers**”) have entered into the Deed of Indemnity with and in favour of our Company (for ourselves and as trustee for each of our subsidiaries stated therein) to provide indemnities on a joint and several basis in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group on or before the Listing; and
- (b) taxation, together with all reasonable costs (including all legal costs), fines, penalties, costs, charges, expenses and other liabilities which may be incurred by any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Listing Date or any transaction or event entered into or occurring on or before the Listing Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation are chargeable against or attributable to any other person, firm, company or corporation.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 31 December 2016;

- (b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on or after 1 January 2017 and ended on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of any of the Indemnifiers, otherwise than any such act, omission or transaction:
- (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 1 January 2017; or
  - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 31 December 2016 or pursuant to any statement of intention made in this prospectus; or
- (c) to the extent of any provision or reserve made for taxation in the audited accounts of any member of our Group up to 31 December 2016 and which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter; or
- (d) to the extent that such taxation claim arises or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the laws, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority in the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such taxation claim arises or is increased by an increase in rates of taxation or taxation claim after the date of the Deed of Indemnity with retrospective effect.

Under the Deed of Indemnity, each of the Indemnifiers has also jointly and severally undertaken to us that he/she/it will indemnify and at all times keep each of the members of our Group fully indemnified on demand from and against all losses, claims, actions, demands, liabilities, damages, costs, expenses, fines, penalties and charges and of whatever nature suffered or incurred by any member of our Group directly or indirectly arising out of or in connection with the non-compliance or alleged non-compliance by any member of our Group with any applicable laws and regulations on or before the Listing Date.

Under the deed of indemnity, each of the Indemnifiers has also jointly and severally undertaken to us that he/she/it will indemnify and at all times keep each of the members of our Group fully indemnified, on demand from any depletion in or reduction in value of its assets or any loss (including all legal costs and suspension of operation), cost, expenses, damages or other liabilities which any member of our Group may incur or suffer arising from or in connection with the implementation of the Reorganisation.



**18. Litigation**

No member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operations or financial condition of our Company.

**19. Preliminary expenses**

The preliminary expenses of our Company were HK\$32,000 and has been paid by our Company.

**20. Promoter**

- (a) Our Company does not have any promoter.
- (b) Within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to any promoters of our Company in connection with the Global Offering or the related transactions described in this prospectus.

**21. Agency fees or commissions received**

For details of the agency fees or commissions (including the discretionary incentive fees) to be received by the Underwriters, please refer to the section headed “Underwriting – Commissions and expenses” in this prospectus.

**22. The Sole Sponsor**

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme, on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

The Sole Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules.

The sponsor’s fees payable by us in respect of the Sole Sponsor’s services as sponsor for the Listing is HK\$5 million.

**23. Qualifications of experts**

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

<b>Name</b>	<b>Qualification</b>
KGI Capital Asia Limited	Licensed corporation under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities
BDO Limited	Certified Public Accountants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Tian Yuan Law Firm	Qualified PRC lawyers
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry Consultant
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Professional surveyor
BDO China SHU LUN PAN Certified Public Accountants LLP	Internal Control Consultant

**24. Consents of experts**

Each of the experts as set out in paragraph 23 above has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their report and/or letter and/or summary of valuations and/or legal opinion and/or opinion (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they respectively appear.

**25. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

**26. Taxation of holders of Shares**

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

## **27. Miscellaneous**

- (a) Save as disclosed in this appendix and in the sections headed “History, Reorganisation and Corporate Structure” and “Underwriting” in this prospectus:
  - (i) within two years preceding the date of this prospectus:
    - (aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
    - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
    - (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (b) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2016 (being the date to which the latest audited consolidated financial statements of our Group were made up); and
- (c) our Directors confirm that 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.

## **28. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses for Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of the **WHITE, YELLOW** and **GREEN** application forms;
- (b) the written consents referred to in the paragraph headed “Other Information – 24. Consents of experts” in Appendix V to this prospectus; and
- (c) copies of the material contracts referred to in the paragraph headed “Further information about the business of our Company – 9. Summary of material contracts” in Appendix V to this prospectus.

**B. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Chiu & Partners at 40/F., Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the Accountants’ Report prepared by BDO Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the consolidated audited financial statements of our Group for each of the years ended 31 December 2014, 2015 and 2016;
- (d) the letter prepared by BDO Limited on unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the valuation report (including a letter, a summary of valuation and the valuation certificate) prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited relating to the property interests of our Group, the texts of which are set out in Appendix III to this prospectus;
- (f) the Companies Law;
- (g) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law as referred to in Appendix IV to this prospectus;

- (h) the legal opinions prepared by our PRC Legal Adviser in respect of certain aspects of our Group and the property interests of our Group in the PRC;
- (i) the material contracts referred to in the paragraph headed “Further information about the business of our Company – 9. Summary of material contracts” in Appendix V to this prospectus;
- (j) the service contracts referred to in the paragraph headed “Further information about Directors and Shareholders – 13. Directors – (b) Particulars of Directors’ service contracts” in Appendix V to this prospectus;
- (k) the rules of the Share Option Scheme;
- (l) the written consents referred to in the paragraph headed “Other Information – 24. Consents of experts” in Appendix V to this prospectus;
- (m) the industry report prepared by Frost & Sullivan, the extracts of which is set out in the section headed “Industry Overview” to this prospectus; and
- (n) the internal control report prepared by BDO China.



**DONGGUANG CHEMICAL LIMITED**  
東光化工有限公司