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榮 威 國 際 控 股 有 限 公 司 Bestway Global Holding Inc.

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3358

# **GLOBAL OFFERING**

Sole Sponsor and Sole Global Coordinator

Morgan Stanley

Joint Bookrunners and Joint Lead Managers







# **IMPORTANT**

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



# Bestway Global Holding Inc.

# 榮威國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

# **GLOBAL OFFERING**

Number of Offer Shares under the : 264,598,000 Shares (subject to the Over-

Global Offering allotment Option)

Number of Hong Kong Offer Shares : 26,460,000 Shares (subject to adjustment) Number of International Offer Shares : 238,138,000 Shares (subject to adjustment)

and the Over-allotment Option)

Maximum Offer Price: HK\$5.80 per Share, plus brokerage of 1%,

SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)

Nominal value: HK\$0.01 per Share

Stock code: 3358

Sole Sponsor and Sole Global Coordinator

# Morgan Stanley

Joint Bookrunners and Joint Lead Managers

# Morgan Stanley



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

A copy of this prospectus, having attached thereto the documents specified in "Appendix V—Documents Delivered to the Registrar of Companies and Available for Inspection," has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be determined by agreement between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or around Friday, November 10, 2017 and, in any event, not later than Tuesday, November 14, 2017. The Offer Price will be not more than HKSS.80 per Share and is currently expected to be not less than HKS4.38 per Share, unless otherwise announced. Applicants for Hong Kong Offer Shares are required to pay, upon application, the maximum Offer Price of HK\$5.80 per Share for each 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 is less than HKSS.80 per Share.

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 Tuesday, November 14, 2017, the Global Offering will not proceed and will lapse.

The Sole Global Coordinator (on behalf of the Underwriters) may, where considered appropriate and with our consent, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$4.38 to HK\$5.80) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notices will also be available on the website of the Stock Exchange at <a href="https://www.bestwaycorp.com">www.hkexnews.hk</a> and on the website of our company at <a href="https://www.bestwaycorp.com">https://www.bestwaycorp.com</a>. Further details are set forth in "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares." If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, in the event that the number of Offer Shares and/or the indicative Offer Price range is so reduced, such applications can subsequently be withdrawn.

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

Prospective investors of the Hong Kong Offer Shares should note that the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by written or oral notice from the Sole Global Coordinator if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in "Underwriting—Underwriting Arrangements and Expenses—Hong Kong Public Offering—Grounds for Termination." It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States except that Offer Shares may be offered, sold or delivered to QIBs in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or another exemption from the registration requirements of the U.S. Securities Act. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S.

# **EXPECTED TIMETABLE**

Latest time for completing electronic applications under  White Form eIPO service through the designated
website <b>www.eipo.com.hk</b> <sup>(2)</sup>
Application lists open <sup>(3)</sup>
Latest time for lodging <b>WHITE</b> and <b>YELLOW</b> Application Forms
Latest time for completing payment of White Form eIPO
applications by effecting internet banking transfer(s)
or PPS payment transfer(s)
November 9, 2017
Latest time for giving electronic application instructions
to HKSCC <sup>(4)</sup>
November 9, 2017
Application lists close <sup>(3)</sup>
November 9, 2017
Expected Price Determination Date <sup>(5)</sup> Friday, November 10, 2017
Expected Price Determination Date 10, 2017
(1) Announcement of the Offer Price, the level of indications
of interest in the International Offering, the level of
applications in the Hong Kong Public Offering and
the basis of allocation of the Hong Kong Offer Shares
under the Hong Kong Public Offering to be published in
the South China Morning Post (in English) and
the Hong Kong Economic Times (in Chinese) on or before Wednesday, November 15, 2017
(2) 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 "How to Apply for Hong Kong Offer Shares
—11. Publication of Results"
(3) A full announcement of the Hong Kong Public Offering
containing (1) and (2) above to be published on the website of
the Stock Exchange at <b>www.hkexnews.hk</b> and our Company's
website at <a href="http://www.bestwaycorp.com">http://www.bestwaycorp.com</a> from
Results of allocations in the Hong Kong Public Offering
will be available at www.iporesults.com.hk with a
"search by ID" function from

# EXPECTED TIMETABLE

Dispatch of Share certificates or deposit of the Share
certificates into CCASS in respect of wholly or partially
successful applications pursuant to the Hong Kong Public
Offering on or before <sup>(7)(9)</sup>
Dispatch of refund cheques and White Form e-Refund payment
instructions in respect of wholly or partially successful
applications (if applicable) or wholly or partially unsuccessful
applications pursuant to the Hong Kong Public Offering
on or before <sup>(8)(9)</sup>
Dealings in the Shares on the Stock Exchange expected to
commence on
Notes

- with the state of the state of
- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or 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 tropical cyclone warning signal number 8 or above or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, November 9, 2017, the application lists will not open or close on that day. See "How to Apply for Hong Kong Offer Shares—10. Effect of Bad Weather on the Opening of the Application Lists" in this prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to "How to Apply for Hong Kong Offer Shares—6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS."
- (5) The Price Determination Date is expected to be on or around Friday, November 10, 2017 and, in any event, not later than Tuesday, November 14, 2017. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator and us by Tuesday, November 14, 2017, the Global Offering will not proceed and will lapse.
- (6) None of the website or any of the information contained on the website forms part of this prospectus.
- (7) Share certificates will only become valid at 8:00 a.m. on Thursday, November 16, 2017, provided that the Global Offering has become unconditional and the right of termination described in "Underwriting—Underwriting Arrangements and Expenses—Hong Kong Public Offering—Grounds for Termination" 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.
- e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.

# EXPECTED TIMETABLE

(9) Applicants who have applied on WHITE Application Forms or White Form eIPO 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates in person from our Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, November 15, 2017 or such other date as notified by our Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who is eligible for personal collection may not authorize any other person to collect on their behalf. Applicants being corporations which is eligible for personal collection must attend through their authorized representatives bearing letters of authorization from their corporation stamped with the corporation's chop. Both individuals and authorized representatives of corporations must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied on YELLOW Application Forms for 1,000,000 or more Hong Kong Offer Shares may collect their refund cheques, if any, in person but may not elect to collect their Share certificates as such Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to their or the designated CCASS Participants' stock account as stated in their Application Forms. The procedures for collection of refund cheques for YELLOW Application Form applicants are the same as those for WHITE Application Form applicants.

Applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to "How to Apply for Hong Kong Offer Shares—14. Dispatch/Collection of Share Certificates and Refund Monies—Personal Collection—(iv) If you apply via Electronic Application Instructions to HKSCC" for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

Applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund cheques will be dispatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in "How to Apply for Hong Kong Offer Shares—13. Refund of Application Monies" and "How to Apply for Hong Kong Offer Shares—14. Dispatch/Collection of Share Certificates and Refund Monies."

The above expected timetable is a summary only. You should refer to "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.

# TABLE OF CONTENTS

#### IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Bestway Global Holding Inc. solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Sole Sponsor, Sole Global Coordinator, Joint Bookrunners and Joint Lead Managers, the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering.

	Page
Expected Timetable	i
Table of Contents	iv
Summary	1
Definitions	15
Glossary	26
Forward-Looking Statements	28
Risk Factors	30
Waivers from Strict Compliance with the Listing Rules	66
Information about this Prospectus and the Global Offering	68
Directors and Parties Involved in the Global Offering	71
Corporate Information	75
Industry Overview	77

# TABLE OF CONTENTS

	Page
Regulatory Overview	89
History, Development and Reorganization	118
Business	130
Directors and Senior Management	228
Financial Information	240
Relationship with Controlling Shareholders	305
Connected Transactions	310
Share Capital	314
Substantial Shareholders	317
Future Plans and Use of Proceeds	318
Underwriting	321
Structure of the Global Offering	332
How to Apply for Hong Kong Offer Shares	342
Appendix I — Accountant's Report	I-1
Appendix II — Unaudited Pro Forma Financial Information	II-1
Appendix III — Summary of the Constitution of the Company and Cayman Companies Law	III-1
Appendix IV — Statutory and General Information	IV-1
Appendix V — Documents Delivered to the Registrar of Companies and Available for Inspection	V-1

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the whole document 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 forth in "Risk Factors." You should read that section carefully before you decide to invest in the Offer Shares.

# **OVERVIEW**

We are a leading and one of the most well-established branded companies in the global water leisure products market, with a reputation for excellent product design, quality, functionality and value. According to the Frost & Sullivan Report, we are the third largest player in the global water leisure products market, with a market share of 2.3% in terms of retail sales in 2016. Water leisure products form a key component of the broader US\$180.7 billion global outdoor leisure products market in terms of retail sales value in 2016, of which we are also an important player, particularly in the inflatables and related products category, our traditional strength and key focus area. According to the Frost & Sullivan Report, we are the second largest player in the global inflatable outdoor leisure products market, with a market share of over 30% in terms of retail sales in 2016. Founded in 1994 in Shanghai, China, our vision is to create fun, lasting experiences for everyone in the world through the products and services we provide. Since our humble beginnings, we have devoted our efforts to strengthening our research, design, development and manufacturing capacities, while continuously expanding our product and brand portfolio. Our products can now be found in over 110 countries across six continents worldwide.

We predominantly design, develop, manufacture and sell an extensive range of high quality and innovative outdoor leisure products primarily under our own BESTWAY brand umbrella, in conjunction with a portfolio of sub-brands to market specific product series. We currently offer approximately 1,100 products across our four core product groups, including a comprehensive selection of above-ground pools and portable spas, recreation products, sporting goods, and camping products, designed to cater to a wide range of consumer groups and geographic markets.

Our operations are vertically integrated on a global basis, spanning across product research, design, development, manufacturing, sales and marketing as well as aftersales services. According to Frost & Sullivan, a globally integrated business model is rare in the outdoor leisure products industry, which provides us with distinct and important competitive advantages. We are able to effectively leverage our international research, design and development capabilities, together with our in-house manufacturing scale and technical capabilities in China and our extensive worldwide sales network to maximize growth, profitability and operational efficiency.

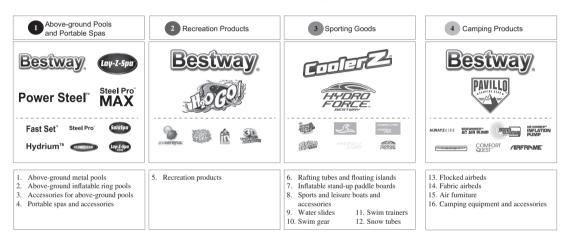
We enjoyed strong and stable revenue growth over the Track Record Period, with significant improvements in profitability as we firmly established ourselves in key target growth markets such as the U.S. Our revenue increased from US\$467.9 million for the year ended December 31, 2014 to US\$584.5 million for the year ended December 31, 2016, representing a CAGR of approximately 11.8%, outpacing overall industry growth. Our revenue increased by 19.3% from US\$353.4 million in the six months ended June 30, 2016 to US\$421.6 million in the same period of 2017. Our profit for the year ended December 31, 2014 to US\$43.0 million for the year ended December 31, 2016, representing a CAGR of approximately 125.9%. Our profit for the period increased by 14.3% from US\$30.3 million in the six months ended June 30, 2016 to US\$34.6 million in the same period of 2017, while our profit for the period (excluding listing expenses for the Global

Offering) increased by 23.0% from US\$30.3 million to US\$37.2 million in these same respective periods. During the Track Record Period, by the start of each year, we were typically able to procure purchase orders for our products that accounted for approximately 40% to 50% of the revenue for the relevant year, which provides us with a high degree of visibility over our sales for the year and allows us to implement a robust strategic budgeting and planning process.

#### OUR BRANDS AND PRODUCTS

We offer a variety of outdoor leisure products. We categorize our products into four core product groups and 16 product categories. We market and sell these products primarily under our own BESTWAY brand umbrella, in conjunction with a portfolio of sub-brands based on their product categories and market positioning. Please see "Business—Our Brands" and "Business—Our Products" for more details.

# **Bestway**



The following table sets forth the revenue for our four core product groups, presented by amount and as a percentage of our total revenue during the Track Record Period:

		For the	year ended	For the six months ended June 30,						
Product Group	2014		2015 2016				2016		2017	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
				(in millio	n, except fo	r percenta	iges)			
						(	unaudited)			
Above-ground Pools and										
Portable Spas	193.6	41.4	236.3	46.0	274.3	46.9	168.1	47.6	201.2	47.7
Recreation Products	113.4	24.2	119.7	23.3	125.7	21.5	75.8	21.5	82.2	19.5
Sporting Goods	43.7	9.3	49.7	9.7	76.0	13.0	49.4	14.0	62.2	14.7
Camping Products	117.2	25.1	107.8	21.0	108.5	18.6	60.1	17.0	76.0	18.0
Total:	467.9	100	513.5	100	584.5	100	353.4	100	421.6	100

The following table sets forth our sales volumes and average selling prices by product group for the periods indicated:

		For th	ie year ende	d Decembe	er 31,		For the six months ended June 30,					
	201	4	201	5	201	.6	201	6	2017			
Product Group	Sales Volume	Average Selling Price	Sales Volume	Average Selling Price	Sales Volume	Average Selling Price	Sales Volume	Average Selling Price	Sales Volume	Average Selling Price		
	'000 units	US\$	'000 units	US\$	'000 units	US\$	'000 units	US\$	'000 units	US\$		
Above-ground Pools and Portable Spas	9,661	20.0	10,836	21.8	11,052	24.8	5,714	29.4	7,145	28.2		
Recreation Products	52,704	2.2	50,798	2.4	53,459	2.4	31,895	2.4	39,500	2.1		
Sporting Goods	23,921	1.8	24,521	2.0	28,805	2.6	16,620	3.0	14,993	4.1		
Camping Products	15,006	7.8	13,649	7.9	14,019	7.7	7,347	8.2	9,572	7.9		
Total:	101,292	4.6	99,804	5.1	107,335	5.4	61,576	5.7	71,210	5.9		

Note: Since each of our four core product groups consists of multiple different product categories, which in turn contain numerous product series and models with varying selling prices, the average selling prices indicated in the table above are blended prices of the respective entire product group and do not represent the selling prices of our individual products.

The increase in sales volumes of above-ground pools and portable spas and sporting goods were in line with our business growth during the Track Record Period. The sales volume of recreation products decreased from 52.7 million units in 2014 to 50.8 million units in 2015, primarily due to a decrease in sales to a customer in the United States that made large purchases in 2014. The decrease in sales volume of camping products from 15.0 million units in 2014 to 13.6 million units in 2015 was primarily due to lower sales in Russia as a result of the slowing economy. The sales volume of sporting goods decreased from 16.6 million units in the six months ended June 30, 2016 to 15.0 million in the same period of 2017, primarily due to decreased sales of products with lower selling prices.

The average selling prices for each of our product groups generally increased during the Track Record Period, except for recreation products which remained relatively stable in 2014, 2015 and 2016 but decreased from US\$2.4 in the six months ended June 30, 2016 to US\$2.1 in the same period of 2017, and camping products which remained relatively stable during the Track Record Period. The increase in average selling price for above-ground pools and portable spas from US\$20.0 in 2014 to US\$24.8 in 2016 was primarily due to improvements in product mix as we increased sales of above-ground metal pools and portable spas with higher selling prices. The increase in average selling price for sporting goods from US\$1.8 in 2014 to US\$2.6 in 2016 was primarily due to improvements in product mix as a result of increased sales of rafting tubes and floating islands, inflatable stand-up paddle boards and water slides, which had higher selling prices.

The following table sets forth our gross profit, gross profit contribution and gross profit margins by product group for the periods indicated:

		For the year ended December 31,									For the six months ended June 30,					
		2014			2015			2016			2016			2017		
Product Group	Amount	% of total gross profit	Gross profit margin	Amount	% of total gross profit	Gross profit margin	Amount	% of total gross profit	Gross profit margin	Amount	% of total gross profit	Gross profit margin	Amount	% of total gross profit	Gross profit margin	
	US\$ ('000)	%	%	US\$ ('000)	%	%	US\$ ('000)	%	%	US\$ ('000) (unaudited)	%	%	US\$ ('000)	%	%	
Above-ground Pools and Portable Spas	34,122	35.2	17.6	41,469	37.0	17.6	68,905	41.9	25.1	41,176	41.3	24.5	50,825	43.2	25.3	
Recreation Products	28,261	29.2	24.9	29,823	26.6	24.9	38,814	23.6	30.9	23,678	23.7	31.2	23,549	20.0	28.6	
Sporting Goods	11,718	12.1	26.8	13,476	12.0	27.1	23,588	14.3	31.0	15,952	16.0	32.3	21,107	18.0	34.0	
Camping Products	22,747	23.5	19.4	27,277	24.4	25.3	33,230	20.2	30.6	18,958	19.0	31.5	21,942	18.8	28.9	
Total:	96,848	100.0	20.7	112,045	100.0	21.8	164,537	100.0	28.1	99,764	100.0	28.2	117,423	100.0	27.9	

The increases in gross profit and gross profit margin by product group were generally in line with our business growth and overall increase in gross profit margin during the Track Record Period. In particular, the gross profit and gross profit margin of above-ground pools and portable spas increased

from 2014 to 2016 primarily due to (i) an increase in average selling prices as we established stronger market presence in key markets such as the United States, and (ii) increased sales of higher gross margin products, such as LAY-Z-SPA portable spas. Similarly, the gross profit and gross profit margin of sporting goods increased from 2014 to 2016 primarily due to increased sales of higher gross margin products, such as H<sub>2</sub>O GO! water slides and COOLERZ outdoor water sports products. Our gross profit margin decreased slightly from 28.2% in the six months ended June 30, 2016 to 27.9% in the same period of 2017, primarily because we strategically promoted certain recreation products and camping products in order to strengthen our market presence in certain regions.

The following table sets forth our revenue by brand type, presented by amount and as a percentage of our total revenue during the Track Record Period:

		For the	year ended	For the six months ended June 30,									
Brand Type	2014		2015		2016		2016		2017				
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%			
	(in million, except for percentages)												
						(	(unaudited)						
Own-brand products	346.8	74.1	352.8	68.7	435.1	74.4	255.7	72.3	310.3	73.6			
Private label products	92.7	19.8	106.3	20.7	92.9	15.9	57.3	16.2	70.9	16.8			
Co-branded products	28.4	6.1	54.4	10.6	56.5	9.7	40.4	11.5	40.5	9.6			
Total:	467.9	100	513.5	100	584.5	100	353.4	100	421.6	100			

The following table sets forth our sales volumes and average selling prices by brand type for the periods indicated:

	-	For th	ne year ende	d Decembe	er 31,		For the	For the six months ended June 30,					
	201	4	201	5	201	6	201	6	2017				
Brand Type	Sales Volume	Average Selling Price	Sales Volume	Average Selling Price	Sales Volume	Average Selling Price	Sales Volume	Average Selling Price	Sales Volume	Average Selling Price			
	'000 units	US\$	'000 units	US\$									
Own-brand products	64,617	5.4	65,842	5.4	75,542	5.8	39,868	6.4	54,072	5.7			
Private label products	20,563	4.5	23,133	4.6	22,643	4.1	17,152	3.3	13,184	5.4			
Co-branded products	16,112	1.8	10,829	5.0	9,150	6.2	4,557	8.9	3,954	10.2			
Total:	101,292	4.6	99,804	5.1	107,335	5.4	61,577	5.7	71,210	5.9			

Note: Since each of the brand type products consists of multiple different product groups and product categories, which in turn contain numerous product series and models with varying selling prices, the average selling prices indicated in the table above are blended prices of the respective brand type products as a whole and do not represent the selling prices of our individual products.

The changes in sales volume of our products by brand type during the Track Record Period were primarily because we continued to implement our strategy to increase emphasis on our own-brand products. The average selling price of private label products decreased from US\$4.6 in 2015 to US\$4.1 in 2016 primarily due to a decrease in sales of private label above-ground pools and accessories, which had higher selling prices, in 2016. The average selling price of co-branded products increased significantly from US\$1.8 in 2014 to US\$6.2 in 2016, primarily due to increased sales of co-branded above-ground pools with higher selling prices. The average selling price of own-brand products decreased from US\$6.4 in the six months ended June 30, 2016 to US\$5.7 in the same period of 2017, primarily due to higher sales of our own-brand recreation products which had lower selling prices.

The following table sets forth our gross profit, gross profit contribution and gross profit margins by brand type for the periods indicated:

	For the year ended December 31,										For the six months ended June 30,						
		2014			2015			2016			2016		2017				
Brand Type	Amount	% of total gross profit	Gross profit margin	Amount	% of total gross profit	Gross profit margin	Amount	% of total gross profit	Gross profit margin	Amount	% of total gross profit	Gross profit margin	Amount	% of total gross profit	Gross profit margin		
	US\$ ('000)	%	%	US\$ ('000)	%	%	US\$ ('000)	%	%	US\$ ('000) (unaudited)	%	%	US\$ ('000)	%	%		
Own-brand products	69,997	72.3	20.2	81,107	72.3	23.0	121,243	73.7	27.9	72,440	72.6	28.3	92,028	78.4	29.7		
Private label products	18,642	19.2	20.1	24,333	21.7	22.9	28,118	17.1	30.2	17,662	17.7	30.8	18,712	15.9	26.4		
Co-branded products	8,209	8.5	28.9	6,695	6.0	12.3	15,176	9.2	26.9	9,662	9.7	23.9	6,683	5.7	16.5		
Total:	96,848	100.0	20.7	112,045	100.0	21.8	164,537	100.0	28.1	99,764	100.0	28.2	117,423	100.0	27.9		

The increases in gross profit and gross profit margin of our own-brand products and private label products were generally in line with our business growth and overall increase in gross profit margin during the Track Record Period. The decrease in the gross profit margin of our co-branded products from 28.9% in 2014 to 12.3% in 2015 and from 23.9% in the six months ended June 30, 2016 to 16.5% in the same period of 2017 was primarily because we strategically promoted certain of our co-branded products in order to strengthen our market presence in certain regions in 2015 and the six months ended June 30, 2017, respectively. The decrease in gross profit margin of our private label products from 30.8% in the six months ended June 30, 2016 to 26.4% in the same period of 2017 was primarily as a result of strategic promotion of certain of our products, which had lower gross profit margins, to our existing private label customers.

#### RESEARCH AND DEVELOPMENT

Our product development platform is an essential part of our growth strategies, as we believe that improving our existing products and introducing new products are critical to maintaining our market share and meeting consumers' demands. Instead of focusing on a single element of a new product at each stage of the product's development cycle, we take into account a variety of factors, including competitive dynamics, regulatory and product requirements and consumer expectations throughout the entire development process. For the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, our research and development expenses, including relevant staff costs, equipment depreciation expenses and other expenses, were US\$7.7 million, US\$10.1 million, US\$11.5 million and US\$5.7 million, respectively. We recorded all of these research and development expenses as expenses in our financial statements and none of our research and development expenditures were capitalized during the Track Record Period. We believe our success has in large part been driven by our integrated product development platform, encompassing our management, research and development, procurement, manufacturing, compliance, as well as sales and marketing functions. Please see "Business—Research and Development" for more details.

# **OUR SALES NETWORK AND CUSTOMERS**

Our products are sold through an extensive international sales network in over 110 countries across six continents worldwide. Our customers mainly include retailers and importers. According to the Frost & Sullivan Report, our sales network is one of the broadest networks within the global outdoor leisure products market, providing us a presence in every key geographic market. We manage our global sales network from our headquarters in Shanghai by supervising the operations of our nine overseas subsidiaries strategically located across the world. To benefit from local market knowledge and expertise, we engage our overseas sales teams as well as third-party regional relationship managers to promote and market our brand and our products on a global basis.

Our sales model leverages the regional market knowledge, resources and expertise of the local sales forces to sell our products directly to a diverse customer base comprised predominantly of (i) retailers including mass market retailers, specialty retail stores and overseas online retailers; (ii) importers; and (iii) e-commerce consumers and others. For details, please see "Business—Our Customers."

The following table sets forth our revenue attributable to each region by amount and as a percentage of total revenue during the Track Record Period:

		For the	For the six months ended June 30,							
Region	2014		2015		2016		2016		2017	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
				(in millio	n, except fo	r percenta	iges)			
						(	(unaudited)			
Europe <sup>(1)</sup>	259.8	55.5	259.4	50.5	310.4	53.1	198.3	56.1	217.9	51.7
North America <sup>(2)</sup>	77.3	16.5	124.2	24.2	161.2	27.6	120.2	34.0	141.5	33.6
China	8.8	1.9	7.7	1.5	9.4	1.6	3.4	1.0	10.5	2.5
Rest of the world	122.0	26.1	122.2	23.8	103.5	17.7	31.5	8.9	51.7	12.2
Total:	467.9	100	513.5	100	584.5	100	353.4	100	421.6	100

<sup>(1)</sup> Includes countries in the European Economic Area, Switzerland, Turkey, Russia, Kazakhstan, Kyrgyzstan, Albania, Andorra, Armenia, Bosnia and Hercegovina, Georgia, Macedonia, Moldavia, Serbia, Montenegro and Ukraine.

The following table sets forth our revenue by customer type, presented by amount and as a percentage of our total revenue during the Track Record Period:

		For the six months ended June 30,							
Customers	2014				2016		2017		
	US\$	%	US\$	%	US\$	%	US\$	%	
			(in millio	n, except j	for percentag	es)			
Retailers	364.6	77.9	402.0	78.3	482.3	82.5	360.3	85.5	
Importers	95.9	20.5	104.7	20.4	93.4	16.0	52.5	12.5	
E-commerce consumers and others <sup>(1)</sup>	7.4	1.6	6.8	1.3	8.8	1.5	8.8	2.0	
Total:	467.9	100	513.5	100	584.5	100	421.6	100	

# Note:

(1) Mainly includes sales to end-consumers through our self-operated online sales profile on third-party e-commerce platforms and sales to wholesalers in China.

Our sales to customers in Iran and Cuba, which are Sanctioned Countries, amounted to US\$381,429.3, US\$272,750.1, US\$526,941.2 and US\$122,324.1 for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, accounting for approximately 0.08%, 0.05%, 0.09% and 0.03% of our total revenue for the respective period; we have discontinued making sales to Iran and Cuba or any other Sanctioned Country. For details of sales and operations in countries subject to sanctions and the internal control measures we have implemented in respect of sanctions risks, please see "Business—Sales and Operations in Countries Subject to Sanctions."

# **PRODUCTION**

During the Track Record Period, we manufactured the vast majority of our products in-house. We perform our key manufacturing processes at our manufacturing facilities located in Shanghai, and Nantong and Yancheng in Jiangsu province in the inland eastern region of China, all within driving distance of each other. As of the Latest Practicable Date, these three sites cover an aggregate area of

<sup>(2)</sup> Includes the United States, Canada and Puerto Rico.

approximately 953,097 square meters and an aggregate gross floor area of 603,016 square meters, which house our manufacturing facilities, materials handling centers, warehouses, office buildings and employees' dormitories. Please see "Business—Production" for more details.

#### **PROCUREMENT**

We purchase the raw materials, accessories and packaging materials used in our production. The primary raw materials we use to produce our products include PVC resins and plasticizers. Our costs of raw materials accounted for 79.2%, 78.6%, 76.9% and 76.6% of our total cost of sales in 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively. Our suppliers are mainly located in China, Japan, Taiwan, South Korea and the United States. We generally do not enter into long-term agreements with our suppliers. We typically work with large reputable international suppliers to purchase our raw materials. Our raw materials are generally available from a number of suppliers, and we normally have various sources of supply for each type of raw materials so that we do not depend on a single supplier. Please see "Business—Procurement" for more details.

#### **OUR COMPETITIVE STRENGTHS**

Our strengths include the following:

- A global, market-leading brand;
- Broad portfolio of fun, functional and innovative products with proven design and development track record;
- Extensive international sales network supported by local market expertise;
- Vertically integrated business model with strong in-house manufacturing capabilities;
- Emphasis on product quality, customer satisfaction and corporate sustainability; and
- Highly experienced, dedicated and professional international management team.

# **OUR GROWTH STRATEGIES**

We intend to implement the following growth strategies to leverage our traditional strengths in the inflatable and related products industry to strengthen our market position across the entire outdoor leisure products industry globally:

- Continue product innovation and development to enhance and broaden our product and brand portfolio;
- Build upon our heritage to develop the underpenetrated China and Asia markets and increase overall market consumption;
- Reinforce our leading market position and increase market share in key global markets;
- Expand and strengthen in-house manufacturing capacities while enhancing operational efficiency across the value chain; and
- Integrate advanced technology solutions to further enhance our competitiveness.

# SUMMARY HISTORICAL FINANCIAL INFORMATION

The following is a summary of our consolidated financial information as of and for the years ended December 31, 2014, 2015, 2016 and the six months ended June 30, 2017. We have derived the summary from our consolidated financial information set forth in the Accountant's Report in Appendix I to this prospectus. The following summary should be read together with the consolidated financial information

in Appendix I to this prospectus, including the accompanying notes and the information set forth in "Financial Information" in this prospectus. Our consolidated financial information was prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

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

			For the six months		
	For the year ended December 31,			ended June 30,	
	2014	2015	2016	2016	2017
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)
				(unaudited)	
Revenue	467,914	513,532	584,529	353,415	421,625
Cost of sales	(371,066)	(401,487)	(419,993)	(253,651)	(304,202)
Gross profit	96,848	112,045	164,537	99,764	117,423
Selling and distribution expenses	(44,384)	(48,003)	(60,704)	(36,530)	(43,327)
Administrative expenses	(35,135)	(41,800)	(48,625)	(23,724)	(27,703)
Other income	1,838	5,428	2,101	431	2,444
Other (losses)/gains—net	(4,431)	920	4,667	3,113	(2,720)
Finance income	660	1,345	492	233	50
Finance expenses	(3,528)	(8,081)	(5,427)	(2,673)	(1,900)
Profit before income tax	11,868	21,854	57,042	40,614	44,267
Income tax expense	(3,438)	(6,664)	(14,022)	(10,335)	(9,662)
Profit for the year	8,430	15,190	43,020	30,279	34,605
Profit attributable to:					
Owner of the Company	8,175	16,460	43,340	30,433	34,955
Non-controlling interests	255	(1,270)	(320)	(154)	(350)
	8,430	15,190	43,020	30,279	34,605

Our revenue growth was strong and stable over the Track Record Period, mainly due to (i) our successful expansion in the United States market and our increased marketing campaigns there, (ii) increased sales of new products that we introduced in recent years such as  $H_2O$  GO! water slides we introduced in 2013, COOLERZ outdoor water sporting goods we introduced in 2014 and HYDRO FORCE inflatable stand-up paddle boards we introduced in 2013 and (iii) we procured a new co-brand partner in 2015.

Our gross profit increased during the Track Record Period. Our gross profit margin was 20.7%, 21.8%, 28.1% and 27.9% for the three years ended December 31, 2016 and for the six months ended June 30, 2017, respectively. The increases in our gross profit and gross profit margin for the three years ended December 31, 2016 were primarily due to (i) our ability to price our products at prices supporting higher gross profit margins as we strengthened our customer relationships and our market positions, in particular in the United States, (ii) increased sales of higher gross profit margin products, such as LAY-Z-SPA portable spas, H<sub>2</sub>O GO! water slides, COOLERZ and HYDRO FORCE outdoor water sports products, (iii) improved production efficiency as a result of enhancements in our production technology, (iv) a decrease in the average purchase price of certain of our key raw materials and (v) lower reported operating costs due to the depreciation of the Renminbi against the U.S. dollar. The gross profit margin decreased slightly from 28.2% in the six months ended June 30, 2016 to 27.9% in the same period of 2017, primarily as we strategically promoted certain recreation products and camping products in order to strengthen our market presence in certain regions.

With significant improvements in profitability as we firmly established ourselves in key target growth markets such as the United States, our profit for the year increased from US\$8.4 million for the year ended December 31, 2014 to US\$43.0 million for the year ended December 31, 2016, representing a CAGR of approximately 125.9%. Our profit for the period increased by 14.3% from US\$30.3 million in the six months ended June 30, 2016 to US\$34.6 million in the same period of 2017, while our profit for the period (excluding listing expenses for the Global Offering) increased by 23.0% from US\$30.3 million to US\$37.2 million in these same respective periods. Our net profit margin increased from 1.8% in 2014 to 3.0% in 2015 and further to 7.4% in 2016. Our net profit margin remained relatively stable in the six months ended June 30, 2016 and 2017, while our net profit margin (excluding listing expenses for the Global Offering) increased from 8.6% to 8.8% in these same respective periods.

During the Track Record Period, we enjoyed certain preferential tax treatments from the Chinese tax authorities. Bestway Shanghai obtained approvals in 2016 for eligibility for a 15% preferential enterprise income tax rate from 2016 to 2018 and, in addition, an additional 50% of the research and development expenses incurred by Bestway Shanghai are deductible from its taxable income. Furthermore, local Chinese governments granted us various financial subsidies in recognition of our contribution to local economies and investment in expansion of our production capacity. We recorded government grants of US\$1.1 million, US\$5.2 million, US\$1.5 million and US\$2.2 million in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively. Since July 2017 and up to the Latest Practicable Date, we received additional government grants of approximately US\$5.4 million. These government grants and preferential tax treatments were given at the discretion of the Chinese governmental authorities. There is no assurance that we will continue to enjoy government grants and preferential tax treatment at historical levels, or at all. Any change, suspension or termination of the preferential tax treatments and government grants described above could adversely affect our financial condition, results of operations and cash flows. For details, please see "Financial Information-Description of Selected Items of the Consolidated Statements of Profit or Loss—Income tax expense" and "Risk Factor-Preferential tax treatment and financial subsidies that we have enjoyed may be changed or terminated."

As most of our operating expenses are denominated in Renminbi and most of our sales are denominated and settled in U.S. dollar, we entered into derivative financial instruments, which were forward foreign exchange contracts and foreign exchange-related options in the Track Record Period, in respect of the Renminbi against the U.S. dollar to mitigate our exposure to the foreign exchange risks. For the three years ended December 31, 2016, our forward foreign exchange contracts and foreign exchange-related options resulted in unrealized losses of US\$1.6 million, US\$6.5 million and US\$1.3 million in 2014, 2015 and 2016, respectively; and realized losses of US\$1.7 million, US\$1.1 million and realized gains of US\$1.7 million in the same respective periods. For the six months ended June 30, 2017, our forward foreign exchange contracts resulted in unrealized losses of US\$0.5 million and realized gains of US\$1.4 million. We ceased entering into foreign exchange-related options in 2016. There is no assurance that changes in fair values on forward foreign exchange contracts that we may enter into can effectively mitigate the fluctuation of the U.S. dollar against the Renminbi. Any losses arising from our forward foreign exchange contracts could adversely affect our results of operations and financial positions. Furthermore, we had net foreign exchange gains of US\$1.1 million, US\$8.2 million and US\$5.0 million in 2014, 2015 and 2016, respectively, due to depreciation of the Renminbi against the U.S. dollar. For the six months ended June 30, 2017, we had net foreign exchange losses of US\$2.7 million as a result of the appreciation of the Renminbi against the U.S. dollar during this period. There is no guarantee that we will continue to record net foreign exchange gains going forward. For more details, please see "Risk Factor—Fluctuations in exchange rates may lead to volatility in our results of

operations due to our substantial global operations", "Risk Factor—We are exposed to forward foreign exchange contracts risk" and "Financial Information—Description of Selected Items of the Consolidated Statements of Financial Position—Derivative financial instruments."

# **Summary Consolidated Statements of Financial Position**

	As of December 31,			As of
	2014	2015	2016	2017
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)
Current assets	340,186	323,831	302,118	367,457
Current liabilities	283,475	288,445	256,933	324,721
Net current assets	56,710	35,386	45,186	42,736
Total assets less current liabilities	185,270	184,166	206,048	249,131
Net assets	174,541	179,517	203,908	244,151
Equity attributable to owner of the Company	173,455	179,840	204,495	245,481

# **Summary Consolidated Statements of Cash Flows**

				six months ended
	For the year ended December 31,			June 30,
	2014	2015	2016	2017
	US\$('000)	US\$('000)	US\$('000)	US\$('000)
Net cash (used in)/generated from operating activities	(21,581)	27,347	65,366	56,405
Net cash used in investing activities	(34,806)	(44,580)	(36,419)	(32,504)
Net cash (used in)/from financing activities	56,150	23,654	(30,360)	38,640
Net (decrease)/increase in cash and cash equivalents	(237)	6,422	1,413	62,541
Cash and cash equivalents at the beginning of year	16,723	16,326	23,455	22,965
Exchange (loss)/gain on cash and cash equivalent	161	708	922	(298)
Cash and cash equivalents at the end of year	16,326	23,455	22,965	85,208

For the

# **KEY FINANCIAL RATIOS**

	For the year	ended Decem	ber 31,	For the six a	
	2014	2015	2016	2016	2017
			(u	inaudited)	
Gross profit margin <sup>(1)</sup>	20.7%	21.8%	28.1%	28.2%	27.9%
Net profit margin <sup>(2)</sup>	1.8%	3.0%	7.4%	8.6%	8.2%
Return on equity <sup>(3)</sup>	4.9%	8.6%	22.4%	$N/A^{(8)}$	$N/A^{(8)}$
Return on assets <sup>(4)</sup>	2.1%	3.2%	9.2%	$N/A^{(8)}$	N/A <sup>(8)</sup>
					As of
		As of December 31,			June 30,
		2014	2015	2016	2017
Current ratio <sup>(5)</sup>		1.20	1.12	1.18	1.13
Quick ratio <sup>(6)</sup>		0.54	0.47	0.54	0.70
Gearing ratio <sup>(7)</sup>		0.44	0.58	0.37	0.22

#### Notes:

- (1) Equals gross profit divided by revenue and multiplied by 100%.
- (2) Equals profit for the period divided by revenue and multiplied by 100%.
- (3) Equals profit for the period divided by the average of the beginning and ending total equity for that period and multiplied by 100%.
- (4) Equals profit for the period divided by the average of the beginning and ending total assets for that period and multiplied by 100%.
- (5) Equals current assets divided by current liabilities as of the respective financial period-end date.
- (6) Equals current assets less inventories and divided by current liabilities as of the respective financial period-end date.
- Equals total debt divided by total equity as of the respective financial period-end date. Total debt is calculated as total borrowings plus loans from related parties, less cash and cash equivalents and restricted cash. Our gearing ratio increased from 0.44 times in 2014 to 0.58 times in 2015 primarily because we obtained more bank borrowings during the year to finance our business expansion. Our gearing ratio decreased from 0.58 times in 2015 to 0.37 times in 2016 primarily because (i) our net cash generated from operating activities increased from US\$27.3 million in 2015 to US\$65.4 million in 2016 and (ii) we repaid part of our bank borrowings in 2016. Our gearing ratio decreased from 0.37 times as of December 31, 2016 to 0.22 times as of June 30, 2017 primarily due to a significant increase in cash and cash equivalents from US\$23.0 million as of December 31, 2016 to US\$85.2 million as of June 30, 2017 as we had net cash generated from financing activities of US\$38.6 million for the six months ended June 30, 2017 compared with net cash used in financing activities of US\$30.4 million in 2016.
- (8) This semi-annual number is not meaningful as it is not comparable to the annual numbers.

# **RISK FACTORS**

There are certain risks involved in our operations, some of which are beyond our control. These risks can be broadly categorized into: (i) risks relating to our business and industry; (ii) risks relating to China; and (iii) risks relating to the Global Offering. We believe that the most significant risks we face include:

- Our business depends significantly on the strength and market perception of our brands and our reputation. If we fail to maintain and enhance our reputation and brand image, endconsumers' recognition of and trust in us and our brands and products may be materially and adversely affected.
- We are subject to risks associated with managing future growth and expansion.
- Our efforts in developing, launching and promoting new products may not be successful. If we are unable to respond effectively to market trends and customer preferences, our business, result of operations and financial condition may be adversely affected.
- Our growth strategies depend substantially on our ability to successfully expand into new markets and sales channels, and to reinforce our market positions in existing markets.
- Our business is sensitive to economic, political and social conditions in the markets in which we operate.

A detailed discussion of all the risk factors involved are set forth in "Risk Factors" and you should read the whole section carefully before you decide to invest in the Offer Shares.

# THIRD-PARTY PAYMENTS

Certain of our customers (the "Relevant Customers") have historically settled some or all of their payments due to us through third parties. During the Track Record Period, there were 103 Relevant Customers that settled at least a portion of their payments to us through Third-Party Payors. None of the Relevant Customers were among our top ten major customers during the Track Record Period. Our aggregate sales to the Relevant Customers that were settled through Third-Party Payors were approximately US\$17.5 million, US\$14.1 million, US\$18.1 million and US\$8.9 million for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively, representing 3.7%, 2.7%, 3.1% and 2.1% of our total revenue in the corresponding periods. We ceased

allowing settlements through Third-Party Payors in July 2017, and all sales transactions entered into thereafter are settled by direct payments. For more details relating to Third-Party Payments, please see "Business—Certain Settlement Arrangements Through Third-Party Payors."

#### PRODUCT RECALLS

During the Track Record Period, we experienced five product recall incidents. These product recalls were, in aggregate, immaterial to our business, financial condition and results of operations. Among the five product recalls, one was due to weak welding that lead to air leaks after multiple uses or prolonged periods of use, two were due to non-compliance with the upgraded product safety measures implemented subsequent to the manufacturing and selling of the products, and the remaining two were due to inadequate warnings. The aggregate sales of the products subject to these recalls were US\$66,635.8. Under our accounting policies, revenue attributable to products subject to product recalls and returned to us is reversed from our total revenue for the relevant period. Please see "Business—Product Returns, Warranties and Aftersales Services—Product Returns and Recalls" for more details.

#### RECENT DEVELOPMENTS

Our revenue increased by 20.4% from US\$397.0 million in the eight months ended August 31, 2016 to US\$478.0 million in the same period ended August 31, 2017, primarily due to the continued expansion of our business in our key markets. Our gross profit increased by 19.0% from US\$111.2 million in the eight months ended August 31, 2016 to US\$132.3 million in the same period ended August 31, 2017, which is in line with our business growth. Our gross profit margin remained stable. Our Directors are responsible for the preparation of our unaudited consolidated management accounts as of and for the eight months ended August 31, 2017 in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants. Our consolidated management accounts as of and for the eight months ended August 31, 2017 have been reviewed by our reporting accountant, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by Hong Kong Institute of Certified Public Accountants.

In addition to the borrowings as of the Indebtedness Date as disclosed in "Financial Information—Indebtedness," as of the Latest Practicable Date, we had made additional drawdowns of approximately US\$3.0 million under the banking facilities that we had as of the Indebtedness Date to finance our working capital.

Our Directors confirm that up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since June 30, 2017, and there is no event since June 30, 2017 which would materially and adversely affect the audited financial information as set out in Appendix I to this prospectus.

# SHAREHOLDER INFORMATION

Immediately after the completion of the Capitalization Issue and the Global Offering, Great Success will directly own 793,793,000 Shares, representing approximately 75% of our total issued share capital if the Over-allotment Option is not exercised, or approximately 72.3% of our total issued share capital if the Over-allotment Option is exercised in full. Great Success is held as to 72.4% by Great Access, 8.1% by Outland Enterprise, 18.0% by Mr. Bogdan Nowak and 1.5% by Mr. Patrizio Fumagalli. Great Access is in turn held as to 92.0% by Mr. Zhu Qiang and 8.0% by Mr. Zhu Jiachen, the son of Mr. Zhu Qiang. As Great Access, Outland Enterprise, Mr. Bogdan Nowak, Mr. Patrizio Fumagalli, Mr. Zhu Qiang and Mr. Zhu Jiachen hold their interest in the Company through Great Success; Great Success,

Great Access, Outland Enterprise, Mr. Bogdan Nowak, Mr. Patrizio Fumagalli, Mr. Zhu Qiang and Mr. Zhu Jiachen will constitute a group of controlling shareholders for the purposes of the Listing Rules immediately after the Global Offering.

Furthermore, Outland Enterprise is held as to 11.0% by Mr. Zhu Qiang and 89.0% by the Scheme Participants. Outland Enterprise was set up by Mr. Zhu Qiang on November 27, 2013 to implement the Pre-IPO Share Incentive Scheme, pursuant to which Outland Enterprise would allot and issue or Mr. Zhu Qiang would transfer shares in Outland Enterprise to the employees of the Group to award their past contribution to the Group and to incentivize them. It is expected that no new shares in Outland Enterprise will be issued upon Listing, and it is intended that Mr. Zhu Qiang may transfer the shares he held in Outland Enterprise to employees in the future to reward their contribution to the Group. For details of the Pre-IPO Share Incentive Scheme, please see "History, Development and Reorganization—Pre-IPO Share Incentive Scheme." As the Scheme Participants are shareholders of Outland Enterprise only because of their participation in the Pre-IPO Share Incentive Scheme, they will not be considered as our controlling shareholders as defined under the Listing Rules immediately after the Global Offering.

#### **DIVIDEND POLICY**

Our Company declared dividends of US\$2,822,935, US\$3,236,670 and US\$350,000 in 2014, 2016 and the six months ended June 30, 2017, respectively. Bestway Europe, one of our subsidiaries, declared dividends of US\$93,324 to its then shareholders in 2015. We have settled all these dividends payable. In September and October 2017, our Company declared a dividend of US\$4,620,000 and US\$6,632,000, respectively, and these dividends were fully paid as of the Latest Practicable Date. Any future declaration of dividends may or may not reflect our prior declarations of dividends and any dividend recommendation will be at the discretion of our Board, subject to Cayman Companies Law. We may declare dividends in the future after taking into account our results of operations, our total equity, our business conditions, strategies or needs for future expansions, our capital expenditure needs, dividend paid to us by our subsidiaries, impact of the dividend distribution on our working capital and financial position, and other factors as our Directors may deem relevant at such time. Subject to the above limitations, our Directors expect that, in the future, we may pay dividends from time to time in an aggregate amount of not less than 30% of distributable profits attributable to the owners of our Company.

# GLOBAL OFFERING STATISTICS(1)

	Based on an Offer Price of HK\$4.38 per Offer Share	Based on an Offer Price of HK\$5.80 per Offer Share
Market capitalization of our Shares <sup>(2)</sup> Unaudited pro forma adjusted consolidated net tangible	HK\$4,635,752,580	HK\$6,138,667,800
asset per Share <sup>(3)</sup>	HK\$2.84	HK\$3.18

#### Notes:

- (1) All statistics in the table are based on the assumption that the Over-allotment Option is not exercised.
- (2) The calculation of market capitalization is based on 264,598,000 Shares expected to be issued under the Global Offering, and assuming that 1,058,391,000 Shares are issued and outstanding immediately following the completion of the Capitalization Issue and the Global Offering, assuming the Over-allotment Option is not exercised.

(3) The unaudited pro forma adjusted consolidated net tangible asset per Share is calculated after making the adjustments referred to in "Appendix II—Unaudited Pro Forma Financial Information" and on the basis that 1,058,391,000 Shares in total were in issue, taking into account that 1,001 Shares were in issue as at June 30, 2017 and assuming that the issue of 793,791,999 Shares pursuant to the Capitalization Issue and the issue of 264,598,000 Shares pursuant to the Global Offering had been completed.

#### **USE OF PROCEEDS**

Assuming an Offer Price of HK\$5.09 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), we estimate that (i) the gross proceeds of the Global Offering that we will receive will be approximately HK\$1,346.8 million, and (ii) the net proceeds of the Global Offering that we will receive, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering, will be approximately HK\$1,271.3 million.

We intend to use the net proceeds of the Global Offering for the following purposes assuming the Offer Price is fixed at HK\$5.09 per Offer Share (being the mid-point of the indicative Offer Price range):

- approximately 40%, or HK\$508.5 million, will be used to expand and upgrade our research and development, manufacturing and storage capabilities, of which approximately (i) 50%, or HK\$254.3 million, will be used for constructing our facilities and (ii) 50%, or HK\$254.3 million, will be used for the purchase of equipment and machinery;
- approximately 30%, or HK\$381.4 million, will be used for our repayment of short-term bank borrowings maturing from December 2017 to June 2018 with interest rates ranging from 3% to 6%;
- approximately 10%, or HK\$127.1 million, will be used for research and development of our products;
- approximately 5%, or HK\$63.6 million, will be used for advertising and promotional activities in key growth markets including the United States, China and Europe;
- approximately 5%, or HK\$63.6 million, will be used for enhancing our information technology systems (in particular our ERP program); and
- approximately 10%, or HK\$127.1 million, will be used for working capital and other general corporate purposes.

Except for the amount of HK\$381.4 million that we expect to use to repay short-term bank borrowings, the allocation of the proceeds outlined above will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher level or lower level compared to the mid-point of the estimated offer price range or the Over-allotment Option is exercised. For details, please see "Future Plans and Use of Proceeds."

# LISTING EXPENSES

We incurred US\$4.5 million of listing expenses during the Track Record Period, of which US\$3.3 million were recognised as expenses and US\$1.2 million was capitalized. We expect to incur approximately US\$9.8 million of listing expenses after the Track Record Period, of which approximately US\$2.4 million will be recognized as expenses in the consolidated statements of profit or loss for the year ending December 31, 2017 and the remaining (predominantly related to underwriting commission expenses, which will be fully capitalized) will be capitalized after Listing.

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

"affiliate(s)"

any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person

"Application Form(s)"

WHITE application form(s), YELLOW application form(s) and GREEN applications form(s) or, where the context so requires, any of them

"Articles" or "Articles of Association"

the articles of association of the Company which will become effective upon the Listing Date, as amended from time to time, a summary of which is set out in Appendix III to this prospectus

"associate(s)"

has the meaning ascribed thereto under the Listing Rules

"Audit Committee"

the audit committee of the Board

"Bestway Australia"

Bestway Australia Pty Limited, a company incorporated in Australia on November 15, 2013 and held as to 51% by Bestway Enterprise and 49% by Edmond Enterprises Pty Limited, which was wholly-owned by Mr. Edmond Yip, a member of the senior management of Bestway Australia

"Bestway Brazil"

Bestway Enterprise Company Limited, a company incorporated in Brazil on May 4, 2017 and wholly-owned by Bestway Enterprise

"Bestway Central & South America"

Bestway Central & South America Ltd., a company incorporated in Chile on July 26, 2002 and held as to 51% by Bestway Enterprise and 49% by Inversiones Las Pircas Limitada, which in turn was held as to 99% by Mr. Cristobal Achurra Staplefield, a member of the senior management of the Group, and 1% by his spouse

"Bestway Enterprise"

Bestway Enterprise Company Limited (榮威實業有限公司) (formerly known as Bestway Group Holdings Inc. (榮威集團控股有限公司)), a company incorporated in the BVI with limited liability on April 3, 2003, registered as a non-Hong Kong company on June 21, 2012 and an indirect wholly-owned subsidiary of the Company

"Bestway Europe"

Bestway (Europe) S.R.L., a company incorporated in Italy on January 10, 2001 and held as to 51% by Bestway Enterprise, 29% by Mr. Patrizio Fumagalli and 20% by Mr. Simone Zesi, both being members of the senior management of the Group

"Bestway France" Bestway France S.R.L., a company incorporated in France on August 4, 2011 and held as to 75% by Bestway Europe and 25% by Mr. Sellitri Libero Stefano, a member of the senior management of Bestway France "Bestway Germany" Bestway Deutschland GmbH, a company incorporated in Germany on August 31, 2011 and held as to 70% by Bestway Europe and 30% by Mr. Malte Ohnesseit, a member of the senior management of Bestway Germany "Bestway Hong Kong" Bestway (Hong Kong) International Limited (榮威國際(香港)有限 公司) (formerly known as Bestway (Hong Kong) International Limited (柏威國際(香港)有限公司)), a company incorporated in Hong Kong with limited liability on June 2, 2004 and a direct wholly-owned subsidiary of Bestway Enterprise "Bestway Italy" Bestway Italy S.R.L., a company incorporated in Italy on August 1, 2011 and a direct wholly-owned subsidiary of Bestway Europe Bestway (Jiangsu) Recreation Corp. (江蘇榮威娛樂用品有限公 "Bestway Jiangsu" 司) (formerly known as Bestway (Jiangsu) Plastics Corp. (江蘇榮 威塑膠工業有限公司)), a limited liability company established under the laws of the PRC on April 5, 2004 and held as to approximately 51.1% by Bestway Enterprise and approximately 48.9% by Bestway Nantong "Bestway Nantong" Bestway (Nantong) Recreation Corp. (南通榮威娛樂用品有限公 司) (formerly known as Bestway (Nantong) Plastics Corp. (南通 榮威塑膠工業有限公司)), a limited liability company established under the laws of the PRC on February 2, 2007 and a direct wholly-owned subsidiary of Bestway Enterprise "Bestway Resources" Bestway Resources Group Company Limited (榮威資源集團有限 公司), a company incorporated in the BVI with limited liability on June 26, 2012 and a direct wholly-owned subsidiary of the Company "Bestway Russia" Bestway Russia Ltd., a company incorporated in Russia on September 27, 2003 and held as to 51% by Bestway Enterprise and 49% by Mr. Denis Kurganskiy, a member of the senior management of Bestway Russia "Bestway Shanghai" Bestway Inflatables & Material Corp. (上海榮威塑膠工業有限公 司), a limited liability company established under the laws of the PRC on June 25, 1999 and held as to 96% by Bestway Enterprise and 4% by Bestway Nantong

"Bestway Shanghai Enterprise" Bestway (Shanghai) Enterprise Corp. (上海榮威實業有限公司) (formerly known as Bestway (Shanghai) Culture & Leisure Corp. (上海榮威文化休閒用品有限公司)), a limited liability company established under the laws of the PRC on May 18, 2009 and a direct wholly-owned subsidiary of Bestway Shanghai "Bestway Shanghai Investment" Bestway (Shanghai) Investment Management Co., Ltd. (上海榮威 投資管理有限公司), a limited liability company established under the laws of the PRC on May 28, 2015 and a direct wholly-owned subsidiary of Bestway Shanghai "Bestway USA" Bestway (USA), Inc., a company incorporated in Delaware, United States on June 1, 2001 and was re-registered in Arizona, United States on April 23, 2010 due to the adjustment of the place of registration, and held as to 51% by Bestway Enterprise and 49% by Mr. Patrizio Fumagalli, a member of the senior management of the Group "Bestway USA Holdings" Bestway (USA) Holdings, LLC, a company incorporated in Arizona, United States on April 29, 2015 and held as to 99.5% by Bestway Hong Kong and 0.5% by Mr. Patrizio Fumagalli, a member of the senior management of the Group "Board" or "Board of Directors" our board of Directors "Business Day" or "business day" a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong "BVI" the British Virgin Islands "Capitalization Issue" the issue of 793,791,999 Shares to be made upon capitalization of certain sums standing to the credit of the share premium account of our Company as referred to in "Appendix IV-Statutory and General Information—A. Further Information About Our Group— 3. Resolutions of our Shareholders" "Cayman Companies Law" or the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and "Companies Law" 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 a CCASS Clearing Participant, a CCASS Custodian Participant or "CCASS Participant" a CCASS Investor Participant "Chairman" the chairman of the Board "China" or "PRC" the People's Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan "Company" or "our Company" Bestway Global Holding Inc. (榮威國際控股有限公司) (formerly known as Bestway International Holding Limited (榮威國際控股 有限公司)), a company incorporated in the Cayman Islands as an exempted company with limited liability on June 25, 2012 "Companies Ordinance" the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time "Companies (Winding Up and the Companies (Winding Up and Miscellaneous Provisions) Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, Ordinance" supplemented or otherwise modified from time to time "connected person" has the meaning ascribed thereto in the Listing Rules "Controlling Shareholder(s)" unless the context requires otherwise, refers to Great Success, Great Access, Outland Enterprise, Mr. Bogdan Nowak, Mr. Patrizio Fumagalli, Mr. Zhu Qiang and Mr. Zhu Jiachen "Director(s)" director(s) of our Company "E.U." the European Union "Frost & Sullivan" Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market research and consulting company "Frost & Sullivan Report" the report, written by Frost & Sullivan as commissioned by the Company containing an analysis of the global outdoor leisure products market and other relevant industry and economic data, as referred to in this prospectus "GDP" gross domestic product (except as otherwise specified, all references to GDP growth rates are to real, as opposed to nominal, rates of GDP growth) "Global Offering" the Hong Kong Public Offering and the International Offering

"Great Access" Great Access Industry Inc. (榮達實業有限公司) (formerly known as Great Access Investment Inc. (榮達投資有限公司)), a company incorporated in the BVI with limited liability on June 19, 2012 and a controlling shareholder of the Company "Great Success" Great Success Enterprises Holdings Limited (榮成實業控股有限 公司), a company incorporated in the BVI with limited liability on May 13, 2008 and a direct controlling shareholder of the Company holding the entire issued Shares as at the Latest Practicable Date and, immediately following Listing, will hold approximately 75% of the issued Shares (assuming the Overallotment Option is not exercised) "Green Application Form(s)" the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited "Group", "our Group", "we" or our Company and its subsidiaries or, where the context so "us" requires in respect of the period before our Company became the holding company of our present subsidiaries, the entities which carried on the business of the present Group at the relevant time "HK\$" or "Hong Kong dollar(s)" Hong Kong dollars, the lawful currency for the time being of or "HKD" Hong Kong "HKSCC" Hong Kong Securities Clearing Company Limited, a whollyowned subsidiary of Hong Kong Exchanges and Clearing Limited "HKSCC Nominees" HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC "Hong Kong" or "HK" the Hong Kong Special Administrative Region of the PRC "Hong Kong Greatwall" Hong Kong Greatwall Enterprises Limited (香港長城投資有限公 司) (formerly known as Tanyado Limited), a company incorporated in Hong Kong with limited liability on September 24, 2003 "Hong Kong Offer Shares" the 26,460,000 Shares being initially offered by our Company for subscription pursuant to the Hong Kong Public Offering (subject to adjustments as described in "Structure of the Global Offering") "Hong Kong Public Offering" the offering by the Company of initially 26,460,000 Shares for subscription by the public in Hong Kong (subject to adjustment as described in "Structure of the Global Offering") for cash at the Offer Price on the terms and conditions described in this

prospectus and the Application Forms

"Hong Kong Share Registrar" Computershare Hong Kong Investor Services Limited "Hong Kong Underwriters" Morgan Stanley Asia Limited and CMB International Capital Limited, the underwriters of the Hong Kong Public Offering listed in "Underwriting-Hong Kong Underwriters" "Hong Kong Underwriting the underwriting agreement dated November 3, 2017 relating to Agreement" the Hong Kong Public Offering and entered into by our Company, the Major Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters as further described in "Underwriting-Underwriting Arrangements and Expenses" "Indebtedness Date" September 30, 2017, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain indebtedness and liquidity information in this prospectus "Independent Third Party(ies)" an individual(s) or a company(ies) who or which is/are not a connected person of the Company under the Listing Rules "International Offering" the offer of the International Offer Shares by the International Underwriters at the Offer Price which will be made outside the United States in offshore transactions in accordance with Regulation S and in the United States to QIBs only in reliance on Rule 144A or other exemptions from the registration requirements of the U.S. Securities Act "International Offer Shares" the 238,138,000 Shares being initially offered by our Company pursuant to the International Offering for subscription at the Offer Price pursuant to the International Offering together with, where relevant, any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option (subject to adjustments as described in "Structure of the Global Offering") "International Sanctions Legal Cleary Gottlieb Steen & Hamilton (Hong Kong) Advisors" "International Underwriters" the group of international underwriters, led by the Sole Global Coordinator, that is expected to enter into the International Underwriting Agreement to underwrite the International Offering "International Underwriting the underwriting agreement expected to be entered into on or Agreement" around the Price Determination Date by, among others, the Sole Global Coordinator, the International Underwriters, the Company, the Major Controlling Shareholders in respect of the International Offering, as further described in "Underwriting—the International Offering"

Morgan Stanley Asia Limited and CMB International Capital "Joint Bookrunners" and "Joint Lead Managers" Limited "Latest Practicable Date" October 27, 2017, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus "Listing" the listing of the 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 around November 16, 2017, on which the Shares are listed and from which dealings therein are permitted to commence on the Stock Exchange "Listing Rules" the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited "Lock-up Undertakings" the lock-up undertakings dated November 3, 2017 entered into by Outland Enterprise, Mr. Bogdan Nowak, Mr. Patrizio Fumagalli and Mr. Zhu Jiachen in favour of the Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters "Macau" the Macau Special Administrative Region of the PRC "Main Board" the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange "Major Controlling Shareholders" Great Success, Great Access and Mr. Zhu Qiang "Memorandum of Association" or the memorandum of association of our Company which will "Memorandum" become effective upon the Listing Date, as amended from time to time, a summary of which is set out in "Appendix III—Summary of the Constitution of the Company and Cayman Companies Law" "MOFCOM" Ministry of Commerce of the PRC (中華人民共和國商務部) "Mr. Bogdan Nowak" Mr. Bogdan Nowak, a passive financial investor of the Group and a controlling shareholder of the Company

"Mr. Patrizio Fumagalli" Mr. Patrizio Fumagalli, a member of the senior management and a controlling shareholder of the Company "Mr. Zhu Jiachen" Mr. Zhu Jiachen (朱嘉晨先生), the son of Mr. Zhu Qiang and a controlling shareholder of the Company Mr. Zhu Qiang (朱強先生), an executive Director, the founder of "Mr. Zhu Qiang" the Group, the Chairman and chief executive officer of the Company and the ultimate controlling shareholder of the Company "NDRC" National Development and Reform Commission of the PRC (中華 人民共和國國家發展和改革委員會) products developed with distinctive feature, size, function or "New Products" manufacturing technologies "Nomination Committee" the nomination committee of the Board "OFAC" The U.S. Department of Treasury's Office of Foreign Assets Control "Offer Price" the final offer price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) "Offer Share(s)" the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option "Outland Enterprise" Outland Enterprise Company Limited (奧特蘭實業有限公司) (formerly known as Outland Investment Company Limited (奥特 蘭投資有限公司)), a company incorporated in the BVI with limited liability on November 27, 2013 and a controlling shareholder of the Company "Over-allotment Option" the option expected to be granted by the Company to the International Underwriters, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, pursuant to which the Company may be required to allot and issue up to an aggregate of 39,689,500 Shares at the Offer Price to cover overallocations in the International Offering, if any, further details of which are described in "Structure of the Global Offering" "PBOC" The People's Bank of China, the central bank of the PRC (中國人 民銀行)

"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 its organs or, as the content

requires, any of them

"PRC Legal Advisors" Jingtian & Gongcheng (北京市競天公誠律師事務所上海分所)

"Pre-IPO Share Incentive Scheme" the employee pre-IPO incentive scheme for the benefit of the

employees of the Group, a summary of the principal terms of which is set forth in "Appendix IV—Statutory and General

Information—D. Pre-IPO Share Incentive Scheme"

"Price Determination Date" the date, expected to be on or about November 10, 2017 (Hong

Kong time), on which the Offer Price is determined, or such later time as the Sole Global Coordinator (on behalf of the Underwriters) and we may agree, but in any event no later than

November 14, 2017

"Principal Share Registrar" Maples Fund Services (Cayman) Limited

"PTAB" Patent Trial and Appeal Board of the United States Patent and

Trademark Office

"QIB" a qualified institutional buyer within the meaning of Rule 144A

"REACH" Regulation No 1907/2006 of the European Parliament and of the

Council on the Registration, Evaluation, Authorisation and Restriction of Chemicals, a regulation adopted to improve the protection of human health and environment from the risks that

can be posed by chemicals, which came into force in 2007

"Regulation S" Regulation S under the U.S. Securities Act

"Relevant Person(s)" the Stock Exchange, the Listing Committee, HKSCC, HKSCC

Nominees, our Shareholders and/or investors who hold interests

in our securities

"Remuneration Committee" the remuneration committee of the Board

"Reorganization" the reorganization arrangements undergone by our Group in

preparation for Listing as described in "History, Development

and Reorganization—Reorganization"

"Risk Management Committee" the risk management committee of the Board

"RMB" or "Renminbi" the lawful currency of the PRC

"Rule 144A" Rule 144A under the U.S. Securities Act

"SAFE" State Administration of Foreign Exchange of the PRC (國家外匯

管理局)

"SAIC" State Administration of Industry and Commerce of the PRC (中華

人民共和國國家工商行政管理總局)

"Sanctioned Countries" countries or territories that are the target of comprehensive

sanctions programs under the laws of Australia, the E.U. or the United States that apply to substantially all economic activities,

such as Cuba, Crimea, Sudan, Iran, Syria and North Korea

"SAT" State Administration of Taxation of the PRC (國家稅務總局)

"Scheme Participants" certain employees of the Group who have been allotted or

transferred shares in Outland Enterprise pursuant to the Pre-IPO

Share Incentive Scheme

"SFC" the Securities and Futures Commission of Hong Kong

"SFO" or "Securities and Futures

Ordinance"

the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time

"Share(s)" shares in the capital of our Company with a nominal value of

HK\$0.01 each

"Share Option Scheme" the share option scheme conditionally adopted by the Company

on October 18, 2017 for the benefit of its employees, Directors, customers, suppliers, business or joint venture partners and certain advisors of our Group and their respective employees, a summary of the principal terms of which is set forth in "Appendix IV—Statutory and General Information—E. Share

Option Scheme"

"Shareholder(s)" holder(s) of our Shares

"Sole Global Coordinator" Morgan Stanley Asia Limited

"Sole Sponsor" Morgan Stanley Asia Limited

"Stabilizing Manager" Morgan Stanley Asia Limited or any of its affiliates or any person

acting for it

"State Council" State Council of the PRC (中華人民共和國國務院)

"Stock Exchange" The Stock Exchange of Hong Kong Limited

"subsidiaries" has the meaning ascribed thereto under the Listing Rules, unless

the context otherwise requires

"substantial shareholder" has the meaning ascribed thereto in the Listing Rules

"Targeted Sanctions Programs" economic sanctions or restrictive measures implemented by

governments in respect of specified parties or economic sectors

under the laws of Australia, E.U. or the United States

"Track Record Period" the period comprising the years ended December 31, 2014, 2015,

2016 and the six months ended June 30, 2017

"U.N." the United Nations

"Underwriters" the Hong Kong Underwriters and the International Underwriters

"Underwriting Agreements" the Hong Kong Underwriting Agreement and the International

Underwriting Agreement

"U.S." or "United States" the United States of America, its territories, its possessions and

all areas subject to its jurisdiction

"US\$", "USD" or "U.S. dollars" United States dollars, the lawful currency of the United States

"U.S. Securities Act" the U.S Securities Act of 1933, as amended and supplemented or

otherwise modified from time to time, and the rules and

regulations promulgated thereunder

"VAT" value-added tax

"W&H Law Firm" W&H Law Firm (Nantong) (北京市煒衡(南通)律師事務所)

"White Form eIPO" the application for Hong Kong Offer Shares to be issued in the

applicant's own name by submitting applications online through the designated website of White Form eIPO at <a href="https://www.eipo.com.hk">www.eipo.com.hk</a>

"White Form eIPO Service

Provider"

Computershare Hong Kong Investor Services Limited

"%" per cent

The English translation of the PRC entities, enterprises, nationals, facilities, regulations in Chinese or another language included in this prospectus is for identification purposes only. To the extent there is any inconsistency between the Chinese names of the PRC entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.

# **GLOSSARY**

This glossary contains terms used in this prospectus in connection with us. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

"ABS" acrylonitrile butadiene styrene, an opaque thermoplastic and amorphous polymer, which can be heated to their melting point, cooled, and re-heated again without significant degradation, allowing them to be easily injection molded "ASTM International" American Society for Testing and Materials International, an organization that specifies technical standards for materials, products, systems and services "CAGR" compound annual growth rate "calendering" the processing of materials between successive pairs of counterrotating rollers to form a film or sheet "co-branded products" products that jointly use our brand and the brand of a co-brand partner "composite material" material made from two or more constituent materials with significantly different physical or chemical properties that, when combined, produce a material with characteristics different from the individual components "ERP" enterprise resource planning "EU REACH" Regulation No 1907/2006 of the European Parliament and of the Council on the Registration, Evaluation, Authorisation and Restriction of Chemicals, a regulation adopted to improve the protection of human health and environment from the risks that can be posed by chemicals, which came into force in 2007 "FOB" an abbreviation for "free on board", which means that the seller delivers goods on board a vessel nominated by the buyer at a named port of shipment. The significant risks and rewards and ownership of the goods passes to the buyer when the goods are on board the vessel, and the buyer bears all costs from that point onwards "GDP" gross domestic product (except as otherwise specified, all references to GDP growth rates are to real, as opposed to nominal, rates of GDP growth) "injection molding" a plastic manufacturing process involving heating and pressurizing, granules of thermoplastics materials such as

products

polystyrene into a mold, to form into different shape and size of

# **GLOSSARY**

"ISO" International Organization for Standardization "LED" light-emitting diode, a two-lead semiconductor light source "LDPE" low-density polyethylene, a thermoplastic polymer that has good inherent lubricity and is easy to process. It is often used in injection molding "nylon" a generic designation for a family of synthetic polymers, more specifically aliphatic or semi-aromatic polyamides, which can be melt-processed into fibers "oxford nylon" a type of nylon, which is coated with urethane and repels water "plasticizer" a substance that, when added to a material, for example, flexible PVC, makes it more flexible, resilient and easier to handle "polyester" a category of polymer, a type of high-performance material produced through the polymerization of polylol and polybasic acid "polymer" a natural or synthetic compound such as PVC, of usually high molecular weight consisting of up to millions of repeated linked units, each a relatively light and simple molecule "polymer-based composite composite materials made from polymers or from polymers along materials" with other kinds of materials "pongee" a soft, unbleached type of fabric, originally made from threads of raw silk and now also other fibers such as cotton which are usually mercerized "PP" polypropylene, a thermoplastic polymer that can be easily copolymerized with other polymer like polyethylene, allowing for more robust engineering applications "private label products" products that only use the brand or label of our customer "public tender", "auction", or public tender, auction or listing at a land exchange administered "listing-for-sale" by the local government, each of which is a competitive bidding process through which a purchaser acquires land use rights directly from the Chinese government "PVC" polyvinyl chloride, a type of thermoplastic polymer "SAP" a German multinational software corporation which is listed in the New York Stock Exchange (ticker symbol: SAP) and Frankfurt Stock Exchange (ticker symbol: SAP) "UV" ultraviolet, a kind of electromagnetic radiation

# FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words "aim", "anticipate", "believe", "can", "continue", "could", "estimate", "expect", "going forward", "intend", "may", "might" "ought to", "plan", "potential", "project", "seek", "should", "will", "would" and the negative of these words and other similar expressions, as they relate to the Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- our financial conditions and performance;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- the effects of the global financial markets and economic crisis;
- our ability to reduce costs;
- our dividend policy;
- our future available facilities, debt levels and capital needs;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- our expectations with respect to our ability to acquire and maintain regulatory licenses or permits;
- the actions and developments of our competitors; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

#### FORWARD-LOOKING STATEMENTS

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to the cautionary statements in this section.

In this prospectus, statements of or references to our intentions or those of the Directors are made as of the date of this prospectus. Any such information may change in light of future developments.

All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

You should carefully consider all the information in this prospectus, including the risks and uncertainties described below and our financial statements and the related notes, prior to investing in our Shares. The risk factors relating to our business, our industry and China may not typically be associated with investing in equity securities of similar companies from other jurisdictions. Our business, financial condition, results of operations and cash flows could be materially and adversely affected by any of these risks. The trading price of our Shares could decrease due to any of these risks and you may lose all or part of your investment.

In addition, we are also subject to other risks and uncertainties that are not currently known to us or which we currently deem to be immaterial. Such risks and uncertainties could also have a material adverse effect on our business, results of operations, financial condition and cash flows.

We believe that there are certain risks involved in our operations, some of which are beyond our control. These risks can be broadly categorized into: (i) risks relating to our business and industry; (ii) risks relating to doing business in China; and (iii) risks relating to the Global Offering.

#### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our business depends significantly on the strength and market perception of our brands and our reputation. If we fail to maintain and enhance our reputation and brand image, end-consumers' recognition of and trust in us and our brands and products may be materially and adversely affected.

In marketing and selling our products, we rely on the strength of our reputation and the image of our BESTWAY brand and our sub-brands. Our reputation and brand image could be harmed by product defects, ineffective customer service, product liability issues, product recalls, consumer complaints, negative publicity, unfavorable media reports or ineffective marketing activities.

Claims against us—even if meritless or unsuccessful—could have a significant negative impact on our corporate image or reputation and divert our management's attention and resources from other business concerns, which could adversely affect our business and results of operations. Negative media coverage regarding the quality and safety standards of our products and any resulting negative publicity could materially and adversely affect end-consumers' recognition of and trust in us and our brands and products. For example, in 2015, there were reports in the Chinese media of unsatisfactory results of inspections conducted on certain of our products by the Shanghai Municipal Bureau of Quality and Technical Supervision and the Jiangsu Provincial Bureau of Quality and Technical Supervision. Although we promptly took rectification measures and no fine, administrative penalty or product recall obligations were imposed on us in connection with these inspections, negative publicity incidents such as these could have an adverse impact on our business. For details of these incidents, please see "-We are subject to liabilities in connection with our products." In addition, adverse publicity arising from product recalls or other regulatory or legal action against us could damage our reputation and brand image, undermine our customers' confidence in us and reduce long-term demand for our products, even if the regulatory or legal action is unfounded or immaterial to our operations. For details of the product recalls we had experienced during the Track Record Period, please see "Business—Product Returns, Warranties and Aftersales Services—Product Returns and Recalls."

In addition, we conduct marketing activities across various media and regions to enhance our brand's power and to guide public perception of our brands and products. To create and maintain brand awareness and loyalty, to influence public perception and to retain existing and attract new customers, we may have to increase our promotional and advertising expenses. However, these activities may not be successful and we may not achieve the promotional effects we intend.

In our industry, there is a strong correlation between brand strength, product pricing and customer demand. Any negative publicity associated with our products, brands, operations, materials used in manufacturing our products, co-brand partners' brand or product similar to ours could negatively affect our ability to maintain or increase our product prices as well as the overall demand for our products. As a result, our business, results of operations and financial condition would be materially and adversely affected. Please see "Business—Our Brands" for further details regarding our brands.

### We are subject to risks associated with managing future growth and expansion.

We achieved significant revenue and profit growth during the Track Record Period, and we plan to continue to expand our business. There can be no assurance that our personnel, systems, procedures and internal controls will be adequate to implement our business plans or support our future growth. For more details on the growth of our revenue and profit, please see "Financial Information—Description of Selected Items of the Consolidated Statements of Profit or Loss." We expect our future growth to depend on expanding our manufacturing capacities, ramping up the production of our new manufacturing facilities, introducing new products, expanding our sales and marketing network, and entering new markets and new sales channels. Our ability to achieve growth will be subject to a range of factors, including:

- competing with other companies in new and existing markets;
- enhancing and upgrading our research and development, manufacturing and storage capabilities;
- exercising effective quality control and maintaining high safety standards;
- expanding our sales and marketing network;
- maintaining and strengthening our supplier, customer and other third party relationships;
- introducing new and improved products;
- retaining, hiring and training qualified personnel;
- controlling our costs of operations; and
- prioritizing our operational, financial and management controls and systems in an efficient and effective manner.

Our expansion plans include the construction of a new manufacturing facility in Nantong and an indoor quality assurance testing area in Shanghai, the expansion of our central laboratory, improvement works on our sampling workshops, upgrade of the quality assurance test center, and construction of dormitories, materials handling center and warehouses. We expect to complete these plans by September

2019 and put these facilities into full operation by 2020. Please see "Business—Research and Development—Expansion Plans," "Business—Production—Expansion Plans," and "Business—Logistics and Transportation—Expansion Plans" for further details regarding the expected completion time of our expansion projects. However, we cannot assure you that we will complete our new facilities on time, or at all. If we are unable to obtain the relevant government approvals, or if we encounter unforeseen difficulties, these expansion plans may be significantly delayed and we may not be able to complete our expansion projects on time, or at all. Furthermore, we may be subject to significant increases in depreciation expenses arising from our expansion plans once the new facilities are completed and machinery and equipment are ready for use. As a result, our business and financial condition could be materially and adversely affected.

In addition, if we fail to effectively and efficiently manage our expansion or implement our future plans, we may not be successful in achieving profitable results. There may be other unexpected events or factors or uncertainties that prevent us from achieving the desirable results, such as regulatory changes, delays in obtaining the necessary licenses and government approvals. Our business, financial condition, results of operations and growth prospects may be materially and adversely affected if our future plans fail to achieve positive results.

Our efforts in developing, launching and promoting new products may not be successful. If we are unable to respond effectively to market trends and customer preferences, our business, result of operations and financial condition may be adversely affected.

The global outdoor leisure products industry is highly competitive. Consumer choice and preferences differ across all regions and shift over time in response to geographical, demographic and social trends, economic circumstances and marketing efforts of our competitors. In light of the highly competitive and volatile environment, our future growth depends significantly on our ability to anticipate, gauge and adapt to constantly changing market trends and successfully introduce new or improved products in a timely manner. Introducing innovative and proprietary products that fit customer demands requires us to devote significant efforts and resources. Our research and development team is continuously required to analyze the market trends and design, develop and manufacture new product categories and new products with distinctive feature, size function or manufacturing technology. Our ability to continue to offer new and improved products depends on a number of factors, including our ability to incorporate technological advancements, design and production innovations.

Developing and introducing new product categories and new products can be risky and expensive, and we cannot assure you that our new product categories or new products will gain market acceptance, meet the particular tastes or preferences of consumers or generate acceptable margins. We introduce New Products each year to update or replace approximately 20% to 25% of the products in our product portfolio, which allows us to constantly refresh our product line-ups to cater to latest market trends. We have expanded into new consumer segments by introducing new products to meet unmet demand. For example, we introduced inflatable stand-up paddle boards in April 2013 to capture the demand of a consumer population that had previously been limited to using fiber-glass stand-up paddle boards. For details of our introduction of new products, please see "Business—Our Products." If the products we introduce fail to attract our target end-consumers, or are not commercially viable or successful, our business, results of operations, competitive position and financial condition would be materially and adversely affected. In the long run, these types of failures could also lead to a loss or diminution in the value of our brands.

We may spend substantial resources and funds developing and marketing new products which may not achieve expected sales performance or profitability. In addition, we may fail to reduce production of products that are experiencing declining consumption in a timely and cost-effective manner. To the extent we are unable to execute our strategy of continuously introducing new products, improving our product portfolio and satisfying consumers' changing preferences, our competitive position and financial results may be adversely affected.

# Our growth strategies depend substantially on our ability to successfully expand into new markets and sales channels, and to reinforce our market positions in existing markets.

We plan to develop the underpenetrated China and other Asian markets, and reinforce our market positions in existing markets, particularly the European and North American markets. Please see "Business—Our Growth Strategies" for more details on our growth strategies. There can be no assurance that our efforts to expand into new markets and sales channels and ability to reinforce our existing market positions will continue to be successful.

Our sales in North America increased by 60.8% from US\$77.3 million in 2014 to US\$124.2 million in 2015, by 29.7% to US\$161.2 million in 2016 compared to 2015, and by 17.7% from US\$120.2 million in the six months ended June 30, 2016 to US\$141.5 million in the same period of 2017. Our sales in North America contributed 16.5%, 24.2%, 27.6% and 33.6% of our revenue in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively. There can be no assurances that we will be able to continue to grow our business or compete successfully in the U.S. market. If we fail to maintain our competitiveness in the North American market, our business, results of operations, competitive position and financial condition would be materially and adversely affected.

We conduct our business on a global basis. Expansion into geographic markets and new sales channels in which we have limited operating experience and brand recognition, including the China and other Asian outdoor leisure products markets and online sales channels, may present operating and marketing challenges that are different from those we currently face. These markets and sales channels may have different competitive dynamics, tax and regulatory requirements, consumer preferences and discretionary spending patterns. End-consumers in these markets and sales channels are likely to be unfamiliar with our brands and products, and we may need to build or increase brand awareness in the relevant markets and sales channels by increasing our investments in advertising and promotional activities. For these or other reasons we may not be successful in expanding into new markets and sales channels, which in turn could affect the viabilities of these new operations, our growth prospects and our overall profitability.

# Our business is sensitive to economic, political and social conditions in the markets in which we operate.

Given the international nature of our business, our growth and business depend substantially on national and global economic, market and political conditions, including GDP growth, inflation, consumer spending rates and government initiatives to manage the economy. According to the Frost & Sullivan Report, the global outdoor leisure market experienced stable growth from 2011 to 2016. We cannot assure investors that our industry will continue to experience stable growth. Any downturn in economic conditions or in the political environment could affect our industry and reduce demand for our products, which may have a material adverse impact on our business, financial condition and results of operations.

We generated approximately 72.0%, 74.7%, 80.7% and 85.2% of our total revenue from sales in North America and Europe in the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively. We expect that our sales to customers in North America and Europe will continue to be our major source of revenue in the foreseeable future.

Significant developments stemming from the recent United States presidential election and the Referendum of the United Kingdom's Membership of the European Union in 2016 advising for the exit of the United Kingdom from the European Union ("Brexit") could have a material effect on our business globally. Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. In particular, the products we sell in the United Kingdom might be subject to new safety standards. The Brexit announcement and the United States presidential election may also increase global economic uncertainty, which may cause our customers to closely monitor their costs and reduce their spending budget on our products. Mr. Donald J. Trump's inauguration as the president of the United States on January 20, 2017, as well as the Republican Party maintaining control of both the U.S. House of Representatives and Senate in the congressional elections, may create regulatory uncertainty in international trade. President Trump has terminated the U.S.'s participation in negotiations to establish the Trans-Pacific Partnership, which had been designed to increase trade among participating nations. These events could cause disruptions to and create uncertainty surrounding our business, including affecting our sales and our relationships with our existing and future customers, suppliers and employees, which could have an adverse effect on our business, results and operations and financial condition.

Deterioration of national or global economic and financial market conditions or a decline in consumer confidence could dampen the demand for our products, which could have a material adverse effect on our business, results of operations and financial condition. Our products are recreational in nature and are therefore discretionary purchases for consumers. Consumers are generally more willing to make discretionary purchases during favorable economic conditions and when they feel confident and prosperous. During periods of unfavorable economic conditions, or periods when other negative market factors exist, consumer discretionary spending is typically reduced, which in turn could reduce our product sales and have a negative effect on our business, results of operations or financial condition. For example, our sales in Russia dropped by 27.2% from US\$41.1 million in 2014 to US\$30.0 million in 2015 as a result of the Russian economy's slowdown.

Financial turmoil affecting the financial markets, banking systems or currency exchange rates may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all, which could also materially and adversely affect our business, results of operations and prospects. There could also be a number of secondary effects resulting from an economic downturn, such as insolvency of our suppliers resulting in product delays, an inability of our customers to obtain credit to finance purchases of our products, customers delaying payment to us for the purchase of our products due to financial hardship or an increase our in bad debt expenses. Any of these effects could negatively affect our business, results of operations or financial condition.

Our success depends on our ability to accurately respond to changes in end-consumers' preferences in a timely manner.

The demand for our products is ultimately dependent on the demand from end-consumers. We believe that our success is, to a significant extent, attributable to our ability to understand the respective markets of our customers and introduce products that are responsive to changes in our end-consumers' preferences. Our customers may be unable or unwilling to provide us with information in relation to their inventory levels or sales in a timely manner. As a result, we cannot guarantee that we can continue to timely gather sufficient information and data regarding the market acceptance of our products and end-consumers' preferences for our products.

Failure to promptly respond to changes in consumer preferences may cause us to incorrectly predict sales trends and impede our ability to quickly align our marketing and research and development strategies to market changes. We analyze end-consumers' preferences based on historical sales data, our understanding of the market and our customers, market research and consumer-feedback. To maintain and expand our market share in the outdoor leisure products market, we must stay abreast of constantly changing consumer preferences and anticipate product trends that will appeal to existing and potential consumers. Any failure by us to accurately identify and respond to market trends in a timely manner could result in a decline in demand for our products. This, in turn, may lead to adverse effects on our business, financial condition and results of operations.

#### Our success is dependent on our ability to maintain product development advantages.

Our success depends on our ability to design, develop and maintain a comprehensive and competitive product portfolio to meet end-consumers' changing demands. Product development in our industry is characterized by rapid changes in materials engineering and manufacturing technologies. We have focused our research and development efforts on maintaining our technology leadership position by working to improve the quality and features of our product offerings and investing in manufacturing technologies. Further, we must anticipate and respond to technological changes in the manufacturing processes in a cost-effective and timely manner. If we are unable to maintain our technological leadership, improve our products, enhance our manufacturing processes or properly respond to the rapidly changing technology and manufacturing process, our business, results of operations and financial condition may be adversely and materially affected. For details of our research and development, please see "Business—Research and Development."

#### Our business depends on our ability to protect our intellectual property rights.

We rely primarily on a combination of patents, trademarks and other intellectual property rights as well as employee and third-party confidentiality agreements to protect our intellectual property. As of the Latest Practicable Date, we had 229 registered trademarks, 69 pending trademark applications, 84 registered patents, 107 pending patent applications and 12 major internet domain names. These types of intellectual property protections may be compromised by, (i) the expiration of the protection period of our registered intellectual property, (ii) infringement by others of our intellectual property rights including, for example, counterfeiting our brands, designs or products, or (iii) delay, or refusal, by relevant governmental authorities to approve pending intellectual property registration applications.

There is no guarantee that our pending applications for registration of various intellectual property rights will eventually be granted by the respective authorities. In addition, we may not be able to adequately protect our intellectual property rights in the global market where our products are sold, especially in countries where laws are less protective of intellectual property rights. It may be possible for third parties to copy or otherwise obtain and use our intellectual property without authorization. In addition, there are countries where protection of patents, trademarks and other intellectual property rights may not be effective or may be limited. There can be no assurance that any steps taken by us will successfully prevent misappropriation or infringement of our intellectual property rights. Any of these events or occurrences could have a material adverse effect on our brand image, business, results of operations or financial condition.

We sell co-branded products and pay royalties to our co-brand partners in return for the use of their trademarks, copyrights, logos and depictions of selected characters of our co-brand partners. We own the intellectuals property rights that we have registered in respect of the products we design and manufacture, including our co-branded products. Our co-branded products business depends upon our ability to manufacture and sell co-branded products under our BESTWAY brand together with the co-brand partners' brands. These arrangements require that we retain and renew our existing brand license agreements with our co-brand partners. We cannot assure you that we will be able to retain or renew our existing licenses or obtain new licenses from co-brand partners on satisfactory terms, or at all. If we fail to retain existing or secure new license agreements, our business, results of operations and financial conditions may be materially and adversely affected. For details of the co-branded products, please see "Business—Co-branded Products Business."

# We may not be able to sustain growth rate or profitability similar to those we achieved during the Track Record Period, or maintain our financial performance.

We experienced solid revenue growth during the Track Record Period. Our revenue increased by 9.7% from US\$467.9 million in 2014 to US\$513.5 million in 2015, by 13.8% to US\$584.5 million in 2016 compared to 2015, and by 19.3% from US\$353.4 million in the six months ended June 30, 2016 to US\$421.6 million in the same period of 2017. In addition, our profit for the year increased significantly from US\$8.4 million in 2014 to US\$15.2 million in 2015 further to US\$43.0 million in 2016. Our profit for the period increased by 14.3% from US\$30.3 million in the six months ended June 30, 2016 to US\$34.6 million in the same period of 2017. Our gross profit margin was 20.7%, 21.8% and 28.1% in 2014, 2015 and 2016, respectively, but decreased to 27.9% in the six months ended June 30, 2017 compared to 28.2% in the same period of 2016, as we strategically promoted certain recreation products and camping products in order to strengthen our market presence in certain regions. Our growth may slow down or decline due to factors, risks and uncertainties described in this prospectus or otherwise, including inability by us to attract and retain customers, decreased consumer spending, increased competition, slower growth in the outdoor leisure market, changes in government policies or general economic conditions. There can be no assurance that we will sustain our financial growth rate or profitability at historical levels or that we will be able to manage our future growth successfully.

You should not rely on the operating results of our Group or the Company for any prior periods as an indication of our future operating performance. We are currently expanding but we cannot assure you that we will be able to sustain our growth or levels of profitability. If our growth rate or profitability declines, investors' perception of our business and business prospects may also be adversely affected. Should any of the risks in relation to our growth strategy materialize, we may not be able to take

advantage of market opportunities, execute our business plans or appropriately respond to competitive pressures, and our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

### We operate in a highly competitive industry, and may face increased competition.

We face increasing competition in the global outdoor leisure products and water leisure products markets, and our competitors and potential competitors may have better financial, marketing, management and other resources than we do. According to the Frost & Sullivan Report, we are the third largest player in the global water leisure products market, with a market share of 2.3% in terms of retail sales in 2016. We cannot assure you that our strategies will remain competitive or that we will continue to be successful. Increased competition could result in pricing pressure and loss of our market share, either of which could have a material adverse effect on our financial condition and results of operations. Please see "Industry Overview" for further details.

We also cannot assure you that our current or potential competitors will not market products comparable or superior to those we offer or adapt more quickly to evolving industry trends and market requirements. Our competitors in certain regional markets may also benefit from raw material sources or production facilities that are closer to these markets. It is also possible that there will be consolidation in the water recreation products market and inflatable outdoor leisure products market, integration of upstream and downstream businesses or alliances among competitors; and as a result, our competitors may rapidly acquire significant market share. Any of these events may cause our market share, business and results of operations to be adversely affected.

We expect to face strong competition from both existing and new competitors as we expand our business into new consumer segments, geographic markets and product categories. An increase in competition and our business expansion could require us to continue to increase our promotion and advertising expenses and research and development costs, which may place pressure on our margins and affect our profitability. Additionally, competition may result in price reductions, reduced margins and loss of market shares for us, any of which could have an adverse impact on our results of operations. We also cannot assure you that our competitors will not actively engage in activities designed to undermine our brands and product quality or to influence consumer confidence in our products. If we fail to compete effectively, we may be unable to retain or expand our market share, which would have a material adverse effect on our business, results of operations and financial condition.

# Fluctuations in exchange rates may lead to volatility in our results of operations due to our substantial global operations.

Our reporting currency is U.S. dollar. During the Track Record Period, our sales transactions were substantially conducted in U.S. dollars while the majority of our purchases and operating costs were settled in Renminbi. We are subject to foreign exchange transaction risk arising from sales and purchase and recurring operating expenses incurred in our operations in China, which are mainly denominated in Renminbi. Accordingly, the costs we incurred in Renminbi would be higher and the profits we report in U.S. dollars would be lower if the U.S. dollar depreciates against the Renminbi. Fluctuations in foreign exchange rates may also affect our customers' purchasing power and their willingness to purchase our products. As such, our business, financial condition and results of operations could be negatively affected by fluctuations in exchange rates.

We review and adjust our selling prices periodically (usually annually) based on a number of factors including our cost of sales. Exchange rate fluctuations can affect the prices at which we sell our products in international markets. Significant unanticipated changes in foreign currency exchange rates may give rise to transactional risk. We did not adjust pricing solely due to foreign currency fluctuations during the Track Record Period. There can be no assurance that we would not undertake such adjustments in the future, and our failure to act in a timely manner to address the effects of foreign currency fluctuations could have an adverse effect on our business, results of operations and financial condition.

Since we prepare our consolidated financial statements in U.S. dollars, foreign currencydenominated (including Renminbi) revenue, costs and expenses are translated into U.S. dollars based on the average applicable foreign currency exchange rates during the relevant period. Fluctuations in foreign currency exchange rates may positively or negatively affect our reported financial results and affect year-on-year comparisons. We recorded net foreign exchange gains of US\$1.1 million, US\$8.2 million and US\$5.0 million in the year ended December 31, 2014, 2015 and 2016, respectively, and recorded net foreign exchange losses of US\$2.7 million in the six months ended June 30, 2017. We had foreign exchange losses of US\$0.1 million, US\$2.6 million and US\$1.1 million on U.S. dollardenominated bank borrowings we borrowed in 2014, 2015 and 2016, respectively, as a result of the depreciating trend of the Renminbi in the same respective periods. We had foreign exchange gains of US\$0.2 million for the six months ended June 30, 2017, on U.S. denominated bank borrowings borrowed by our subsidiaries in China (which use Renminbi as their functional currency) as a result of the appreciation of the Renminbi against the U.S. dollar in the first half of 2017. There can be no guarantee that we will continue to record foreign exchange gains on financing activities. There can be no guarantee that we will not incur further foreign exchange losses on U.S. dollar-denominated bank borrowings that we borrow in China going forward.

We translate our assets and liabilities that are not denominated in our functional currency of U.S. dollars into U.S. dollars at the exchange rate prevailing at the end of the reporting period, and we recognize the resulting currency translation differences in our other comprehensive income. We recorded other comprehensive loss of US\$1.2 million, US\$13.1 million and US\$15.4 million for the years ended December 31, 2014, 2015 and 2016, respectively, and recorded other comprehensive income of US\$6.3 million for the six months ended June 30, 2017. In addition, if we dispose of an operation with assets and liabilities denominated in a functional currency other than U.S. dollars, we will recognize the cumulative amount of the exchange differences in our other comprehensive income in profit or loss for the relevant reporting period when the gain or loss on disposal is recognized. For further information, please see "Financial Information—Financial Risks Disclosure—Market Risk—Foreign Exchange Risk" and "Appendix I—II Notes to the Historical Financial Information—2.4 Foreign currency translation". We could recognize significant losses as a result of these types of foreign currency translation differences, both as a result of end-of-period translations or translations made at the time of a disposal.

#### We are exposed to forward foreign exchange contracts risk.

To manage our foreign exchange risk, we entered into forward foreign exchange contracts and foreign exchange-related options with various banks. The forward foreign exchange contracts and foreign exchange-related options that we have used are related to the exchange rate between the pair of

the U.S. dollar and the Renminbi. For details of the forward foreign exchange contracts and foreign exchange-related options, please see "Financial Information—Description of Selected Items of the Consolidated Statements of Financial Position—Derivative financial instruments."

We realized losses on forward foreign exchange contracts and foreign exchange-related options of US\$1.7 million and US\$1.1 million in the years ended December 31, 2014 and 2015, respectively and gains on forward foreign exchange contracts and foreign exchange-related options of US\$1.7 million and US\$1.4 million for the year ended December 31, 2016 and the six months ended June 30, 2017, respectively. We ceased entering into foreign exchange-related options in 2016, but continued to have forward foreign exchange contracts. Due to the significance of the operating expenses of our operations in China, changes in foreign exchange rates, particularly the U.S. dollar against the Renminbi, may have a significant impact on our profit for the year. In view of that risk exposure, we may enter into any suitable forward foreign exchange contracts according to our expectations on the trend of the value of U.S. dollar against Renminbi. There is no assurance that changes in fair values on our existing forward foreign exchange contracts and the new contracts that we enter into can effectively mitigate the fluctuation of U.S. dollar against Renminbi. Any losses arising from our forward foreign exchange contracts could adversely affect our results of operations and financial positions. For details of our forward foreign exchange contracts and foreign exchange-related options, please see "Financial Information—Description of Selected Items of the Consolidated Statements of Financial Position— Derivative financial instruments."

## Our success and business operations are largely dependent on our ability to retain key executives and our senior management team.

Our senior executives and management team, in particular Mr. Zhu Qiang, are responsible for the overall planning of our development, direction of our business and operations and implementation of our business strategy and future plans. The continued successful management of our business is, to a considerable extent, dependent on the continued service of our executives and senior management. If one or more of our senior executives or management or other key employees are unable or unwilling to continue with their present positions, we may not be able to replace them promptly or at all with suitable or qualified candidates, and may have to incur additional expenses to recruit and train new personnel, which may severely disrupt our business, affect our results of operations and future prospects and inhibit our ability to grow. In addition, if we lose our key management personnel and other personnel of our management team to our competitors, our competitiveness, results of operations and our ability to grow may be adversely affected.

Please see "Directors and Senior Management" for further details of regarding our management and other personnel.

## Our success is largely dependent on our ability to maintain effective quality control systems at our facilities.

We conduct sales with sophisticated and well-established retailers located in developed countries including the United States, the United Kingdom as well as many countries in the Europe Union, which have high expectations regarding quality standards. The performance and quality of our products are critical to the success of our business, and depend significantly on the effectiveness of our quality control systems. Our quality control is particularly important to us given the nature of our products. Most of our products, which are inflatable products and above-ground pools, are functionally unusable if

there is any defect, weak welding or materials not up to standards. While we take substantial measures to maintain high quality standards, we cannot ensure that we can continue to maintain a sound quality control system to ensure product quality. Any significant failure or deterioration of our quality control systems could have a material adverse effect on our business, results of operations, financial condition and reputation.

# We depend on a continuous and stable supply of raw materials, which are subject to price volatility and other risks.

Our operations depend in part on our ability to obtain sufficient quantities of the necessary raw materials inside and outside China, in suitable quality, at commercially acceptable prices and in a timely manner. Our costs of raw materials accounted for 79.2%, 78.6%, 76.9% and 76.6% of our total cost of sales in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively. The primary raw materials for our manufacturing processes include PVC resins and plasticizers. Our raw materials are subject to price volatility caused by a variety of factors that are beyond our control, including commodity price fluctuations of PVC resins, international oil prices, market demand and supply, disruptions to suppliers' business, our bargaining power with the suppliers, logistics and processing costs, government control and regulations, weather conditions and overall economic conditions. The prices of PVC resins and plasticizers generally fluctuate according to market conditions, please see "Industry Overview—Raw Materials" for more details. We have not entered into any hedging arrangement to mitigate raw material price risk. Please see "Business—Procurement" for further details of our suppliers and raw materials.

Generally, unfavorable fluctuations in price, quality or availability of the raw materials we need could have a negative effect on our ability to deliver our products to our customers on time as well as on our gross margin and overall profitability. If we experience an increase in the cost of sales due to fluctuations in the price of raw materials and we cannot pass the costs on to our customers, our sales, profit margins, financial condition and results of operations could be materially and adversely affected. Cost increases may also increase working capital needs, which could reduce our liquidity and cash flow. In addition, if raw material costs increase rapidly and are passed along to customers as product price increases, the credit risks associated with certain customers can be compounded and demand for our products may decrease. If any of our major suppliers decides not to supply raw materials to us, and we were unable to find alternative supplies of the raw materials of the similar quantity and/or quality at comparable prices, this may adversely impact on our results of operations and prospects.

#### Our international footprint exposes us to a variety of operational risks.

While our physical presence is largely concentrated in China, our products are sold to more than 110 countries across six continents worldwide. We also have nine overseas subsidiaries located across the world. We derived approximately 98.0% of our revenue from sales to customers located outside China during the Track Record Period. In particular, as a manufacturer of export products, we are subject to stringent quality and safety standards in the jurisdictions where our products are sold. Our international operations are subject to certain inherent operational risks, including but not limited to:

- exposure to local economic, political and labor conditions;
- changes in laws, regulations, trade, monetary or fiscal policy;

- tax or trade regulations, tariffs, quotas, customs and other import or export restrictions and other trade barriers, trade sanctions or anti-dumping measures;
- fluctuations in freight costs and disruptions at important geographic points of exit and entry;
   and
- compliance with the requirements of applicable sanctions, anti-bribery and related laws and regulations.

Due to the international nature of our business, we may be required to arrange appropriate staffing to monitor our on-going compliance matters. Our sales may further be adversely affected by natural disaster, acts of war, political instabilities, domestic or international terrorist attacks and hostilities or other complications. These uncertainties could have a material adverse effect on our business, results of operations and financial condition.

## Any changes to international trade regulations may affect prices of and demand for our products.

We sell our products to customers in over 110 countries across six continents. As of the Latest Practicable Date, our products are subject to tariffs imposed by the countries into which our products were imported, but are not subject to quotas and/or anti-dumping duties. For details of the material trade laws and regulations applicable to our sales, please see "Regulatory Overview—Overseas Laws and Regulations relating to Tariffs." The countries into which our products are imported may from time to time impose or increase quotas, duties or tariffs. Any changes to international trade regulations, quotas, tariffs, duties and anti-dumping duties may in turn affect the prices of and demand for our products. During the Track Record Period, the tariffs applicable to our products were generally stable. We cannot assure you that future international trade regulations, quotas, tariffs and duties will not increase the costs incurred by our customers in importing our products or provide our competitors with an advantage over us. As such, any of the changes discussed above may have a material adverse effect on our business, results of operations and financial condition.

# Changes in our relationship with our major customers, or in the trade terms with our customers, may reduce our sales and profits.

For the three years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, sales to our five largest customers accounted for 12.9%, 15.9%, 14.4% and 20.5% of our total revenue, respectively. Our major target markets are North America and Europe, and we have established business relationships with the major international retail groups in these markets. Our success is highly dependent on these retail groups' efforts in selling our products to end-consumers. Our business could suffer significant setbacks in sales if our customers' business plans or markets change significantly or if we lose one or more of our major customers.

Our customers may seek to use their market positions to improve their profitability through improved inventory efficiency, lower pricing, increased promotional programs and increased emphasis on private label products. If we are unable to respond quickly and effectively to these market trends, our profitability and sales volume growth could be negatively affected. To the extent we provide concessions or trade terms that are more favorable to our large customers, our margins may be reduced. The loss of a

significant customer or a material reduction in sales to, or adverse change to trade terms with, a significant customer could materially and adversely affect our product sales, financial condition, results of operations and prospects.

During the Track Record Period, by the start of each year, we were typically able to procure purchase orders for our products that accounted for approximately 40% to 50% of the revenue for the relevant year. As our sales are made on purchase orders from our customers and we do not have long-term sales agreements or other contractual assurances as to future sales, our customers may defer, change or cancel their orders. The amount of the purchase orders we procure from our customers may not be indicative of our revenue or results of operations for the relevant period. In addition, any significant deferrals, changes or cancellations of purchase orders might lead to piling up of excessive inventory or costs as we usually plan our production in advance, which in part is based on the early buying orders we receive from our customers. As a result, our business and results of operations could be materially and adversely affected.

If a significant number of our customers cease to purchase from us or reduce their purchase volume of orders placed, and to the extent that we are unable to maintain our existing level of business with other existing customers and/or identify new customers, our business and results of operations may be adversely affected.

# We may be affected by our customers' operations and marketing activities relating to our products.

We sell our products to our customers, which mainly include retailers and importers. We generally do not impose restrictions on our customers regarding the pricing, inventory control and marketing activities in relation to our products. As a result, we cannot assure that our products are sold in environments or in a manner consistent with our brand image, marketing strategies and preferred positioning. In addition, products sold under private labels might associate our products and brands with other brands, and any negative publicity related to these third-party brands could adversely affect our brand image and the sales of our products. There are various factors beyond our control that may create negative impacts to our brand image, reputation or retail sales volume. For example, any product defect resulting from any mishandling of our products and unacceptable discounts offered by our customers could damage our brand image and market position. As a result, our reputation, business and results of operations may be adversely affected.

# We may not be able to successfully maintain or manage our relationships with third-party regional relationship managers

The growth of our business depends on the effectiveness of our sales and marketing platform, which includes our sales managers and third-party regional relationship managers. Third-party regional relationship managers, together with our sales managers, are responsible for identifying business opportunities in their respective regions, as well as general sales and marketing activities. Unlike our sales managers, the third-party regional relationship managers we engage are not directly controlled by us, and our interests may not be directly aligned with theirs. We cannot directly control the amount of resources and time they devote to activities on our behalf. For example, the third-party regional relationship managers may be distracted by other business activities and engagements, and devote less efforts to our business. Furthermore, if any of our regional relationship managers fail to comply with the terms of our agreement or become unable or unwilling to perform their duties, or if we decide not to

retain them to continue providing their services to us, we may not be able to find adequate replacements for them or develop sufficient capabilities internally in a timely manner. Any serious interruption in our relationships with third-party regional relationship managers or substantial loss in the effectiveness in performing their functions could adversely affect our customer relationships, results of operations and financial condition. In addition, if we are required to offer contractual terms that are more favorable to our third-party regional relationship managers, our results of operations may be adversely affected if they cannot generate adequate added-value to cover for the additional expenses. For details of our third-party regional relationship managers, please see "Business—Our Sales Network and Marketing."

We could be adversely affected as a result of our operations in certain countries that are subject to evolving economic sanctions of the United States, E.U., Australia and U.N. and other relevant sanctions authorities.

The United States and, to a lesser extent, other jurisdictions, including the E.U. and Australia, maintain broad economic sanctions targeting certain countries or territories, the Sanctioned Countries, which include Cuba, Crimea, Sudan, Iran, Syria and North Korea. In addition, the United States and other jurisdictions have implemented Targeted Sanctions Programs that target parties or economic sectors regardless of where they are located. For details on the relevant sanctions laws, please see "Regulatory Overview—Sanctions Laws."

During the Track Record Period, we sold our products to customers in Iran and Cuba, which are Sanctioned Countries. Sales to customers in Iran were US\$31,247.3, nil, US\$42,979.0 and US\$49,070.0 for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively, accounting for approximately 0.01%, nil, and 0.01% and 0.01% of our total revenue for the respective period. Sales to customers in Cuba were US\$350,182.0, US\$272,750.1, US\$483,962.2 and US\$73,254.1 for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively, accounting for approximately 0.07%, 0.05%, 0.08% and 0.02% of our revenue for the respective period. For details of our sales to customers in Iran and Cuba, please see "Business—Sales and Operations in Countries Subject to Sanctions." We have discontinued making sales to Sanctioned Countries, and we have no present intention to undertake any future business or make any future sales to persons in Sanctioned Countries or take actions that would otherwise cause us or a Relevant Person to violate or become a target of the sanctions laws of the United States, the E.U., or Australia.

During the Track Record Period and currently, the United States, Australia and E.U. have maintained sanctions programs targeting Iran, which apply both to actions by persons of any nationality taken within U.S., Australia or E.U. jurisdiction and, in the case of so-called "secondary" sanctions, certain actions taken outside of U.S. jurisdiction. Both direct and secondary sanctions against Iran were narrowed in 2015 following the Iranian nuclear agreement, although substantially all transactions involving Iran remain prohibited if the transactions have any U.S. nexus. Although we believe our current business operations do not involve industries or sectors that are targeted by secondary sanctions against Iran and that they are conducted without any prohibited nexus between the U.S., Australia or E.U. and transactions involving Iran, there is a possibility that the U.S. government, Australia, E.U. or other jurisdictions may introduce more severe sanctions in relation to Iran (or other countries), which may cover industries or sectors in which we are involved, or that our controls may prove ineffective and we may involve a U.S. jurisdictional element (such as a U.S. dollar payment clearing through the United States or goods or services sourced in the United States for use in Iran). In either case, our business and Shareholders' interests could be affected. Concerns about potential legal or reputational risk associated

with our historical sales to the Sanctioned Countries could also reduce the marketability of the Offer Shares to particular investors, which could affect the price of our Offer Shares and Shareholders' interests in us.

During the Track Record Period, we sold our products to customers in countries in which significant economic actors are subject to sanctions, including Russia, where one of our subsidiaries is located, which markets our products and provides aftersales services to customers in Russia. For details of our sales to customers in Russia, please see "Business—Sales and Operations in Countries Subject to Sanctions." To our knowledge, our customers are not subject to Targeted Sanctions Programs. However, we cannot assure you that if the scope of the sanctions were expanded or if our safeguards to prevent sales to any sanctioned person were to fail, our business, financial condition and results of operations would not be materially and adversely affected.

We cannot provide assurances that our future business will be free of sanctions risk. We have adopted and will maintain policies and procedures designed to conform our business to the expectations and requirements of the United States, E.U., Australia, and other countries we deem material to our business. Our business and reputation could be adversely affected if the government of the United States, E.U., Australia, or any other country material to our business were to determine that any of our activities constitute a violation of the sanctions they impose or provide a basis for designating us as a sanctioned entity. In addition, because sanctions programs are revised from time to time, new requirements or restrictions could come into effect and that could increase the level of scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions or designated as a sanctioned entity. For details of our internal control procedures, please see "Business—Sales and Operations in Countries Subject to Sanctions—Internal Control Measures."

We have undertaken to the Stock Exchange that (i) we will not use the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, whether directly or indirectly, to finance or facilitate any projects or businesses in the Sanctioned Countries or provide them to any person named on a list of sanctioned persons maintained by the U.S., E.U. or Australia, and (ii) we will make disclosure on the Stock Exchange's website and our own website if we believe that any of our activities have created a material sanctions risk to our Shareholders or ourselves. We will also include such disclosure in our annual and interim reports and will include a discussion of any planned business in any Sanctioned Countries. If we breach any of these undertakings to the Stock Exchange after Listing, it is possible that the Stock Exchange may delist our Shares.

In addition, certain U.S. state and local governments and institutional investors have restrictions on the investment of funds in companies that are members of corporate groups with specified activities in certain Sanctioned Countries. Despite our commitment not to use the proceeds from the Global Offering to facilitate dealings with any Sanctioned Countries or any parties targeted by sanctions, concern about potential legal or reputational risk associated with our historical and ongoing operations in countries subject to sanctions could also reduce the marketability of the Offer Shares to particular investors, which could affect the price of our Offer Shares and Shareholders' interests in us, Any of these events could have an adverse effect on the value of your investment in us.

We may require additional funding to finance our operations, which may not be available on terms acceptable to us or at all. In addition, our level and terms of our indebtedness could adversely affect our business and liquidity position.

We utilize short-term borrowings as an additional source of funds to provide liquidity for daily operations and working capital. As of the Indebtedness Date, we had outstanding bank borrowings of US\$161.3 million. To finance our ongoing operations, existing and future capital expenditure needs, renewal of current bank borrowings and other funding needs, we may need to obtain financing from external sources to supplement our internal sources of liquidity. Our ability to obtain external financing is subject to a variety of uncertainties, including, among other things:

- our future financial condition, results of operations and cash flows;
- general market conditions for capital raising and debt financing activities; and
- economic, political and other conditions in China and elsewhere.

If we fail to renew our existing bank borrowings or raise additional funding through future debt or equity offerings as needed, our ability to implement our business strategy may be impaired, which could adversely affect our growth, prospects and results of operations. During the Track Record Period, Mr. Zhu Qiang and his spouse provided personal guarantees for certain of our bank borrowings. These personal guarantees will be released upon Listing, which may affect our ability to refinance these borrowings or obtain further borrowings at similar terms or at all. In addition, our ability to comply with financial covenants and conditions, make scheduled payments of principal and interest or refinance existing borrowings depends on our business performance, which is subject to economic, financial, competitive and other factors, including the other risks described in this prospectus.

Any future bank borrowings or other debt financing that we obtain may contain covenants that may, among other things, restrict our ability to obtain additional financing, provide guarantee, merge, dissolve, liquidate or consolidate, and dispose of or transfer assets, and may result in higher leverage and finance costs. Servicing these types of debt obligations and complying with their covenants could also be burdensome to our operations. If we fail to service such debt obligations or are unable to comply with any of their covenants, we could be in default under such debt obligations and our liquidity and financial condition could be materially and adversely affected.

# We may experience volatile cash flows from our operating activities as a result of fluctuations in working capital.

For the year ended December 31, 2014, we recorded negative cash flow from our operating activities of approximately US\$21.6 million, largely due to an increase in our inventories of US\$58.8 million and an increase in our trade receivables of US\$25.2 million. Please see "Financial Information—Liquidity and Capital Resources—Cash Flow (Used in)/Generated from Operating Activities" for a more detailed discussion. We cannot assure you that we will not experience negative cash flow from our operating activities in the future; these and other types of negative cash flows could negatively and materially affect our financial position.

#### We are exposed to the credit risk of our customers.

We are subject to the credit risks of our customers and our cash flow is dependent on punctual payments from our customers for products we supply to them. Trade receivables turnover days for the years ended December 31, 2014, 2015, 2016 and the six months ended June 30, 2017 were 45 days, 50 days, 52 days and 46 days, respectively. We generally grant a credit period up to 90 days to our retailer customers. For details, please see "Financial Information—Description of Selected Items of the Consolidated Statements of Financial Position—Trade receivables."

We cannot assure you that we will be able to collect all or any part of our trade receivables within the credit terms granted by us, or at all. For the years ended December 31, 2014, 2015, 2016 and the six months ended June 30, 2017, we recorded provision for impairment of trade receivables and other receivables of US\$0.5 million, US\$0.1 million, US\$0.6 million and US\$0.2 million, respectively. We currently maintain short-term export credit insurance, but we may not be able to maintain similar insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses. In addition, if any of our customers were to go into liquidation or bankruptcy, we might not be able to receive full or any payment of uncollected sums due to us or enforce any judgment debts on such customers. Global economic downturns may cause customers to default on payments, and we may need to make greater provisions for receivables, particularly for receivables from our customers who may be more significantly impacted by the downturn. Non-payment or delay in payments by our customers could materially and adversely affect our business, financial condition and results of operations.

#### We are subject to various risks relating to third-party payments.

Certain of our customers (the "Relevant Customer(s)") settled some or all of their payments due to us through third parties (the "Third-Party Payor(s)") ("Third-Party Payment(s)"). During the Track Record Period, there were 103 Relevant Customers that settled at least a portion of their payments to us through Third-Party Payors, none of the Relevant Customers was among our top ten major customers during the Track Record Period. Our aggregate sales to the Relevant Customers settled through Third-Party Payors were approximately US\$17.5 million, US\$14.1 million, US\$18.1 million and US\$8.9 million for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively, representing 3.7%, 2.7%, 3.1% and 2.1% of our revenue in the corresponding periods.

Third-Party Payments may subject us to various uncertainties and risks. Since there is no contractual relationship between us and the Third-Party Payors, we may be asked to return funds we receive from them. We could also be subject to potential claims from liquidators of Third-Party Payors if they become insolvent or wound up under relevant law. Furthermore, we may be subject to exposure to potential money laundering risks as we have limited knowledge about the source and purpose of the funds utilized by the Third-Party Payors. For more details, please see "Business—Certain Settlement Arrangements Through Third-Party Payors."

If there is any claim from a Third-Party Payor or its liquidators or if legal proceedings (whether criminal or civil) are instituted or brought against us in respect of these payments or for violation or non-compliance of laws and regulations in Hong Kong or elsewhere, we may have to spend significant financial and managerial resources to defend against such claims and legal proceedings. Moreover, if we were to be involved in legal proceedings for money laundering charges, our reputation may be adversely affected and we may face difficulties in maintaining our existing customers or attracting new customers,

which may cause a decrease in our operating profit. We cannot assure you that our business, financial condition, results of operations and prospects will not be materially and adversely affected by a successful claim or prosecution against us.

We ceased allowing our customers to settle amounts due to us through Third-Party Payors in July 2017, and all sales transactions entered into thereafter are settled by direct payments. We have notified the Relevant Customers of the cessation of allowing Third-Party Payments and any payments or transfer of funds to settle their payment owe to us through third parties will be rejected. The Relevant Customers historically engaged Third-Party Payors due to various reasons and they may not be able or willing to settle payments with us directly going forward. If a significant number of the Relevant Customers cease to place orders or reduce their orders with us, and to the extent that we are unable to maintain our existing level of business with other customers and/or identify new customers, our business and results of operations may be adversely affected.

#### We are subject to the risks of obsolete and slow-moving inventory.

The balance of our inventory as of December 31, 2014, 2015, 2016 and as of June 30, 2017 accounted for approximately 55.3%, 58.4%, 53.7% and 38.4%, respectively, of our total current assets, and our average inventory turnover days were approximately 157 days, 172 days, 153 days and 91 days, respectively, for the same respective period.

Our industry is subject to market trends, and any sudden decrease in the market demand for our products and the corresponding drop in sales could cause our inventory to accumulate, which could adversely affect our financial condition and results of operations. We make provisions for slow-moving and obsolete inventories. For the years ended December 31, 2014, 2015 and 2016, we recorded impairment of inventories of US\$1.9 million, US\$1.6 million and US\$1.4 million, respectively. For the six months ended June 30, 2017, we recorded reversal of write-down of inventories of US\$0.5 million as a result of accounting adjustments for the value of the inventories based on revised selling prices of products. If our inventories are identified as slow-moving or obsolete, we may be required to sell the relevant inventory at a price lower than the cost and/or make provisions for obsolete inventory. In such event, our business, financial condition and results of operations may be materially and adversely affected.

#### Our performance may be affected by seasonality and unexpected and abnormal changes in climate.

Our results of operations are largely affected by the level of demand for outdoor leisure products in the markets to which our customers sell our products. Demand for our products may be influenced by unexpected and abnormal changes in climate in the countries in which our customers sell our products. Unfavourable changes in climate such as a longer winter in our major markets including Europe or North America may affect the purchase orders we receive from our customers with retail operations in these regions for the coming seasons.

In addition, our results of operations are subject to seasonality. There is usually higher end-consumers' demand for many of our products in the summer, which is the peak season for water leisure products. In general, we receive most purchase orders from our customers in the northern hemisphere from May onwards. We deliver most of these purchases from November to the following April. Our customers in the southern hemisphere typically place most of their orders with us from December onwards, and we deliver most of these purchases from May of the subsequent year to October. In 2016,

82.2% of our revenue was attributable to sales to our customers in the northern hemisphere. We typically realize approximately 60% of the total sales for a year in the first six months of the year. Our results of operations fluctuate from period to period and therefore, comparisons of revenue and results of operations across different periods of a given year as an indicator of our performance may not be meaningful and should not be relied upon as indicators of our future performance. For details of our seasonality, please see "Business—Seasonality."

We may not be able to identify and prevent fraud or other misconduct committed by our employees, customers, regional relationship managers or other third parties.

We are exposed to fraud or other misconduct committed by our employees, customers, regional relationship managers, third-party professional design team or other third parties, which could subject us to financial losses, third party claims, regulatory investigations or reputational damages. Despite our internal control measures, we cannot assure that our internal control policies and procedures are sufficient to prevent, or that we could properly manage the conduct of our employees, customers, third-party regional relationship managers, third-party professional design team or other third parties, or that we can otherwise fully detect or defer, all incidents of fraud, corruption, legal, tax or other regulatory non-compliance, violations of relevant laws and regulations and other misconduct. Any such conduct could have a material adverse effect on our reputation, business, financial condition and results of operations.

### We are subject to liabilities in connection with our products.

Due to our international presence, we are subject to a wide variety of laws, regulations and industry standards imposed on our products in the jurisdictions where we operate. For example, our products sold to our customers in the European Union are subject to REACH regulations and other relevant product safety requirements, which require that all standards, including labeling requirements be met before sale or introduction into the market. Our products are also subject to the U.S. Consumer Product Safety Act, which empowers the U.S. Consumer Product Safety Commission to exclude from the market products that are found to be unsafe or hazardous. The application of existing laws and regulations to our operations relating to issues such as product quality standards, environmental protection, occupational health and safety, consumer privacy and advertising can be unclear.

In addition, the laws, regulations and industry standards for product quality in the countries where we sell our products can differ from country to country. Inadvertent oversight on or lack of experience in the relevant product quality requirements or other failure to comply with mandatory standards could result in administrative actions against us. For example, in 2015, the Shanghai Municipal Bureau of Quality and Technical Supervision (the "Shanghai QTS") found two batches of swim rings, and the Jiangsu Provincial Bureau of Quality and Technical Supervision (the "Jiangsu QTS") found three batches of swim rings and three batches of small-sized inflatable ring pools, manufactured by Bestway Shanghai not to comply with relevant Chinese mandatory standard on polymer film thickness. We ceased selling and manufacturing these products for sale in China. The Shanghai QTS and the Jiangsu QTS did not impose any fine, administrative penalty or product recall obligation against us. In response to these incidents, our product development and manufacturing departments have been receiving regular updates on the relevant Chinese laws, regulations and industry standards ever since, to ensure compliance at the

research and development and manufacturing stages. We have also switched to using polymer films that comply with the relevant requirements in manufacturing our products for sale in China. However, there can be no assurance that the measures we have taken are adequate and sufficient to mitigate these risks.

We face an inherent business risk of exposure to product liability claims, which could result from the use of any of our products that is alleged to result in personal injury, death or property damage. These risks can subject us to potentially significant liabilities and may result in civil or criminal liabilities. In addition, these types of claims may arise if any of our products are deemed or proven to be unsafe to use or defective, in particular due to a defective design. During the Track Record Period, we experienced five incidents of product recalls, one of which was a recall of inflatable arm bands due to weak welding that rendered the products defective, and two of which were due to inadvertent oversight that lead to inadequate warnings. The remaining two product recalls were due to upgraded product safety measures, such that a substance or label specifications used in manufacturing the relevant products no longer satisfied the relevant requirements. For more details, please see "Business—Product Returns, Warranties and Aftersales Services—Product Returns and Recalls." Any product liability claims against us, regardless of whether the claims have merit, could strain our financial resources and consume the time and attention of our management, which could cause us to incur substantial costs and lead to diversions of our resources. In addition, the consumer demand for our products could decline, and our reputation and sales could be materially and adversely affected. If any claims against us were to prevail, we might incur substantial monetary liabilities, and our reputation as well as our business, financial condition and results of operations could be materially and adversely affected.

Defects or other product quality issues can also occur as a result of improper handling in transportation, storage or consumer level. Any quality or safety issues could subject us to product liability claims, adverse publicity and government scrutiny, investigation or intervention, resulting in increased costs and any of these events could have a material and adverse impact on our reputation, business, financial condition, results of operations and prospects. We were not subject to any material product liability claims or quality issues during the Track Record Period and up to the Latest Practicable Date. However, we cannot assure you that we will not be subject to these types of claims or that we will successfully eliminate the risks related to product quality or safety timely and effectively. In such event, our business, financial condition and results of operations may be materially and adversely affected.

Although our customers are responsible for the sale of the products they purchase from us, depending on the customers' practices regarding product liability actions, they may look to us for indemnification or contribution when faced with product liability claims. We currently maintain product liability insurance, but we may not be able to obtain such insurance on acceptable terms in the future, or at all, and this insurance may not provide adequate coverage against potential claims. A product liability claim brought against us in excess of our available insurance coverage could have a material adverse effect on our business and financial condition.

In addition, we will also be subject to new laws and regulations that we are unfamiliar with as we enter into new markets and as the legal and regulatory regimes in our existing markets evolve or change. If we fail to comply with existing or new standards, laws and regulations, or failure to make timely adjustments in response to changes in such rules and standards, we could be subject to liabilities, including monetary damages and fines, which could impact our production capacities, result in suspension of our business operations and have a material adverse effect on our business, results of operations or financial condition. In addition, ensuring compliance with any new or amended laws, rules,

regulations or standards imposed on our products may result in considerable additional costs and lead to additional manufacturing and quality control procedures that may affect our business, financial condition and results of operations.

If we are unable to successfully defend against pending or future patent litigation, we may be required to pay damages, discontinue sales of certain of our products, or modify our production methods.

Third parties have brought, and in the future may bring, lawsuits against us based on claims based on infringements of intellectual property rights. These types of lawsuits could (i) cause us to incur significant costs or pay significant damages, (ii) force us to alter our existing products or withdraw them from the market, (iii) delay our introduction of new products; (iv) require us to change our production methods, or (v) otherwise cause significant interruptions to our operations, and our business, results of operations or financial condition could be materially and adversely affected.

As of the Latest Practicable Date, we were the subject of three patent claims (the "Patent Claims") in the United States brought by Intex, relating to alleged infringement of patents. In these Patent Claims, Intex is seeking to enjoin us from making, using, selling, offering to sell, or importing into the United States particular models of airbeds and portable spas that it alleges infringed their U.S. patents. For more details of these Patent Claims, please see "Business—Intellectual Property—Patent Disputes."

While we intend to defend the Patent Claims vigorously, including by challenging the validity of the patents underlying the claims, litigation is costly and time-consuming and could divert management resources and attention from our business. Furthermore, Intex may have substantially greater resources than us and may file claims or lawsuits against us in other jurisdictions, and may be able to sustain the costs of complex patent litigation to a greater degree and for longer periods of time than we can. As intellectual property regulations develop, litigation from our competitors may become more frequent. Whether or not a claim against us is valid, has merits or is successful, it could adversely affect our business by involving us in costly and time-consuming litigation and by diverting management resources and attention from our business. Given that a judgment against us in relation to the Patent Claims or other claims could prohibit the selling of our products in the United States, our customers or potential customers may defer or limit their orders until such Patent Claims are resolved, any of which could have a material adverse effect on our business, financial condition and results of operations.

If any claimants were to succeed in any outstanding or future claims against us, we may be ordered to pay damages for past infringement and pay their legal fees. In addition, any judgment against us in such claims may be used as a reference case for filing additional infringement lawsuits in other jurisdictions. Furthermore, our expansion plans in the United States and other jurisdictions may increase the likelihood of additional infringement lawsuits in the future. The occurrence of any of these events could have a material adverse effect on our business and results of operations and, in any event, the cost of litigation could be substantial.

Counterfeiting, imitation, and/or infringement by third parties could negatively affect our reputation and brand name, which in turns affects our sales, results of operations and financial condition.

We rely on intellectual property laws in the US, Hong Kong, the PRC and other jurisdictions to protect our trademarks, brands and other intellectual property. While we undertake a pro-active approach to managing our intellectual property portfolio, including seeking and maintaining proper registration, the measures we take to protect our intellectual property may not be adequate to prevent unauthorized use. We cannot give assurance that counterfeiting or imitation of our products will not occur in the future or, if it does occur, that we will be able to detect or address the problem effectively. Any counterfeiting or imitation of our products or other breaches of our intellectual property rights could negatively affect our reputation and brand name, lead to loss of consumer confidence in our brands, and, as a consequence, adversely affect our results of operations. Please see "Business—Intellectual Property" for further details regarding our intellectual property.

We consider formulae and know-how in our production to be our trade secret, and our competitive edge could be harmed if such trade secret is obtained by or disclosed to third-parties.

We keep our formulae and know-how in our production as our trade secret, for example, we use our own formulae of chemicals and know-how in producing our polymer films. We have entered into confidentiality agreements with certain of our employees who have knowledge of our confidential information. However, we have not made any applications for patents for our formulae and know-how because patent registration in China involves publication of the relevant details of the subject of the patent. We believe that such disclosure would provide our competitors with details of our formulae and know-how and would therefore enable them to imitate our production methods or refine their own production accordingly.

We cannot give assurance that our formulae and know-how will not be obtained by a competitor or another third-party or products using similar formulae and know-how will not be developed or marketed by such persons. After obtaining the same or similar formulae and know-how, such person may seek intellectual property rights and enjoin, or even prevent us from producing, promoting, selling or using products based on these formulae and know-how. We may not have adequate legal remedies to prevent products based on the same or similar formulae and know-how from being produced or marketed by a third-party. Consequently, our market share, business, financial condition and results of operations may be materially and adversely affected.

We may be affected by disruptions to our manufacturing facilities and warehouses, which may severely disrupt our business.

The occurrence of material operational problems at our facilities, including but not limited to the events described below, could materially reduce our productivity and profitability, during and after the period of such operational difficulties. Our results of operations are dependent on the continued operation of our manufacturing facilities and our ability to complete maintenance projects on schedule.

Our operations are subject to hazards inherent to manufacturing industries and the related storage and transportation of raw materials, products and wastes. These potential hazards include:

- explosions;
- fire or floods:
- tsunamis, earthquakes, extreme weather or other natural disasters;
- unexpected wear and tear or degradation;
- mechanical failure or misuse and power outages;
- shortages of power, water, gas or other utilities;
- unscheduled downtimes;
- performance below expected levels of output or efficiency;
- transportation interruptions;
- other industrial accidents;
- other environmental risks; and
- terrorist acts.

These types of events could also disrupt local transportation, shipping and freight forwarding services and interrupt the availability of basic services and infrastructure, including power and water. Occurrence of these events could disrupt production at our facilities, materially increase our cost of sales and other operating expenses and result in material losses. In addition, these operating hazards may interrupt our operations, cause personal injury and loss of life, severe damage to or destruction of properties and equipment and environmental damage, and result in legal and regulatory liabilities and the imposition of civil or criminal penalties. Furthermore, we may be subject to claims with respect to workplace exposure, employees' compensation and other matters.

Certain materials that we use in our production are highly flammable, and we are therefore subject to the risk of explosion and fire. This risk cannot be completely eliminated, and we may not be able to maintain an environment that controls fire hazard risks effectively. In October 2016, we were fined for a total of approximately RMB15,000 by the fire department of Rugao for misplacing our equipment and parts that might lead to the malfunction of our fire safety equipment and for failing to maintain sufficient fire separation as required under the relevant fire safety rules. Regarding fire safety precautions adopted by us, please see "Business—Risk Management and Internal Control." In addition, we rely on machinery and equipment to achieve mass production of our products. Any mechanical failures or breakdowns could materially disrupt our production and cause us to incur additional costs to repair or replace the affect mechanical systems. There can be no assurance that we will not experience problems with our machinery and equipment or that we will be able to address any such problems or obtain replacements in a timely manner. Problems with key machinery and equipment, such as the calendering machines, welding machines and plastic injection machines, may affect our ability to

manufacture our materials and products, or cause us to incur significant expenses to repair or replace the affected machines or equipment. Any of these factors could have a material adverse effect on our business, financial condition, results of operations and prospects.

If any of above risks materialize, we could suffer financial losses, product losses and damage to our reputation. Any material loss, even if covered by our insurance, could harm our business and financial condition and results of operations. Please see "Business—Insurance" for more information on our insurance policies. However, there can be no assurance that our insurance coverage will be sufficient to cover all our potential losses. Furthermore, if we are unable to find suitable alternative facilities in a timely manner if our manufacturing facilities are destroyed or become inoperable, our business, financial condition, results of operations and prospects may be materially and adversely affected.

### Our employees are subject to risk of serious injury caused by the use of equipment and machinery.

We use equipment and machinery in our manufacturing processes, such as the calendering machines, welding machines and plastic injection machines. The operations of these machines and some of our manufacturing processes are potentially dangerous and may cause industrial accidents and personal injury to our employees. Any significant accident caused by the use of our equipment and machinery could interrupt our production and result in legal and regulatory liabilities. Although we have purchased work-related injury insurance for our employees, insurance coverage related to accidents resulting from the use of machine and equipment may be inadequate to offset losses arising from claims related to such accidents. We cannot assure you that accidents will not happen. In addition, potential industrial accidents leading to significant property loss or personal injury may subject us to claims and lawsuits, and we may be liable for medical expenses and other payments to the employees and their families as well as fines or penalties. As a result, our reputation, business, results of operations and financial condition may be materially and adversely affected.

Regulatory investigation, administrative actions and legal proceedings against us could harm our reputation and have a material adverse effect on our business, results of operations, financial condition and prospects.

We are subject to extensive regulations by Chinese and overseas regulatory authorities in each of the markets where we conduct our business, and we may be subject to regulatory or legal proceedings from time to time. Responding to the regulatory investigations, administration actions and legal proceedings, regardless of their ultimate outcome, is time-consuming and expensive and can divert the time and effort of our senior management. Moreover, our provision for regulatory or legal proceedings may be inadequate. Given the uncertainty and complexity of many of the regulatory investigations, administration actions and legal proceedings, their outcome generally cannot be predicted with any certainty or accuracy.

We are subject to regular examinations by Chinese governmental authorities, including customs authorities, relating to our compliance with Chinese laws and regulations. The authorities may conduct investigations and impose penalties and/or administrative punishment on us for non-compliance. During the Track Record Period, the relevant customs authority commenced investigations against two of our subsidiaries, Bestway Nantong and Bestway Jiangsu, regarding inaccurate customs filings and we may subject to an estimated fine of approximately RMB670,000 to RMB730,000 and payments of the overstated VAT refunds of approximately RMB770,000 and underpaid duty of approximately RMB280,000. For more details, please see "Business—Legal Proceedings and Compliance—Non-

compliance Matters—Potential non-compliance incidents relating to customs filings." In addition, import and export of products are subject to certain import and export controls, including customs inspections and related procedures in countries of origin and destination as well as at transshipment ports. Any imposition of trade restrictions such as tariffs or quotas, embargoes and customs restrictions against outdoor leisure products could also have an adverse effect on our business, financial condition and results of operations. Any of these incidents may lead to additional costs or delays in delivery and it may adversely affect our business, financial condition and results of operations.

During the ordinary course of business, we may be involved in litigation or legal proceedings related to, among other things, product or other types of liability, labor disputes or sales or supply contract disputes that could have a material and adverse effect on our financial condition. If we become involved in any litigation or other legal proceedings, the outcome of these types of proceedings could be uncertain and could result in settlements or outcomes that adversely affect our financial condition. While we have obtained product liability insurance, it may not be sufficient to cover all of our losses in all events. If our losses exceed the insurance coverage or are not covered by our insurance policies, we may be liable to bear such losses. In addition, any litigation or legal proceedings could result in substantial legal expenses to us and distract significant time and attention of our management, diverting their attention from our business and operations.

The government examinations, investigations, regulatory sanctions and other legal actions and proceedings could expose us to negative publicity, which might adversely affect our brand, reputation and customer preference for our products and materially and adversely affect our business, results of operations, financial condition and prospects.

#### Our operations are subject to environmental protection regulations and requirements.

We are required to comply with Chinese environmental protection laws and regulations. During the Track Record Period, we were not subject to any material claim for breach of environmental protection regulations. Should our manufacturing facilities fail to meet applicable environmental protection requirements, we may be required to take remedial measures, which may have an adverse effect on our operations. In addition, there is no assurance that the environmental protection regulations will not be changed. Should there be any change in the environmental protection requirements, we may incur additional costs in complying with the new laws and regulations, which in turn adversely may affect our profitability.

#### Our insurance coverage may not be adequate to cover all the risks.

During the Track Record Period, we maintained insurance coverage including property damage insurance, product liability insurance, carriage of goods insurance, short term export credit insurance and automobile insurance. Please see "Business—Insurance" for further details. In addition, we do not maintain insurance policies against interruptions to business operations. We cannot assure you that we may be adequately compensated when making claims under the insurance policies or at all. If there were to be any interruptions to business operations with respect to which we are not covered by insurance or our insurance coverage is inadequate, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our sales and reputation may be adversely affected by delays in delivery or poor handling by third-party logistics service providers.

We rely on third-party logistics service providers to deliver our products from our manufacturing facilities to the ports and to our customers, including international shipping companies. There are various factors beyond our control that could result in delays in delivery, including natural disasters and extreme weather, labor strikes, traffic accidents and road maintenance constructions. If our products are not delivered on time or suffer damage or loss during transportation, we may breach our sales terms with our customers and have to pay damages to them accordingly. More importantly, this may adversely affect our reputation and further cause loss of customers and market share, which could adversely affect our results of operations.

Our performance depends on favorable labor relations with our employees, and any deterioration in labor relations, shortage of labor or material increase in wages may have an adverse effect on our business or results of operations.

Our production operations are labor-intensive. As of September 30, 2017, we employed 9,642 employees for our manufacturing facilities. Our facilities are located at Shanghai, and Nantong and Yancheng in Jiangsu province. With the increasing affluence and development of these regions, as well as increasing demand for skilled labor in other rapidly developing cities, there is no assurance that we will continue to attract employees at our current wage levels or that our current employees will continue to work for us.

We consider favorable labor relations as a significant factor that can affect our performance and any deterioration of our labor relations could cause labor disputes, which could result in disruption of production and operations.

Since China's reform and opening beginning in the late 1970s, the country has experienced rapid economic growth, which has resulted in a significantly increased labor costs. Our total employee benefit expenses increased by 23.4% from US\$63.9 million in 2014 to US\$78.8 million in 2015 and increased by 9.2% to US\$86.1 million in 2016. Our total employee benefit expenses increased by 26.5% from US\$49.8 million in the six months ended June 30, 2016 to US\$63.0 million in the same period of 2017. Average labor wages are expected to increase due to the tightening labor market and increases in the minimum wage requirements set by the relevant authorities. If the labor market continues to tighten, we may not be able to employ sufficient suitable employees in a timely manner or we may have to increase our compensation package to attract and retain experienced personnel and as a result, our financial performance could be materially and adversely affected.

#### We rely on the proper functioning of our information technology and communications systems.

We rely on the uninterrupted operation of our information technology and communications systems for our global operations, including manufacturing, sales, logistics, accounting, internal controls and electronic communications among our facilities, overseas subsidiaries, personnel, third-party regional relationship managers, customers and suppliers. Our information technology and communications systems are vulnerable to damage or interruption from reasons including unauthorized disclosure of information, intentional alternation of data, cyber-attacks, power loss, computer systems failure, internet and telecommunications or data network failure, computer viruses, software bugs or glitches. In addition, unauthorized software introduced by our employees on our network could potentially incur

claims from software vendors and penalties imposed by the relevant authority and could result in liabilities and fines. Although we have implemented protection and back-up schemes for our information technology system and adopted internal control measures to avoid unauthorized software on our network, these may not be sufficient.

Any damage or significant disruption in the operation of these systems or the failure of our information systems to perform as expected would disrupt our business. Any unauthorized disclosure of information could compromise our trade secrets, confidential information and customer information, hence materially and adversely affecting our business, results of operations or financial condition.

## Defects related to certain properties leased by us in China may adversely affect our ability to use such properties.

As of the Latest Practicable Date, we leased 13 properties with an aggregate gross floor area of approximately 65,662 square meters globally. Among these properties, the lease agreements with respect to seven properties in China had not been registered or filed with the relevant authorities in accordance with applicable Chinese laws and regulations, among which, the landlord of one of these leased properties had not provided us with valid title certificate or other ownership documents. We mainly use the affected properties for warehouses and office premise. Our PRC Legal Advisors has advised us that if the lessor do not actually have the requisite rights to lease the property, we will not be penalized for the lessors' failure to provide the title certificate or other documents evidencing authorization of the subletting. However, the lease agreement governing the relevant property may not be enforceable under PRC laws. As of the Latest Practicable Date, we were not aware of any challenge being made by any third party to our current occupation and use of such leased property, but we may be required to cease occupation and use of such leased property if valid claims are brought. We may claim compensation or indemnification from the non-compliant lessor under our lease agreement, but legal proceedings may consume substantial managerial and financial resources.

Regarding the properties for which we had not registered the relevant lease agreements, our PRC Legal Advisors has advised us that the relevant governmental authorities may require that the lease agreements be registered within a certain period of time. If the government authorities determine that we, as lessee, are liable for any or all of the fines, we could be required to pay a maximum fine of approximately RMB70,000 for all relevant leases. According to applicable PRC laws, lessors of the related leases need to provide us with certain documents to complete the administrative filings. We cannot assure you that the lessors of our leased properties will cooperate in the process of completing the filings. If the government authorities determine that we, as lessee, are liable for any or all of the fines, our business and results of operations may be affected.

### RISKS RELATING TO DOING BUSINESS IN CHINA

Changes in political, social and economic policies in China may materially and adversely affect our business, financial condition, results of operations and prospects.

Many of our operating subsidiaries and a substantial majority of our assets are located in China. Accordingly, changes in political, social and economic policies in China may materially affect our results of operations and business prospects. The Chinese economy differs from the economies of most developed countries in many aspects, including the level of government involvement, degree of development, economic growth rate, control of foreign exchange and allocation of resources. Since

1978, the Chinese government has implemented many economic and social reform measures. As a result, China is experiencing a transition from a planned economy to a more market-oriented economy. Many of the reforms are exploratory or experimental, and they are expected to be modified as the economic and social situation develops. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. China has experienced rapid economic growth over the past few decades; however, its continued growth has faced downward pressure since the second half of 2008, and its annual GDP growth rate has declined from 9.3% in 2011 to 6.7% in 2016, according to the National Bureau of Statistics of China (中華人民共和國國家統計局). There is no assurance that future growth will be sustained at similar rates or at all. Our business, financial position, results of operations and prospects may be materially and adversely affected by the Chinese Government's political, economic and social policies, including those specific to our industry.

# Uncertainties in the Chinese legal system may adversely affect our business and limit the legal protection available to you.

Many of our subsidiaries and a significant majority of our operations are located in China and are subject to the laws and regulations of China. In addition, our offshore holding companies and certain transactions between them may be subject to various PRC laws and regulations. The Chinese legal system is a civil law system based on written statutes. Unlike the common law legal system, prior court decisions in a civil law system have little precedential value and can only be used as a reference. Furthermore, China's statutes are subject to interpretation by legislative bodies, judicial authorities and enforcement bodies, which increases the uncertainty. Since 1978, when the Chinese government started economic reforms, China has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, import and export, commercial transactions, taxation and trade. Many of these laws and regulations are relatively new and are subject to frequent changes and uncertainties in implementation and interpretation. There may also be new laws and regulations to cover new economic activities in China. During the Track Record Period, two of our subsidiaries, Bestway Jiangsu and Bestway Shanghai, failed to comply with the foreign exchange registration requirements due to inadvertent oversight and insufficient knowledge of the new SAFE regulations and were subject to penalties in the amount of RMB370,000 and RMB360,000, respectively. Please see "Business—Legal Proceedings and Compliance—Non-compliance Matters" for more details. In addition, Bestway Shanghai has obtained the property ownership certificate (不動產權證書) of a parcel of land with an aggregate area of approximately 87,457 square meters, which houses an office building, a manufacturing plant and ancillary facilities in our Shanghai site. Bestway Shanghai owns the land use right of the land and the ownership of all buildings upon the land. Under the property ownership certificate, the nature of the land use right is collectively-owned (集體土地建設用地使用權) and the permitted usage is for industrial purpose. However, due to the inconsistencies of laws and regulations in relation to whether collectively-owned land can be used for industrial purpose, there is uncertainty as to the legal implication of such conflict of regulations. We cannot predict future developments in the Chinese legal system. These uncertainties in the Chinese legal system may adversely affect our business and limit the legal protection available to you and could materially and adversely affect our results of operations and prospects.

Government control of currency conversion and fluctuation in the exchange rates of the Renminbi may adversely affect our business and results of operations and our ability to remit dividends.

Most of our revenue are denominated in U.S. dollars and most of our operating costs are denominated in Renminbi. The Chinese government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing Chinese foreign exchange regulations, payments of current account items, including dividend payments, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its authorized banks is required for foreign currency conversions for payment under capital account items such as equity investments. The Chinese government may also at its discretion restrict our access to foreign currencies for current account transactions. Shortages in the availability of foreign currency may restrict the ability of our Chinese subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations.

The exchange rates of the Renminbi against foreign currencies, including the Hong Kong dollar and the U.S. dollar, are affected by, among other things, changes in China's political and economic conditions. In 2014, 2015 and 2016, we recorded net foreign exchange gain on operating activities of US\$1.1 million, US\$8.2 million and US\$5.0 million, respectively, but recorded net foreign exchange losses of US\$2.7 million in the six months ended June 30, 2017. Although we have entered into forward foreign exchange contracts and foreign exchange-related options with banks to mitigate our foreign exchange risk and may continue to do so, these arrangements may not successfully mitigate the risks of our international trading business. We are also subject to the risk that the counterparty to one or more of these arrangements will default on its performance of the terms of the arrangement. In addition, the effectiveness of these instruments depends on our ability to accurately forecast future changes in foreign exchange rates and to effectively match the amount and timing of our foreign currency exposure to these arrangements.

The Chinese tax authorities have strengthened their scrutiny over transfers of equity interests in a PRC resident enterprise by a non-resident enterprise, which may negatively affect our business and our ability to conduct mergers, acquisitions or other investments and the value of your investment in us.

On February 3, 2015, SAT issued the Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (關於非居民企業間接轉讓財產企業所得税若干問題的公告) ("Circular 7"). This regulation repealed certain provisions in the Notice on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises (關於加強非居民企業股權轉讓企業所得稅管理的通知) ("Circular 698") and certain rules clarifying Circular 698. Circular 698 was issued by SAT on December 10, 2009. Circular 7 provides comprehensive guidelines relating to, and heightened the Chinese tax authorities' scrutiny on, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise ("PRC Taxable Assets"). For example, when a non-resident enterprise transfers equity interests in an overseas holding company that directly or indirectly holds certain PRC Taxable Assets and if the transfer is believed by the Chinese tax authorities to have no reasonable commercial purpose than to evade enterprise income tax, Circular 7 allows the Chinese tax authorities to reclassify this indirect transfer of PRC Taxable Assets into a direct transfer and impose on the non-resident enterprise a 10% rate of PRC

enterprise income tax. Circular 7 exempts this tax, for examples, (i) where a non-resident enterprise derives income from an indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company in the public market, and (ii) where a non-resident enterprise transfers PRC Taxable Assets that it directly holds and an applicable tax treaty or arrangement exempts this transfer from PRC enterprise income tax. It remains unclear whether any exemptions under Circular 7 will be applicable to any future mergers, acquisitions or other investments that we may make outside China involving PRC Taxable Assets or to transfers of our Shares by our Shareholders. If the Chinese tax authorities impose PRC enterprise income taxes on these activities, our ability to expand our business or seek financing through these transactions and the value of your investment in our Shares may be adversely affected.

We may be deemed as a PRC tax resident under the EIT Law and be subject to Chinese taxation on our worldwide income, any gain on the sale of our Shares and dividend payable by us to our foreign investors.

Under the EIT Law, an enterprise established under the laws of a jurisdiction other than China, may be considered as a PRC tax resident provided that its "de facto management body" is located within China. Supplementary rules of the EIT Law interprets "de facto management body" as a body that exercises substantial management or control over the business, personnel, finance and properties of an enterprise. Through a circular promulgated in April 2009, SAT further clarified the criteria for determining whether an enterprise has a "de facto management body" within China. As most of our management are currently based in China and many may remain in China, we and our non-PRC subsidiaries may be treated as PRC tax residents and a number of unfavorable tax consequences could follow. We may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income and to PRC enterprise income tax reporting obligations. Any income sourced by us from outside China, such as interest on offering proceeds held outside China, would be subject to PRC enterprise income tax at a rate of 25%. While the EIT Law provides that dividend income between "qualified resident enterprises" is exempt from PRC enterprise income tax, it is not clear whether we and our non-PRC subsidiaries would be eligible for this exemption were we considered to be PRC tax residents. In addition, if we are treated as PRC tax residents under Chinese laws, capital gains realized from sales of our Shares and dividends we pay to non-PRC resident Shareholders may be treated as income sourced within China. Accordingly, dividends we pay to non-PRC resident Shareholders and transfers of Shares by these Shareholders may be subject to PRC income tax. The tax on this income of non-PRC resident enterprise Shareholders would be imposed at a rate of 10% (and may be imposed at a rate of 20% in the case of non-PRC resident individual Shareholders), subject to the provisions of any applicable tax treaty. If we are required to withhold PRC income tax on dividends payable to you, or if you are required to pay PRC income tax on the transfer of our Shares, the value of your investment in our Shares may be materially and adversely affected.

In addition, we may be required to withhold PRC income tax on capital gains realized from sales of our Shares and dividends distributed to Shareholders. In this case, the foreign corporate Shareholders who are not deemed as PRC resident enterprise may become subject to 10% withholding income tax, unless any such foreign corporate Shareholder is qualified for a preferential withholding rate under a tax treaty. If the PRC tax authorities deem us to be a PRC resident enterprise, Shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties will need to apply to the PRC tax authorities for recognition of eligibility for such benefits in accordance with the Administrative Measures on Entitlement of Non-residents to Treatment under Tax Treaties (非居民納税

人享受協定待遇管理辦法, the "Circular 60"), which became effective on November 1, 2015. With respect to dividends, the beneficial ownership tests under Notice of State Administration of Taxation in Interpretation and Determination of "Beneficial Owners" under Double Taxation Agreements (國家稅務 總局關於如何理解和認定稅收協定中"受益所有人"的通知, the "Circular 601") will also apply. If determined to be ineligible for treaty benefits, such a Shareholder would become subject to higher PRC tax rates on capital gains realized from sales of our Shares and on dividends on our Shares. In such circumstances, the value of such Shareholders' investment in our Shares sold in the Global Offering may be materially and adversely affected.

## Preferential tax treatment and financial subsidies that we have enjoyed may be changed or terminated.

Under the EIT Law, enterprises in China are generally subject to a uniform 25% enterprise income tax rate on their worldwide income. Our subsidiary, Bestway Shanghai obtained approvals from the Jiading district branch of Shanghai Municipal Administration of Local Taxation for eligibility for a preferential 15% enterprise income tax rate in November 2016, in accordance with the Guidelines for the Administration of the Recognition of Hi-tech Enterprises《高新技術企業認定管理工作指引》 promulgated by the Ministry of Science and Technology, and State Administration of Taxation on June 22, 2016, effective from January 1, 2016. Bestway Shanghai was granted the preferential 15% tax rate from 2016 to 2018. For details, please see "Financial Information—Description of Selected Items of the Consolidated Statements of Profit or Loss." This accreditation needs to be renewed upon the expiration date as indicated in the approval, and we cannot assure you that Bestway Shanghai will be able to successfully renew it in future. In addition, Bestway Shanghai is entitled to deduct 50% of its research and development expenses from its taxable income.

Local Chinese governments have also granted us various financial subsidies in recognition of our contribution to local economies and expansions of our production capacity. We recorded government grants of US\$1.1 million, US\$5.2 million, US\$1.5 million and US\$2.2 million in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively. Since July 2017 and up to the Latest Practicable Date, we received additional government grants of approximately US\$5.4 million. These financial subsidies have been given at the discretion of the local governmental authorities. There is no assurance that we will continue to enjoy the income tax incentive or financial subsidies described above at the historical levels, or at all. Any change, suspension or termination of the above preferential tax treatment and financial subsidies to us could adversely affect our financial condition, results of operations and cash flows.

Current Chinese regulations on loans provided by, and foreign direct investment by, an offshore holding company to Chinese companies may delay or prevent us from using the proceeds from the Global Offering to fund our business operations in China.

Any loans or capital contributions that we, as an offshore entity, make to our Chinese subsidiaries that are foreign-invested enterprises, including with the proceeds of the Global Offering, are subject to Chinese laws and regulations. Foreign-invested enterprises must register with SAFE or its local counterpart to obtain shareholder loans from the foreign investors. The aggregate amount of these foreign loans must not exceed statutory limits. Furthermore, the foreign-invested enterprises must register with SAFE or its local counterpart for repayment of the foreign loans. In addition, foreign investors must obtain approvals from MOFCOM or its local counterpart and register with SAIC or its

local counterpart to make capital contributions to the foreign-invested enterprises. We cannot assure you that we can obtain the required government approvals or registrations on a timely basis, or at all, with respect to loans or capital contributions that we may make to our Chinese subsidiaries. If we fail to obtain the approvals or registrations, our ability to use the proceeds from the Global Offering to fund our operations in China would be negatively affected, which would in turn materially and adversely affect our liquidity and our ability to expand our business.

You may encounter difficulties in effecting service of legal process upon us, our Directors and senior management and enforcing foreign judgments against us, our Directors and senior management.

We are a company incorporated in the Cayman Islands with most of our assets located in China. Some of our Directors and most of our senior management reside in China and a majority of their assets are within China. As a result, it may not be possible for you to effect service of legal process on us or our Directors or senior management within China.

Judgments of courts of another jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a treaty to such effect with China. Currently, China does not have treaties providing for the reciprocal enforcement of judgments by the courts of Japan, the United States, the United Kingdom or most other western countries. On July 14, 2006, Hong Kong and China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned, pursuant to which reciprocal recognition and enforcement of judgments may be possible between these two jurisdictions provided that the judgment is rendered by a final court of these two jurisdictions and the parties have an expressly written choice of court. It may be difficult or impossible for you to enforce judgment between these jurisdictions if you have not agreed on sole jurisdiction with the other party. In addition, Hong Kong has no arrangement for reciprocal enforcement of judgments with the United States and certain other jurisdictions. As a result, you may encounter difficulties in enforcing foreign judgments against us or our Directors or senior management.

#### RISKS RELATING TO THE GLOBAL OFFERING

As there has been no prior public market for our Shares, their market price may be volatile and an active trading market in our Shares may not develop.

Prior to the Global Offering, there was no public market for our Shares. The Offer Price of our Shares is the result of negotiations among us, the Sole Sponsor and the Sole Global Coordinator (on behalf of the Underwriters), and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. There is no guarantee that an active trading market for our Shares will develop, or, if it does develop, that it will sustain or that the market price of our Shares will not decline after the Global Offering.

The market price and trading volume of our Shares may be volatile, which may result in substantial losses for investors in our Shares.

The price and trading volume of our Shares may be volatile. The market price of our Shares may fluctuate significantly and rapidly as a result of the following factors, among others, some of which are beyond our control:

- variations of our results of operations (including variations arising from foreign exchange rate fluctuations), earnings and cash flows, and securities analysts' estimates of our financial performance;
- changes in competitive landscapes of our industries, including strategic alliances, acquisitions
  or joint ventures by us or our competitors;
- changes in general economic conditions affecting us or our industries;
- regulatory developments, and our inability to obtain or renew necessary licenses and permits;
- changes in our senior management;
- fluctuations of the general stock market; and
- material litigation or regulatory investigations affecting us or our senior management.

There will be a time gap of several business days between pricing and trading of our Shares offered under the Global Offering. The market price of the Shares after trading begins could be lower than the Offer Price.

The Offer Price of our Shares will be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several Business Days after the Price Determination Date. Investors are not able to sell or otherwise deal in our Shares before they commence trading. Accordingly, holders of our Shares are subject to the risk that the price of our Shares after trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse development that may occur between the Price Determination Date and the time trading begins.

Control by our Controlling Shareholders of a substantial percentage of our share capital after the completion of the Global Offering may limit your ability to influence the outcome of decisions requiring the approval of Shareholders and the interests of our Controlling Shareholders may not be aligned with those of our other Shareholders.

Upon the completion of the Capitalization Issue and the Global Offering, approximately 75% of our Shares will be held by our Controlling Shareholders (assuming the Over-allotment Option is not exercised). After the completion of the Global Offering, our Controlling Shareholders will continue to have significant influence on us on various important corporate actions requiring the approval of Shareholders, such as mergers, disposal of assets, election of Directors, and timing and amount of dividends and other distributions. There may be a conflict between our Controlling Shareholders' interests and your interests. Control by our Controlling Shareholders of a substantial percentage of our

Shares may have the effect of delaying, discouraging or preventing a change in control of us, which may deprive you of opportunities to receive premiums for your Shares and may reduce the price of the Shares. If our Controlling Shareholders cause us to pursue strategic objectives that would conflict with your interests, you may also be left in a disadvantaged position.

## Future sales or major divestment of our Shares by any of our Controlling Shareholders could adversely affect the prevailing market price of our Shares.

The market price of our Shares may be adversely affected by future sales of a significant number of our Shares in the public market after the Global Offering, or the possibility of such sales, by our Controlling Shareholders. The Shares held by our Controlling Shareholders are subject to certain lock-up arrangements; please see "Underwriting—Underwriting Arrangements and Expenses—Hong Kong Public Offering—Undertakings to the Stock Exchange Pursuant to the Listing Rules—(B) Undertakings by our Controlling Shareholders" for a detailed description of the restrictions. After the restrictions of the lock-up arrangements expire, our Controlling Shareholders may dispose of our Shares. Sales of a substantial amount of our Shares could adversely affect the market price of our Shares, which could also negatively affect our ability to raise equity capital.

# Our future financing may cause dilution of your shareholding or place restrictions on our operations.

To raise capital and expand our business, we may consider offering and issuing additional Shares or other securities convertible into or exchangeable for our Shares in the future other than on a pro rata basis to our then existing Shareholders. As a result, the shareholdings of those Shareholders may experience dilution in net asset value per Share. If additional funds are to be raised through debt financing, certain restrictions may be imposed on our operations, which may:

- further limit our ability or discretion to pay dividends;
- increase our risks in adverse economic conditions;
- adversely affect our cash flows; or
- limit our flexibility in business development and strategic plans.

## You will experience immediate and substantial dilution in the book value of your investment as a result of the Global Offering.

The Offer Price of our Shares is higher than our net tangible book value per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares will experience an immediate dilution in pro forma net tangible book value per Share. Our existing Shareholders will, however, receive an increase in pro forma net tangible book value per Share with respect to their Shares.

### There is no assurance of whether or when we will pay dividends.

We cannot guarantee when, if or in what form and amount dividends will be paid on our Shares following the Global Offering. Distribution of dividends must be proposed by our Board and is subject to a number of factors, including our results of operations, cash flows, financial situation and capital

expenditure requirements, distributable profits of our subsidiaries and dividends they pay to us, our future plans and business prospects, market conditions, our Articles of Association, regulatory restrictions and our contractual obligations. Please see "Financial Information—Dividend Policy" for further details of our dividend policy.

The facts, forecasts and other statistics obtained from government sources and other third parties contained in this prospectus may not be accurate, and statistics in the prospectus provided by Frost & Sullivan are subject to assumptions and methodologies set forth in the "Industry Overview" section of this prospectus.

Facts, forecasts and other statistics in this prospectus relating to the economy and the outdoor leisure products market on a global, national, regional and provincial basis have been collected from materials from official government sources. We cannot assure you regarding, nor make any representation as to, the accuracy or completeness of such information. Neither we or any of our respective affiliates or advisors, nor the Controlling Shareholders or any of their affiliates or advisors, nor the Underwriters or any of their affiliates or advisors, have prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from official government sources. Statistics, industry data and other information relating to the economies and the industry derived from official government sources used in this prospectus may not be consistent with other information available from other sources and should not be unduly relied upon. Due to possible flawed collection methods, discrepancies between published information, different market practices or other issues, the statistics, industry data and other information relating to the economies and the industry derived from official government sources and provided by Frost & Sullivan might be inaccurate or might not be comparable to statistics produced from other sources. The statistics contained in the "Industry Overview" and other sections of this prospectus provided by Frost & Sullivan should be read in conjunction with the assumptions and methodologies set forth in the "Industry Overview" of this prospectus. In all cases, you should carefully consider how much weight or importance you should attach or place on such statistics, industry data and other information relating to the economies and the industry.

This prospectus contains forward-looking statements relating to our plans, objectives, expectations and intentions, which may not represent our overall performance for periods of time to which such statements relate.

This prospectus contains certain future plans and forward-looking statements about us that are made based on the information currently available to our management. The forward-looking information contained in this prospectus is subject to certain risks and uncertainties. Whether we implement those plans, or whether we can achieve the objective described in this prospectus, will depend on various factors including market conditions, our business prospects, actions by our competitors and global financial situations.

This prospectus contains certain hypothetical information based on changes relative to historical events and analysis based on it, and you should not place undue reliance on this information or analysis.

This prospectus contains certain hypothetical information and analysis based on it, which includes the use of certain accompanying assumptions. The Company cannot offer assurances that the assumptions would have been true under the hypotheses presented or that the results of these

#### RISK FACTORS

hypothetical changes would have matched the results presented. Please see "Financial Information—Significant Factors Affecting Our Results of Operation," "Financial Information—Description of Selected Items of the Consolidated Statements of Profit or Loss—Cost of Sales," "Financial Information—Financial Risks Disclosure—Market Risk—Cash Flow and Fair Value Interest Rate Risk" and "Financial Information—Financial Risks Disclosure—Market Risk—Foreign Exchange Risk." Given the hypothetical nature of this information and the uncertainty of the assumptions made, the results that would have resulted under these hypotheses might not have occurred in the way we had expected. Accordingly, you should not place undue reliance on the hypothetical information and related analysis included in this prospectus.

You may experience difficulties in enforcing your shareholder rights because we are incorporated in the Cayman Islands and Cayman Islands law is different from the laws of Hong Kong and other jurisdictions in terms of minority shareholder protection.

We are an exempted company incorporated in the Cayman Islands with limited liability. Cayman Islands law differs in some respects from the laws of Hong Kong and other jurisdictions where investors may be located. Our corporate affairs are governed by our Memorandum and Articles of Association, Cayman Companies Law and the common law of the Cayman Islands. The rights of our Shareholders to take legal actions against us and our Directors, actions by minority shareholders and the fiduciary duties of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedents in the Cayman Islands, and from English common law, which has persuasive but not binding authority on a court in the Cayman Islands. The rights of our Shareholders and the fiduciary duties of our Directors under Cayman Islands law may not be as clearly established as they would be under statutes or judicial precedents in Hong Kong, the United States or other jurisdictions where investors may be located. In particular, the Cayman Islands has a less developed body of securities law. As a result, our Shareholders may have more difficulty in protecting their interests in the face of actions taken by our management, Directors or Controlling Shareholders than they would as shareholders of a Hong Kong company, a United States company or companies incorporated in other jurisdictions.

Investors should read the entire prospectus carefully and should not place any reliance on any information contained in press articles or other media in making your investment decision.

Prior or subsequent to the publication of this prospectus, there may have been or be press and media coverage regarding us and the Global Offering, which includes certain information about us that does not appear in, or is different to what is contained in, this prospectus. We have not authorized the disclosure of any such information in the press or media. Financial information, financial projections, valuation and other information about us contained in such unauthorized press or media coverage may not truly reflect what is disclosed in the prospectus or the actual circumstances. We do not accept any responsibility for such unauthorized press and media coverage or for the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information. To the extent that any information appearing in the press and media is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Investors should rely only on the information contained in this prospectus in making an investment decision.

# WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

### WAIVER IN RELATION TO JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, an issuer must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules. Rule 3.28 of the Listing Rules provides that an issuer must appoint as its company secretary an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary.

We have appointed Mr. Zhao Wei and Ms. Choy Yee Man as joint company secretaries. Ms. Choy is a fellow member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom and therefore meets the qualification requirements under Note 1 to Rule 3.28 of the Listing Rules and is in compliance with Rule 8.17 of the Listing Rules.

Mr. Zhao is the general manager of Bestway Hong Kong. Mr. Zhao is responsible for overall operational management, financial management and sales support of Bestway Hong Kong. Mr. Zhao joined the Company in 1999 and has 18 years of experience with the Group. The Company believes that, having regard to Mr. Zhao's knowledge and past experience in handling our corporate matters, he has a thorough understanding of the operations of the Company and is able to perform his duties as a joint company secretary of the Company. Since Mr. Zhao does not possess the academic and professional qualifications required of a company secretary under Note 1 to Rule 3.28 of the Listing Rules, we have sought and obtained from the Stock Exchange a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Mr. Zhao may be appointed as our company secretary. The waiver was granted for a 3-year period on the condition that we engage Ms. Choy as a company secretary to assist Mr. Zhao in the discharge of his duties as a company secretary and in gaining the relevant experience as required under Rule 3.28 of the Listing Rules. Such waiver will be revoked immediately if and when Ms. Choy ceases to provide such assistance. Prior to the expiry of the 3-year period, we must liaise with the Stock Exchange which will re-visit the situation in the expectation that we should then be able to demonstrate to the satisfaction of the Stock Exchange that Mr. Zhao, having had the benefit of Ms. Choy's assistance for three years, would have acquired relevant experience within the meaning of Rule 3.28 of the Listing Rules so that a further waiver would not be necessary.

For further details about Mr. Zhao's qualifications, please see "Directors and Senior Management."

# WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Since we have our headquarters and principal operations in the PRC, the executive Directors have been and are expected to continue to be based in the PRC.

# WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Accordingly, we have sought and obtained from the Stock Exchange for a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and us:

- (a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. The two authorized representatives are Mr. Liu Feng and Ms. Choy Yee Man;
- (b) each of the authorized representatives will have all necessary means to contact all the Directors promptly at all times, as and when the Stock Exchange wishes to contact the Directors on any matters;
- (c) all the Directors who are not ordinarily resident in Hong Kong have applied or can apply for valid travel documents to visit Hong Kong for business purposes and would be able to meet with the Stock Exchange upon reasonable notice;
- (d) the Company will retain a Hong Kong legal advisor to advise on matters relating to the application of the Listing Rules and other applicable Hong Kong laws and regulations after Listing;
- (e) Guotai Junan Capital Limited, our compliance advisor, will act as an additional channel of communication with the Stock Exchange; and
- (f) each Director will provide their respective mobile phone number, office phone number, email address and fax number to the Stock Exchange promptly upon request.

For further information about other channels of communication with the Stock Exchange, please see "Directors and Parties Involved in the Global Offering."

# WAIVER IN RELATION TO CONTINUING CONNECTED TRANSACTION

We have entered into, and are expected to continue, transaction(s) which will constitute partially exempt continuing connected transaction(s) of our Company under the Listing Rules upon Listing. Accordingly, we have sought and obtained from the Stock Exchange for a waiver in relation to such continuing connected transaction(s) between us and certain connected persons under Chapter 14A of the Listing Rules. Please see "Connected Transactions" for further details of these transaction(s).

#### DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong (as amended or supplemented from time to time)), the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) (as amended or supplemented from time to time) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus. Our Directors confirm, having made all reasonable enquiries, that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus misleading.

#### INFORMATION ON THE GLOBAL OFFERING

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus and the relevant Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorized by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Offer Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

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

# **UNDERWRITING**

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

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price.

#### RESTRICTIONS ON OFFER 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 and the relevant Application Forms.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or the Application Forms may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

# APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Listing is sponsored by the Sole Sponsor. We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue and the Global Offering (including pursuant to the exercise of the Over-allotment Option) and the exercise of any options that may be granted under the Share Option Scheme.

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

# SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

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

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the 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.

# HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal register of members will be maintained by our Principal Share Registrar, Maples Fund Services (Cayman) Limited, in the Cayman Islands and our Company's Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

# INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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

#### PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party 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 of any rights in relation to, our Shares.

# **EXCHANGE RATE CONVERSION**

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars, of Renminbi amounts into U.S. dollars and of Hong Kong dollars into U.S. dollars at specified rates.

Unless we indicate otherwise, the translation of Renminbi into Hong Kong dollars, of Renminbi into U.S. dollars and of Hong Kong dollars into U.S. dollars, and vice versa, in this prospectus was made at the following rate:

RMB0.85 to HK\$1.00

RMB6.62 to US\$1.00

HK\$7.80 to US\$1.00

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

#### **LANGUAGE**

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

# **ROUNDING**

Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

# **DIRECTORS**

Name	Residential Address	Nationality
<b>Executive Directors</b>		
Mr. Zhu Qiang (朱強)	Suite 12C, Maosheng Mansion, 1051 Xinzha Road, Jing An District, Shanghai, the PRC	Chinese
Mr. Liu Feng (劉峰)	Flat 102, No. 188, Lane 555, Fanglin Road, Nanxiang Town, Jiading District, Shanghai, the PRC	Chinese
Mr. Tan Guozheng (譚國政)	Room 401, No. 18, Lane 328, Huajiang Zhi Road, Jiangqiao Town, Jiading District, Shanghai, the PRC	Chinese
Mr. Duan Kaifeng (段開峰)	Flat 301, No.56, Lane 258, Tiandeng Road, Xuhui District, Shanghai, the PRC	Chinese
Independent Non-executive Di	rectors	
Mr. Dai Guoqiang (戴國強)	Flat 2101, No. 1, Lane 288, Huaihai Road West, Changning District, Shanghai, the PRC	Chinese
Mr. Lam Yiu Kin (林耀堅)	House B, Louisette, 20 Stanley Beach Road, Stanley, Hong Kong	Chinese
Mr. Yao Zhixian (姚志賢)	Room 702, No. 13, Lot 7, Lane 1555, Caobao Road, Minhang District, Shanghai, the PRC	Chinese

Please see "Directors and Senior Management" for further information regarding our Directors.

# PARTIES INVOLVED

Sole Sponsor Morgan Stanley Asia Limited

46/F, International Commerce Centre

1 Austin Road West

Kowloon Hong Kong

Sole Global Coordinator Morgan Stanley Asia Limited

46/F, International Commerce Centre

1 Austin Road West

Kowloon Hong Kong

Joint Bookrunners and Morgan Stanley Asia Limited

Joint Lead Managers 46/F, International Commerce Centre

1 Austin Road West

Kowloon Hong Kong

CMB International Capital Limited

45/F, Champion Tower

3 Garden Road

Central Hong Kong

**Auditor and Reporting Accountant** 

of the Company

PricewaterhouseCoopers
Certified Public Accountants

22/F, Prince's Building

Central Hong Kong

Legal advisors to the Company

As to Hong Kong, United States federal and New York state laws and special advisor as to sanctions-related laws and

regulations of the United States, the European Union and resolutions of the United Nations Security Council:
Cleary Gottlieb Steen & Hamilton (Hong Kong)

37th Floor, Hysan Place 500 Hennessy Road

Hong Kong

As to PRC law:

Jingtian & Gongcheng Suite 45/F, K. Wah Centre 1010 Huahai Road (M)

Xuhui District Shanghai 200031, China

As to Cayman Islands law:
Maples and Calder (Hong Kong) LLP
53rd Floor, The Center
99 Queen's Road Central
Hong Kong

As to the international sanctions laws of Australia:
King & Wood Mallesons
Level 61
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia

As to anti-money laundering laws and other laws of Hong Kong in respect of Third-Party Payments arrangements:
Wilkinson & Grist
6th Floor, Prince's Building
10 Chater Road, Central

Hong Kong

As to the laws of Russia and Ukraine
Egorov Puginsky Afanasiev & Partners
Office in Russia:

40/5 Bolshaya Ordynka St

Moscow, 119017

Russia

Office in Ukraine: 38 Volodymyrska St., Kyiv, 01030, Ukraine

As to the laws of Argentina:
Bruchou, Fernández Madero & Lombardi
Ing. E. Butty 275, Floor 12
C1001AFA — City of Buenos Aires
Argentina

As to the laws of Indonesia:
Assegaf Hamzah & Partners
Capital Place Level 36 & 37
Jalan Jenderal Gatot Subroto Kav. 18
Jakarta 12710, Indonesia

As to the customs laws of the PRC:

北京市煒衡(南通)律師事務所(W&H Law Firm (Nantong))1

5th Floor, No. 290 South Street

Nantong City

Juangsu Province, the PRC

As to patent laws of the United States:

McDermott Will & Emery LLP

444 West Lake Street Chicago, IL 60606-0029

United States

Legal advisors to the Sole Sponsor and

the Underwriters

As to Hong Kong and U.S. laws:

Paul Hastings

22/F, Bank of China Tower

1 Garden Road Hong Kong

As to PRC law: Tian Yuan Law Firm

10/F, China Pacific Insurance Plaza,28 Fengsheng Hutong Xicheng District,

Beijing, the PRC

**Industry Consultant** 

Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.

Room 1014-18, Tower B

No. 500 Yunjin Road, Xuhui District

Shanghai, the PRC

**Receiving Banks** 

Bank of China (Hong Kong) Limited

1 Garden Road Hong Kong

Standard Chartered Bank (Hong Kong) Limited

3/F

4-4A Des Voeux Road Central

Hong Kong

Note 1: English name for identification purpose only

# CORPORATE INFORMATION

**Registered office** Maples Corporate Services Limited

PO Box 309, Ugland House Grand Cayman, KY1-1104

Cayman Islands

**Head office in the PRC**Bestway Center

No. 3065 CaoAn Road Shanghai 201812, the PRC

Principal place of business

in Hong Kong

Suite 713, 7/F

East Wing, Tsim Sha Tsui Centre

66 Mody Road

Tsim Sha Tsui, Kowloon

Hong Kong

Company website http://www.bestwaycorp.com

(The information on the website does not form part of this

prospectus)

Joint Company Secretaries Mr. Zhao Wei

Suite 713, 7/F

East Wing, Tsim Sha Tsui Centre

66 Mody Road

Tsim Sha Tsui, Kowloon

Hong Kong

Ms. Choy Yee Man

Level 54, Hopewell Centre 183 Queen's Road East

Hong Kong

Fellow member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom

**Authorized representatives** Mr. Liu Feng

Bestway Center

No. 3065 CaoAn Road Shanghai 201812, the PRC

Ms. Choy Yee Man

Level 54, Hopewell Centre 183 Queen's Road East

Hong Kong

# CORPORATE INFORMATION

Audit Committee Mr. Lam Yiu Kin (Chairman)

Mr. Dai Guoqiang Mr. Yao Zhixian

**Remuneration Committee** Mr. Yao Zhixian (Chairman)

Mr. Lam Yiu Kin Mr. Zhu Qiang

Nomination Committee Mr. Dai Guoqiang (Chairman)

Mr. Yao Zhixian Mr. Zhu Qiang

Risk Management Committee Mr. Zhu Qiang (Chairman)

Mr. Tan Guozhen Mr. Zhang Zhu

Principal Share Registrar Maples Fund Services (Cayman) Limited

PO Box 1093, Boundary Hall Cricket Square

Grand Cayman KY1-1102

Cayman Islands

Hong Kong Share Registrar Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai Hong Kong

Compliance Advisor Guotai Junan Capital Limited

27/F., Low Block

Grand Millennium Plaza 181 Queen's Road Central

Hong Kong

Principal Banks The Hongkong and Shanghai Banking Corporation Limited

1 Queen's Road Central

Hong Kong

This and other sections of this prospectus contain information relating to the industry in which we operate. Certain information and statistics set forth in this section have been extracted from the Frost & Sullivan Report issued by Frost & Sullivan, an independent market research agency, which we commissioned. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information or statistics is false or misleading in any material respect or that any fact has been omitted that would render such information or statistics false or misleading in any material respect. Such information and statistics have not been independently verified by us, the Sole Sponsor, Sole Global Coordinator, Joint Bookrunners, and Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to their correctness or accuracy. Accordingly, you should not place undue reliance on such information or statistics.

# GLOBAL OUTDOOR LEISURE PRODUCTS INDUSTRY

#### Overview

Outdoors leisure activities can be broadly defined as any leisure time activities conducted in the outdoors, excluding professional sports. Examples include recreational activities such as backpacking, boating, cycling, camping, canoeing, hiking, kayaking, parachuting, surfing and swimming etc., as well as more leisurely activities such as games and playgrounds, lounging, spas and sunbathing etc. These activities mainly engage in the pursuit of fun, enjoyment and entertainment. Beneficial use of such activities is often related to the physical and social rewards that such activities may instill in individuals, families or other groups, and in many instances they can also be mentally, emotionally, and spiritually satisfying. The outdoors as a physical or social setting may meet the needs of relaxation, physical health, self-sufficiency, risk-taking, the building or strengthening of social ties (including family relationships and teambuilding), and the needs of achievement (such as practicing, enhancing and challenging skills, testing stamina and endurance, and seeking adventure or excitement). These activities can also be seen as alternatives or a complement to more expensive forms of tourism or entertainment.

According to the Frost & Sullivan Report, there are three distinct categories within outdoor leisure activities, namely:

- Water leisure activities. Refers to activities such as boating, canoeing, swimming, kayaking, spas, surfing and various games and sports that take place in, on, around or associated with water;
- Ground and mountain leisure activities. Refers to activities that take place on the ground, including in mountainous terrain, such as biking, camping, hiking, running and skiing etc.;
   and
- Aerial leisure activities. Refers to activities that take place in or from the sky, such as ballooning, bungee jumping, paragliding and parachuting etc.

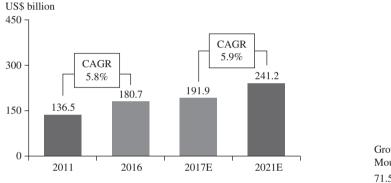
Outdoor leisure products specifically refer to equipment and accessories (excluding apparel and shoes) used during the respective outdoor leisure activities.

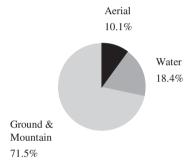
From 2011 to 2016, the global outdoor leisure products market expanded steadily at a CAGR of 5.8%, reaching US\$180.7 billion in terms of retail sales in 2016. This market is expected to grow at a slightly higher rate over the next several years with total market size reaching US\$241.2 billion in terms of retail sales in 2021, representing a CAGR of 5.9% from 2017 to 2021, according to the Frost & Sullivan Report. For more information, please see "—Key Growth Drivers, Industry Trends and Barriers to Entry." In terms of product category breakdown, ground and mountain leisure products constituted the largest market segment with US\$129.2 billion of retail sales in 2016, representing 71.5% of the overall outdoor leisure products market. Water leisure products is the second largest category, with US\$33.3 billion of retail sales in 2016, representing 18.4% of the overall market. Aerial leisure products is the smallest category with US\$18.2 billion of retail sales in 2016, representing 10.1% of the overall market, according to the Frost & Sullivan Report.

The charts below set forth the global outdoor leisure products market size in terms of retail sales from 2011 to 2021 and breakdown by product category in 2016, respectively.

# Global Retail Sales Value (2011–2021E)

# **Breakdown by Product Category (2016)**



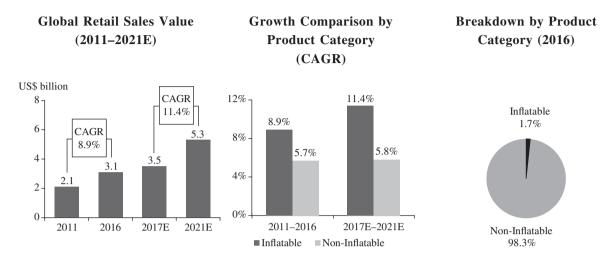


Source: Frost & Sullivan Report

#### **Inflatable Products**

Inflatable outdoor leisure products, including airbeds, floatable products, bouncy castles, leisure boats, portable spas, play pools, water slides, and other related toys and products form a niche yet fast growing segment of the overall outdoor leisure products market. Driven by increasing preference for convenience, flexibility and portability, the global inflatable outdoor leisure products market grew rapidly at a CAGR of 8.9% from 2011 to 2016, reaching US\$3.1 billion in terms of retail sales in 2016, representing approximately 2% of the overall outdoor leisure products market, though growing at a much faster pace than non-inflatable products. This trend is expected to accelerate, with market size expected to grow to US\$5.3 billion in terms of retail sales in 2021 at a CAGR of 11.4% from 2017 to 2021, according to the Frost & Sullivan Report.

The charts below set forth the global inflatable outdoor leisure products market size in terms of retail sales from 2011 to 2021, respective growth comparison, and proportionate market size in 2016, respectively.



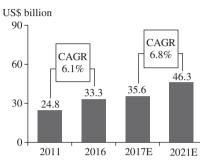
Source: Frost & Sullivan Report

#### **Water Leisure Products**

As a result of the increasing popularity of water related games, sports and activities, there has been a growing participation rate across all age groups for water leisure activities, ranging from young kids to older adults, according to the Frost & Sullivan Report. The growing consumer base has driven a substantial increase in the number and quality of facilitations and locations to engage in water leisure activities and generated strong demand for water leisure products. The global water leisure products market grew at a CAGR of 6.1% in terms of retail sales from 2011 to 2016, a slightly faster rate than the overall outdoor leisure products market. Growth is expected to continue at a CAGR of 6.8% from 2017 to 2021 to reach a market size of US\$46.3 billion in terms of retail sales in 2021, according to the Frost & Sullivan Report. In terms of inflatable water leisure products, although this category only constituted 7.5% of the overall water leisure products market in terms of retail sales in 2016, inflatable water leisure products constituted approximately 80% of the overall inflatable outdoor leisure products market, given their utility and functionality in water related environments.

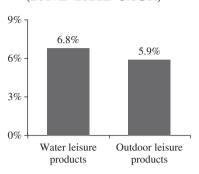
The charts below set forth the global water leisure products market size in terms of retail sales from 2011 to 2021, respective growth comparison, and proportion of inflatable water leisure products in 2016, respectively.



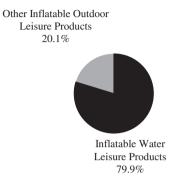


Source: Frost & Sullivan Report

Growth Comparison by Product Category (2017E-2021E CAGR)



Inflatables: Breakdown by Product Category (2016)



# Regional Breakdown

Europe and North America are by far the largest markets for outdoor leisure products in the world, together constituting over US\$120 billion of retail sales in 2016, representing approximately two-thirds of the global market. According to the Frost & Sullivan Report:

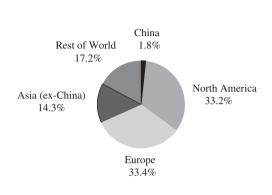
- Europe. The largest outdoor leisure products market in the world in 2016 with market size of US\$60.3 billion in terms of retail sales, having grown at a CAGR of 4.9% from US\$47.5 billion in terms of retail sales in 2011, and representing 33.4% of the global market. As a sizeable and relatively mature market, and due to adverse impacts of various unfavorable economic and political events, growth has been comparatively muted in recent years. Such uncertainties are expected to remain, though growth is expected to be relatively steady at a CAGR of 4.7% from 2017 to 2021, with market size reaching US\$76.2 billion in terms of retail sales in 2021. The inflatables market size in Europe was US\$1.2 billion in terms of retail sales in 2016, having grown at a CAGR of 8.7% from US\$0.8 billion in terms of retail sales in 2011. This market is expected to grow at a CAGR of 10.9% from 2017 to 2021 to US\$2.0 billion in terms of retail sales in 2021.
- North America. The second largest outdoor leisure products market in the world in 2016 with market size of US\$60.1 billion in terms of retail sales, having grown at a CAGR of 5.8% from US\$45.3 billion in terms of retail sales in 2011, and representing 33.2% of the global market. The popularity of outdoor leisure activities in the region has historically driven solid market growth and is expected to make North America the largest outdoor leisure products market in the world in 2017. Renewed consumer confidence and increased leisure spending in recent times is expected to continue to drive growth going forward at a CAGR 5.7% from 2017 to 2021, with market size reaching US\$80.0 billion in terms of retail sales in 2021. The inflatables market size in North America was US\$1.2 billion in terms of retail sales in 2016, having grown at a CAGR of 8.8% from US\$0.8 billion in terms of retail sales in 2011. This market is expected to grow at a CAGR of 11.3% from 2017 to 2021 to US\$2.0 billion in terms of retail sales in 2021.

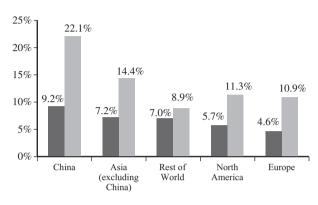
- China. Due to various industry constraints as a result of high population, urban planning and living conditions, China's outdoor leisure products market size was only US\$3.3 billion in terms of retail sales in 2016, quite small compared to more developed regions such as Europe and North America, and only represented 1.8% of the overall global market. However, driven by rising disposable income, increased spending and emphasis on lifestyle, recreation and entertainment, together with greater awareness of such leisure activities, products and respective utility among the population, China's outdoor leisure products industry has already begun to witness strong growth, having grown at a CAGR of 9.3% from a market size of US\$2.1 billion in terms of retail sales in 2011, and is expected to continue to enjoy robust growth in the years ahead. Market size is expected to grow at a CAGR of 9.2% from 2017 to 2021, significantly faster than the global average, reaching US\$5.2 billion in terms of retail sales by 2021. Similarly, although the inflatables market size in China was only US\$33.8 million in terms of retail sales in 2016, having grown at a CAGR of 18.1% from US\$14.7 million in terms of retail sales in 2011, it is expected to grow at an even faster rate at a CAGR of 22.1% from 2017 to 2021 to US\$91.4 million in terms of retail sales in 2021.
- Asia (excluding China). Includes markets such as Japan, Korea and Taiwan, as well as the Middle East and Southeast Asian countries. Aggregate market size was US\$25.9 billion in terms of retail sales in 2016 having grown at a CAGR of 6.9% from US\$18.6 billion in terms of retail sales in 2011, and is expected to grow at a CAGR of 7.2% to US\$36.8 billion in 2021, driven by continued increase in consumption power, strong tourism activity and growing participation in outdoor leisure activities in the region. The inflatables market size in Asia (excluding China) was US\$344.1 million in terms of retail sales in 2016, having grown at a CAGR of 11.1% from US\$202.9 million in terms of retail sales in 2011, and is also expected to experience strong growth going forward at a CAGR of 14.4% from 2017 to 2021 to US\$662.5 million in terms of retail sales in 2021.
- Rest of the World. Includes regions such as South America, Africa and Oceania, with Brazil, Argentina and Australia representing some of the larger markets. Aggregate market size was US\$31.1 billion in terms of retail sales in 2016 having grown at a CAGR of 6.1% from US\$23.1 billion in terms of retail sales in 2011, and is expected to grow at a CAGR of 7.0% to US\$43.1 billion in terms of retail sales in 2021, relatively in line with overall global growth. The inflatables market size in the rest of the world was US\$378.8 million in terms of retail sales in 2016, having grown at a CAGR of 7.5% from US\$264.3 million in terms of retail sales in 2011, and is also expected to experience faster growth in the years ahead at a CAGR of 8.9% from 2017 to 2021 to US\$584.5 million in 2021.

The charts below set forth the breakdown by region of the global outdoor leisure products market by retail sales in 2016, as well as the comparison of expected growth in market size of the overall and inflatable product category by region, respectively.

# Breakdown by Region (2016)

# Growth Comparison by Region (2017E-2021E CAGR)





■ Overall ■ Inflatables

Source: Frost & Sullivan Report

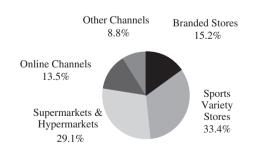
#### **Retail Sales Channels**

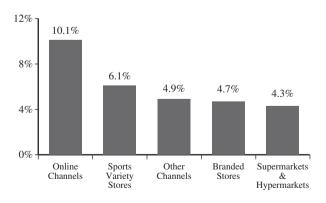
Outdoor leisure products are sold through a number of retail sales channels around the world, including sports variety stores, supermarkets and hypermarkets, branded stores, online channels and other channels such as stores at recreation and entertainment parks, souvenir shops etc.

The chart below sets forth the breakdown by retail sales channel of the global outdoor leisure products market in terms of retail sales in 2016, and comparison of expected market size growth by retail sales channel, respectively.

Breakdown by Retail Sales Channel (2016)

# Growth Comparison by Retail Sales Channel (2017E-2021E CAGR)





Source: Frost & Sullivan Report

# KEY GROWTH DRIVERS, INDUSTRY TRENDS AND BARRIERS TO ENTRY

According to the Frost & Sullivan Report, the following factors are expected to be some of the key drivers of growth, industry trends and barriers to entry for the global outdoor leisure products industry over the next several years:

#### **Growth Drivers**

- Increasing expenditure on lifestyle and entertainment. Together with continued economic growth and increasing disposable income, there has been a clear trend towards increasing spending on lifestyle and entertainment, particularly in emerging markets. Further sustained global economic growth, strong consumer confidence and increasing emphasis on quality of life are expected to be key drivers of the outdoor leisure market going forward.
- Rising health awareness. With quality of life increasing, consumers have gradually become more health conscious, engaging in more sports and recreation activities and consuming healthier goods. Outdoor leisure activities are generally associated with relaxation, exercise and healthy living, and are expected to be a beneficiary of the rising health awareness and higher living standards trends.
- New product development and innovation. Introduction of new product categories to the market, together with emerging technologies to enhance existing products have always been an important driver of industry growth in terms of capturing or renewing consumer interest in the respective and related products. Increasing emphasis on innovation and new product development by key outdoor leisure products players as an effort to increase differentiation and maintain competitive strengths is expected to drive additional incremental growth in the industry going forward.
- Expansion of retail channels. Diverse retail channels have been established to address consumers' purchase preferences, which were predominantly various types of physical stores in the past. In recent years, emerging channels, including e-commerce channels and other online platforms have been rapidly gaining prominence in capturing previously untapped or underpenetrated markets.
- Greater consumer education and market awareness. In some regions, particularly emerging markets such as China and other Asian countries, outdoor leisure and water leisure activities have historically been less popular as compared to more developed markets such as Europe and the U.S., in part due to a lack of consumer awareness. With continued economic growth and increasing expenditure on lifestyle and entertainment, together with an increasing number of and higher quality facilities to engage in such outdoor leisure and water leisure activities, there has been increasing market interest and participation in recent years. With greater consumer education on the benefits of such activities and functionality of related products, there is significant upside potential in market penetration and consumer adoption levels.

# **Industry Trends**

Preference for convenience, flexibility and portability. As a result of increasingly fast-paced
and hectic lifestyles, consumers have shown a greater preference for convenient, flexible and
portable products from meals to gadgets, as well as outdoor leisure products. Accordingly,

the inflatable products category, which includes products such as portable spas and various related recreation products and sports equipment, has demonstrated rapid growth in recent years and is expected to accelerate in the years ahead to nearly double the pace of non-inflatable products.

- Demand for high-quality customer services. Providing easily accessible and high quality aftersales services have also become a key differentiating factor for consumer products brands. Maintaining services such as assigning dedicated sales representatives to address enquiries or potential issues in a receptive and efficient manner is now considered a critical element in maintaining strong long term customer and end-consumer relationships and plays a key role in establishing a positive brand image.
- Emergence of new-age marketing and promotional platforms. With the rapid adoption of online and mobile resources in recent years, particularly among the younger population, there has been a proliferation of new-age social media platforms to conduct advertising and promotional campaigns. Platforms such as Instagram, Snapchat, Weibo, Red and WeChat, among others, have proven to be extremely popular and potentially highly effective in enhancing brand recognition and spreading word-of-mouth.

## **Barriers to Entry**

- Reputation and brand image. Reputation and brand image is one of the most critical success factors in the consumer products industry. Consumers generally prefer to purchase products from brands which they perceive as superior, in terms of design, quality, functionality, value or other factors. A strong reputation and brand image will also help to attract and retain customers in new markets to further expansion plans. However, reputation and brand image generally take a long time to build up, often requiring a lengthy and proven track record, and represents a key industry barrier to entry.
- Research, design and development capabilities. Strong product research, design and development capabilities are critical for competitive differentiation and to attract and retain customers. Recruiting, training and integrating a strong research, design and development team, including skilled management personnel, takes a significant amount of time and resources and in conjunction with a well-developed global patent portfolio act as strong barriers to entry.
- Industry expertise and knowledge. Industry expertise and knowledge, including manufacturing know-how, ability to quickly adapt to ever-changing consumer preferences and experience in managing regulatory bodies are critical factors to succeed in the industry and can generally only be cultivated over time.
- Sales network. A well-established sales network is critical to reaching and serving customers and end-consumers. Establishing an extensive, efficient and well-organized global sales network requires a significant amount of time and resources which may pose challenges to new market entrants who are unlikely to have the required market knowledge and key relationships across the value chain to compete effectively on a global basis.

#### COMPETITIVE LANDSCAPE

The global outdoor leisure products and water leisure products industries are relatively fragmented. Some of the largest outdoor leisure products players globally include Jarden Corp., VF Corp., Vista Outdoor, Adidas and Nike, and other key water leisure products players include Speedo, Johnson Outdoor and Intex. According to the Frost & Sullivan Report, the top five companies in the global outdoor leisure products and water leisure products industry had combined global market shares of only 13.8% and 11.4%, respectively in 2016 in terms of retail sales value.

According to the Frost & Sullivan Report, the ground and mountain leisure products category, which has historically not been our focus, represented over 70% of the overall global outdoor leisure products market in terms of retail sales in 2016. In the global water leisure products market, we are the third largest player, with a market share of 2.3% in terms of retail sales in 2016 and was the fastest growing among the top five players in terms of the year-on-year retail sales value growth from 2015 to 2016.

The following tables set forth the top 5 outdoor water leisure products companies in terms of global retail sales in 2016.

Top Water Leisure Product Players by Retail Sales Value (2016)

Rank	Company	Market Share	YoY Sales Growth (1)
1	Company A	3.7%	5.7%
2	Company B	2.4%	5.5%
3	Bestway	2.3%	13.4%
4	Company C	1.8%	7.3%
5	Company D	1.2%	5.9%
Top 5		<u>11.4%</u>	

Note:

1. Year-on-year retail sales value growth

Source: Frost & Sullivan Report

Due to the diversity of outdoor water leisure activities and respective products available in the market, competition among industry players with different product focus within this category is relatively limited. For example, we had the second largest market share in the above-ground-pools market and the largest market share in the portable spa market in terms of retail sales in 2016, according to the Frost & Sullivan Report. The top two players collectively held market shares of over 70% globally in each of these product categories in terms of retail sales in 2016.

The following tables set forth the top 5 above-ground pool and portable spa companies in terms of global retail sales in 2016.

	Above-grou	nd pool (2010	6)	Portable Spa (2016)						
Rank	Company		YoY Sales Growth (1)	Rank	Company		YoY Sales Growth (1)			
1	Company A	38.8%	9.2%	1	Bestway	41.7%	31.6%			
2	Bestway	33.3%	10.3%	2	Company A	36.7%	23.9%			
3	Company B	5.4%	7.7%	3	Company B	7.5%	20.0%			
4	Company C	5.0%	6.6%	4	Company C	4.2%	25.0%			
5	Company D	1.9%	9.1%	5	Company D	3.3%	14.3%			
Top 5		84.4%		Top 5		93.3%				

<sup>\*</sup> Companies mentioned in the above tables with the same annotations may not refer to the same companies.

Note:

1. Year-on-year retail sales value growth

Source: Frost & Sullivan Report

In contrast to the overall outdoor leisure products industry, the inflatables category is highly concentrated. Other competitors include various international sports brands and other smaller inflatables focused companies. According to the Frost & Sullivan Report, we were the second largest inflatable outdoor leisure products market player globally with 31.0% market share in terms of retail sales in 2016, though growing faster in terms of the year-on-year retail sales value growth from 2015 to 2016 than the current largest player. In Europe, where we have had a relatively long track record, we were the largest player with 38.9% market share in terms of retail sales in 2016. In North America, where we have only started to experience significant growth in recent years, we were the second largest player with 24.3% market share, and growing significantly faster than the current largest player in terms of the year-on-year retail sales value growth from 2015 to 2016.

The following tables set forth the top 5 inflatable outdoor leisure products companies in terms of retail sales in 2016 globally, in Europe and in North America.

Global (2016)					<b>Europe</b> (2016)				North America (2016)				
Rank	Company	Market Share	YoY Sales Growth (1)		Company	Market Share	YoY Sales Growth (1)	Rank	Company	Market Share	YoY Sales Growth (1)		
1	Company A	40.5%	9.2%	1	Bestway	38.9%	15.8%	1	Company A	43.6%	9.2%		
2	Bestway	31.0%	13.0%	2	Company A	34.1%	10.4%	2	Bestway	24.3%	23.3%		
3	Company B	8.0%	7.3%	3	Company B	7.6%	9.8%	3	Company B	13.9%	8.0%		
4	Company C	3.8%	9.0%	4	Company C	2.7%	6.3%	4	Company C	6.7%	9.6%		
5	Company D	2.2%	8.3%	5	Company D	1.3%	7.1%	5	Company D	2.8%	8.1%		
Top 5	=	85.5%		Top 5		84.6%		Top 5	:	91.4%			

<sup>\*</sup> Companies mentioned in the above tables with the same annotations may not refer to the same companies.

Note:

1. Year-on-year retail sales value growth

Source: Frost & Sullivan Report

#### **RAW MATERIALS**

Our major raw materials include PVC resin and plasticizer. According to the Frost & Sullivan Report, the average global wholesale price of PVC resin has been in a declining trend since 2011, due to decreases in the prices of ethylene, the major raw material to produce PVC resin, as a result of declines in international oil prices, together with increases in global PVC resin production capacity, which resulted in an oversupply of PVC. Over the same time period, the average global wholesale price of plasticizer has materially declined, predominantly due to an oversupply of octanol, the major raw material to produce plasticizer, especially in China.

The chart below sets forth the average global wholesale prices of our key raw materials from 2011 to the first half of 2017.

2,500 1,958.7 1,877.1 2.000 1,736.7 1,523.6 1,500 1,105.0 815.4<sup>962.5</sup> 879.4<sup>945.9</sup> 996.7 920.5 891.2 917.1 800.0 1.000 500 0 2011 2012 2014 2015 2016 1H2017 2013 PVC Resin Plasticizer

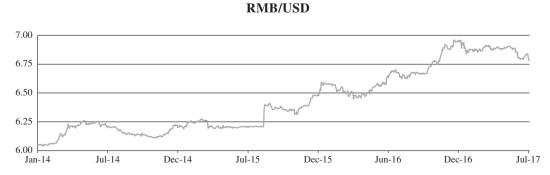
Average Wholesale Prices of Key Raw Materials (Global), 2011-1H2017 (US\$/Ton)

Source: Frost & Sullivan Report

# FOREIGN EXCHANGE

The vast majority of our employees and all of our manufacturing facilities are located in China, while the vast majority of our sales are made in international markets outside of China. As a result, a substantial portion of our costs and expenses are denominated in RMB and a substantial portion of our sales are denominated in U.S. dollars. As a result, given the global nature of our business, we are exposed to foreign exchange fluctuations, particularly with regards to movements in the U.S. dollars against the RMB. In general, an appreciation in the U.S. dollars against the RMB will have a net positive impact on our results of operations.

The chart below sets forth the historical fluctuations of the RMB in relation to the U.S. dollar during the Track Record Period.



Source: The Federal Reserve of the United States

The table below sets forth a summary of the respective foreign exchange fluctuation ranges during the Track Record Period.

		For the Year ended December 31,									Six months ended June 30,		
		2014			2015			2016			2017		
	Avg.	High	Low	Avg.	High	Low	Avg.	High	Low	Avg.	High	Low	
RMB/USD	6.1620	6.2591	6.0402	6.2827	6.4896	6.1870	6.6400	6.9580	6.4480	6.8716	6.9575	6.7793	

Source: The Federal Reserve of the United States

# SOURCES OF INFORMATION

We commissioned Frost & Sullivan, an independent marketing and consulting agency, for the research and preparation of the Frost & Sullivan Report on global outdoor leisure products market, including general economic data, industry data and consumer surveys. The consideration for the research and preparation of the Frost & Sullivan Report is RMB650,000, which we believe reflects the market rate for such reports. Founded in 1961, Frost & Sullivan and its affiliates have 45 global offices with more than 1,800 industry consultants, market research analysts, technology analysts and economists. It offers industry research and market strategies and provides growth consulting and corporate training. Except for the Frost & Sullivan Report, we did not commission any other customized report.

In the regions covered by the Frost & Sullivan Report, Frost & Sullivan adopted a methodology of both primary research and secondary research and obtained knowledge, statistics, information and insights on industry trends within the outdoor leisure products market. Primary research involved interviewing leading industry participants, consumers and third-party industry associations. Secondary research involved reviewing company annual reports, official bureaus' databases, independent research reports or journals and Frost & Sullivan's proprietary database built up over the past decades. Forecast data was obtained from historical data analyses plotted against macroeconomic data as well as specific industry-related drivers, such as purchasing power and consumer expenditure on outdoor leisure products. Frost & Sullivan developed its forecast on the following bases and assumptions:

- that the social, economic and political environments of the world remain stable during the forecast period, which ensures the sustained and steady development of consumer goods retail market; and
- that related industry key drivers are likely to drive the market in the forecast period.

Our Directors confirm that, after taking reasonable care, there is 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.

# PRC LAWS AND REGULATIONS

Set out below are summaries of certain aspects of the PRC laws and regulations which are relevant to the operation and business of the Group.

# Laws and Regulations Relating to Construction

Pursuant to the Land Administration Law of the PRC (《中華人民共和國土地管理法》), which was promulgated on June 25, 1986 and revised on August 29, 1998 and August 28, 2004, the land in China is subject to the socialist public ownership, namely, ownership by the whole people or collective ownership of the working masses. Land owned by the State and land collectively owned by peasants may be lawfully determined to be used by entities or individuals. Entities or individuals using such land are obligated to protect, manage, and rationally utilize the land. Any entity or individual that needs land for the purposes of construction must by law apply for the use of state-owned land. Construction-oriented entities utilizing state-owned land shall generally obtain said land through paid means such as leasing. Construction-oriented entities that have obtained state-owned land by leasing can use the land only after paying the fees to receive the land use rights or other necessary fees and expenses stipulated in the standards and procedures issued by the State Council. With regard to the use of land without approval or by means of fraud, the competent land administrative departments of the people's governments at or above the county level shall order that the land illegally occupied be returned.

Pursuant to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》), which was promulgated on October 28, 2007 and revised on April 24, 2015, If the state-owned land use right for a construction project is assigned, the construction unit shall, after entering into the contract for assigning the state-owned land use right, on the strength of the verification and approval and filing documents of the construction project, as well as the contract for assigning the state-owned land use right, apply to the competent department of urban and rural planning under the people's government of the city or county for the permit for the planned use of construction land. If buildings, structures, roads, lines and other engineering structures are to be constructed within a city or town planning area, construction units or individuals shall apply to the competent department of urban and rural planning under the people's government of the city or county or the people's government of the town specified by the people's government of the relevant province, autonomous region or municipality directly under the Central Government for the construction project planning permit. Pursuant to the Administrative Measures for Construction Permits of Construction Projects (《建築工程施工許可管理辦法》), which was promulgated on June 25, 2014, for the construction and decoration of various buildings, constructions and ancillary facilities thereof and the installation of supporting lines, pipes, equipment within the territory of the People's Republic of China, a construction entity shall, before the commencement of construction, apply, in accordance with the provisions of the Measures, to the competent housing and urban-rural development department of the local people's government at the county level and above (hereinafter referred to as the permit issuing authority) of the place where the construction is located for a construction permit. For a construction project for which a construction permit is required in accordance with the provisions of the Measures, no commencement of construction shall be made before the construction permit is obtained.

# Laws and Regulations in Relation to Foreign Investment in the PRC

The incorporation, operation and management of corporate entities in the PRC shall be subject to the Company Law of the PRC (《中華人民共和國公司法》) (the "Company law"), which was promulgated by the Standing Committee of the National People's Congress (the "SCNPC") on December 29, 1993 and became effective on July 1, 1994. It was subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013 respectively. The Company Law shall also apply to foreign-invested limited liability companies, unless it is otherwise provided by the foreign investment laws.

The establishment procedures, verification and approval procedures, registered capital requirements, foreign exchange control, accounting practices, taxation, labour matters and all other relevant matters of a wholly foreign-owned enterprise shall be subject to the PRC Laws on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》), which was promulgated on April 12, 1986 and amended on October 31, 2000, September 3, 2016 respectively and the Implementation Rules of the PRC Laws on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法實施細則》), which was promulgated on December 12, 1990 and amended on April 12, 2001 and February 19, 2014. According to the last amended PRC Laws on Wholly Foreign-owned Enterprises, which was effective from October 1, 2016, where the establishment of wholly foreign-owned enterprises does not involve the implementation of special administrative measures on access prescribed by the state, the approval items including establishment and major change are subject to record-filing management. The special administrative measures on access prescribed by the state shall be promulgated by or approved for promulgation by the State Council.

The establishment procedures, verification and approval procedures, registered capital requirements, foreign exchange control, taxation, labour matters and all other relevant matters of a Sino-Foreign Equity Joint Ventures shall be subject to the PRC Laws on Sino-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》), which was promulgated on July 8, 1979 and amended on March 15, 2001, September 3, 2016 respectively and the Implementation Regulations of the PRC Laws on Sino-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法實施條例》), which was promulgated on September 20, 1983 and amended on January 15, 1986, December 21, 1987, July 22, 2001 and February 19, 2014. According to the last amended PRC Laws on Sino-Foreign Equity Joint Ventures, which was effective from October 1, 2016, where the establishment of sino-foreign equity joint ventures does not involve the implementation of special administrative measures on access prescribed by the state, the approval items including establishment and major change are subject to record-filing management. The special administrative measures on access prescribed by the state shall be promulgated by or approved for promulgation by the State Council.

Any investments in the PRC conducted by foreign investors and foreign enterprises shall be subject to the Catalogue of Industries for Guiding Foreign Investment (Revised in 2017) (《外商投資產業指導目錄》 (2017年修訂)) (the "Catalog"), which was promulgated by the NDRC and the MOFCOM on June 28, 2017 and became effective on July 28, 2017. The Catalog is a long-standing tool that PRC policy makers have used to manage and direct foreign investment. The Catalog divides industries into three basic categories: encouraged industries, restricted industries and prohibited industries. Foreign investors and foreign-owned enterprises are not allowed to make investments which fall under the "prohibited" industry under the Catalog. Industries not listed in the Catalog shall be classified as the permitted industries unless specifically barred in other PRC regulations.

# Chinese Laws and Regulations Relating to Product Quality and Consumer Protection

# Product Quality

Pursuant to the Product Quality Law of the PRC (《中華人民共和國產品質量法》), which was promulgated on February 22, 1993, became effective on September 1, 1993, and was subsequently amended on July 8, 2000 and August 27, 2009, producers are liable for the quality of the products they produce. Where anyone produces or sells products that do not comply with the relevant national or industrial standards safeguarding the health and safety of persons and property, the relevant authority will order such person to suspend the production or sales, confiscate the products, impose a fine of an amount higher than the value of the products and less than three times of the value of the products, confiscate illegal gains (if any) as well as revoke the business license in severe cases. Where the activities constitute a crime, the offender will be prosecuted.

#### **Product Liabilities**

Manufacturers and distributors of defective products in the PRC may incur liability for losses and injuries caused by such products. Under the General Principles of the Civil Laws of the PRC (《中華人民 共和國民法總則》), which became effective on October 1, 2017, and the Law on the Protection of Consumer Rights and Interests of the PRC (《中華人民共和國消費者權益保護法》), which was promulgated on October 31, 1993, became effective on January 1, 1994 and was amended on August 27, 2009 and October 25, 2013, the manufacturers and distributors will be held liable for losses and damages suffered by consumers caused by the defective products manufactured or distributed by them.

Under the above-mentioned laws and regulations, it is required to ensure that the products which we produce and sell meet the requirements for safeguarding human health and ensuring human and property safety. Failing to do so will lead to a series of penalties, including the suspension of production and sale, confiscation of the products and earnings, imposition of fines, revocation of business licenses, and/or even criminal liabilities. In addition, if the products cause personal injuries or other forms of torts, lawsuits and liabilities in tort would be brought in.

# Laws and Regulations Relating to Production Safety

Pursuant to the PRC Production Safety Law (《中華人民共和國安全生產法》) which was promulgated on June 29, 2002 and amended on August 27, 2009, August 31, 2014 respectively, the State Administration of Work Safety (《國家安全生產監督管理總局》) is in charge of the overall administration of production safety. The PRC Production Safety Law provides that any entity engaging in manufacturing must meet national or industry standards regarding safety production and provide qualified working conditions required by laws, administrative rules and the national or industry standards. The entity engaging in manufacturing must install prominent warning sign at or on the relevant dangerous operation site, facility and equipment. The design, production, installation, use, test, maintenance, upgrade and disposal of safety equipment must comply with national and industry standards.

#### Laws and Regulations Relating to Import and Export of Goods

Pursuant to the Foreign Trade Law of PRC (《中華人民共和國對外貿易法》) (the "Foreign Trade Law"), which was promulgated on May 12, 1994 and revised on April 6, 2004 and November 7, 2016, foreign trade dealers engaged in the import and export of goods or technology shall register with the authority responsible for foreign trade under the State Council or its authorised bodies unless the laws and regulations and the authority responsible for foreign trade under the State Council do not require so. Where foreign trade dealers fail to register as required, the customs authority shall not process the procedures of declaration, examination and release of the imported and exported goods.

According to the Measures for the Record-keeping and Registration by Foreign Trade Dealers (《對外貿易經營者備案登記辦法》), which was took effect from July 1, 2004 and revised on August 18, 2016, where any foreign trade business operator undertaking the import or export of goods or technology shall go through the record filing and registration process with the MOFCOM or institutions entrusted by the MOFCOM. Those for whom there is no need to make record filing and registration as prescribed by laws, administrative regulations and the provisions of the MOFCOM, shall be excluded. In case a foreign trade business operator fails to go through the record filing and registration process according to these Measures, customs shall not handle the formalities for import/export declaration of release.

Pursuant to the Customs Law of the PRC (《中華人民共和國海關法》) promulgated by the SCNPC on January 22, 1987 and amended on July 8, 2000, June 29, 2013, December 28, 2013 and November 7, 2016, unless otherwise stipulated, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have registered with the Customs. The consignees and consignors for import or export of goods and the customs brokers engaged in customs declaration shall register with the Customs in accordance with the laws. Pursuant to the Implementing Regulations of the Customs of the PRC on Administrative Penalties (《海關行政處罰實施條例》), which took effect from November 1, 2004, if the name, tariff serial number, quantity, specification, price, trading category, place of origin, place of shipment, place of arrival, final destination of the import and export goods or other items were omitted or falsely declared, punishment shall be imposed based on the nature of omission or misreporting, and any illegal gains shall be confiscated. If it affects the amount of tax collected by the state government, a fine of 30% up to 2 times the evaded tax shall be imposed.

Pursuant to the Measures of the Customs of the PRC for the Supervision and Administration of Processing Trade Goods (《中華人民共和國海關加工貿易貨物監管辦法》) promulgated by the General Administration of Customs (海關總署) (GACC) on March 12, 2014, processing trade refers to business activities in which an operating enterprise imports all or part of the raw or ancillary materials, spare parts, components, and packaging materials and after processing or assembly, re-exports the finished products, including both the processing of supplied materials and the processing of imported materials. In the event that the imported materials under processing trade fall under bonded supervision, Customs shall, after the export of the finished goods, complete the verification and writing-off according to the verified quantity of the goods actually processed and exported. In the event that taxes have been collected on imported materials under processing trade in advance pursuant to the relevant provisions, Customs shall, after the export of the finished goods, return the collected taxes according to the verified quantity of the goods actually processed and exported. Where export customs duties are to be levied on the exported products under processing trade, Customs shall collect the export customs duties pursuant to the relevant provisions. Customs shall implement classification supervision over processing trades,

with specific administrative measures to be otherwise formulated by the GACC. An operating enterprise shall handle the formalities for the establishment of the manual of processing trade goods with the competent Customs in the area where the processing enterprise is located. Unless otherwise stated, when handling the formalities for the establishment of the manual of processing trade goods, an operating enterprise shall faithfully report to Customs the trade method, unit consumption, ports of import and export, as well as the commodity names, commodity numbers, specifications and types, prices, origins and other information of the imported materials and finished export products.

Pursuant to the Interim Administrative Measures for Examination and Approval of the Domestic Sales of the Bonded Imported Materials and Fittings for Processing Trade (《加工貿易保税進口料件內銷 審批管理暫行辦法》) promulgated by the Ministry of Foreign Trade and Economic Cooperation on May 27, 1999, domestic sales of the bonded imported materials and fittings for processing trade refers to the process in which an operating enterprise cannot re-export after processing according to the provisions due to some reasons and thus needs to sell these bonded imported materials and fittings or finished goods produced thereby on the domestic market or for production of goods to be sold on the domestic market. The bonded imported materials and fittings for processing trade shall all be processed for reexport, and if they need to be sold on the domestic market for some special reasons, the relevant information shall be reported to the competent authority of foreign trade and economic cooperation at provincial level for approval (The commodities listed in the catalogue of the general trade managed with import quotas or registration are excluded). For an operating unit that has submitted all the materials and complies with provisions of Article 5 hereof, the competent authority of foreign trade and economic cooperation will issue to it a Permit for Domestic Sales of Bonded Imported Materials and Fittings for Processing Trade, specify the name, code, specification, quantity and amount of the imported materials and fittings approved to be sold in domestic market, and affix the Special Seal for Approval of Processing Trade thereon. For the domestic sales of the imported materials and fittings for processing trade not listed in the catalogue of the trade managed with import quotas or registration, the Customs shall, based on the Permits for Domestic Sales of Bonded Imported Materials and Fittings for Processing Trade issued by competent authority of foreign trade and economic cooperation, handle the formalities of verifying and canceling the Processing Trade Registration Manual after collection of supplementary taxes and interest on such taxes of imported materials and fittings according to relevant state provisions.

According to Pursuant to the Administrative Provisions for the Registration of Customs Declaration Agents by PRC Customs Authorities (《中華人民共和國海關報關單位註冊登記管理規定》), which was promulgated on March 13, 2014, consignors and consignees of imported and exported goods carry out the customs declaration entity registration formalities with their local Customs in accordance with the applicable provisions. Such consignors and consignees may handle their own customs declarations for their imported and exported goods at any customs port or any locality where customs supervisory affairs are concentrated within the customs territory of the People's Republic of China.

#### Laws and Regulations Relating to Employment and Social Insurance

# **Employment Contracts**

Pursuant to the Labor Law of the PRC (《中華人民共和國勞動法》), which was promulgated on July 5, 1994 and revised on August 27, 2009, and the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), which became effective on January 1, 2008 and was amended on December 28, 2012, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or entities on one hand and the laborers on the other hand.

# Employment of Foreigners in China

Pursuant to the Circular on the Issuance of the Regulations on the Management of the Employment of Foreigners in China (《外國人在中國就業管理規定》), which was promulgated on July 5, 1994 and revised on August 27, 2009 and March 13, 2017, entities that employ foreigners must apply for employment permission for these foreigners and may employ foreigners only after obtaining Certificates of the People's Republic of China Permitting the Employment of Foreigners (外國人就業許可證書). An employing entity and its foreign employee must, in accordance with the law, conclude a labor contract, the term of which may not exceed five years. The work permits of employed foreigners shall cease to be effective upon the expiration of the term of the labor contract between the foreigner and his employer. If renewal is required, the employer must, within thirty days priors to the expiration of the contract, submit an application to the labor administrative departments for an extension of employment, and after approval is obtained, proceed to complete the procedures for the extension of the work permit.

# Employee Benefits

As required under the Regulation of Insurance for Labor Injury (《工傷保險條例》), amended on December 20, 2010 and came into effect on January 1, 2011, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》), implemented on January 1, 1995, the Decisions on the Establishment of a Unified Program for Old-Aged Pension Insurance of the State Council (《國務院關於建立統一的企業職工基本養老保險制度的決定》), issued on July 16, 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》), promulgated on December 14, 1998, the Unemployment Insurance Measures (《失業保險條例》), promulgated on January 22, 1999, the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行 條例》), promulgated on 22 January 1999, the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》), promulgated on March 19, 1999, and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), implemented on July 1, 2011, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. Enterprises must apply for social insurance registration with local social insurance agencies and pay premiums for their employees. If an enterprise fails to pay the required premiums on time or in full amount, the authorities in charge will demand the enterprise to settle the overdue amount within a stipulated time period and impose a daily overdue fine equivalent to 0.05% of the overdue amount. If the overdue amount is still not settled within the stipulated time period, an additional fine with an amount of one to three times of the overdue amount will be imposed.

According to the Regulation on Management of Housing Fund (《住房公積金管理條例》), which was promulgated by the State Council on April 3, 1999, became effective on the same day and was amended on March 24, 2002, enterprises must register with the competent managing center for housing funds and, upon the examination by such managing center of housing fund, complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Employers are required to contribute, on behalf of their employees, to housing funds. The payment is required to be made to local administrative authorities. Any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

#### Laws and Regulations Relating to Environmental Protection

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》 (the "Environmental Protection Law"), which was promulgated by the SCNPC on December 26, 1989, revised on April 24, 2014 and came into effect on January 1, 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.

The Ministry of Environmental Protection of the PRC has formulated a series of supporting regulations to ensure effective enforcement of the new environmental protection law.

On December 19, 2014, the Ministry of Environmental Protection promulgated the Measures for the Disclosure of Environmental Information by Enterprises and Public Institutions (《企業事業單位環境信息公開辦法》)(the "Measures"), which came into effect on January 1, 2015. The Measures specifies units and scope of the environmental information disclosure, disclosure method, credit evaluation system establishment and legal liability. Enterprises and public institutions shall promptly and truthfully disclose their environmental information by the principle of combining the mandatory disclosure with the voluntary disclosure. The Measures specified the subject of liability to mandatory disclosure, which requires the environmental protection authorities to draw up a list of key pollutant-discharging units and supervise and guide the units to carry out the work. As to the content to disclosure, the environmental protection authorities are liable to supervise the disclosed contents according to the Measures.

The Environmental Impact Appraisal Law (《中華人民共和國環境影響評價法》), which was promulgated by the Standing Committee of the NPC on October 28, 2002 and revised on July 2, 2016, the Administration Rules on Environmental Protection of Construction Projects (Revised in 2017) (《建設項目環境保護管理條例》(2017年修訂)), which was promulgated by the State Council and became effective on July 16, 2017, and the Measures for the Administration of Examination and Approval of Environmental Protection Facilities of Construction Projects (《建設項目竣工環境保護驗收管理辦法》), which was promulgated by the State Environmental Protection Administration of the PRC (中華人民共和國國家環境保護總局) on December 27, 2001 and became effective on February 1, 2002, require enterprises planning construction projects to engage qualified professional institution to provide

assessment reports on the environmental impact of such projects. The assessment report must be approved by the competent environmental protection authorities prior to commencement of any construction work. Enterprises shall file an application for examination and acceptance of the environmental protection facilities upon the completion of the construction project. A construction project may be formally put into production or use only if the corresponding environmental protection facilities have passed the acceptance examination.

# Laws and Regulations Relating to Trademark administration

Overview of trademark administration

The Trademark Law of the PRC (《中華人民共和國商標法》) (Order No. 6 of the President, effective from March 1, 1983 and amended on February 22, 1993, October 27, 2001 and August 30, 2013 and came into effect on May 1, 2014) and Regulation for the Implementation of Trademark Law of the PRC (《中華人民共和國商標法實施條例》) (Order No. 651 of the State Council, effective from September 15, 2002 and amended on April 29, 2014 and came into effect on May 1, 2014) provides that the Trademark Office of the SAIC (the "**Trademark Office**") shall be responsible for the registration and administration of trademarks throughout the country and the Trademark Review and Adjudication Board of the State Administration for Industry and Commerce under the State Council shall be responsible for handling trademark disputes.

Registered trademarks refer to trademarks that have been approved and registered by the Trademark Office, which include commodity trademarks, service trademarks, collective marks and certification marks. The trademark registrant shall enjoy an exclusive right to use the trademark, which shall be protected by laws and regulations. Any visible mark in the form of word, graphic, alphabet, number, 3D (three-dimension) mark, colour combination or the combination of these elements that can distinguish the commodities of the natural person, legal person or other organizations from those of others can be registered as a trademark. Trademark for which an application is filed for registration shall be as distinctive as to be distinguishable, and shall not go against the legitimate right previously obtained by others. A trademark registrant is entitled to tag the words "Registered Trademark" or a sign indicating that it is registered.

Any of the following acts shall be an infringement upon the right to exclusive use of a registered trademark: (1) using a trademark which is identical with a registered trademark on the same kind of commodities without a license from the registrant of the registered trademark; (2) using a trademark which is similar to a registered trademark on the same kind of commodities, or using a trademark that is identical with or similar to the registered trademark on similar goods without a license from the registrant of the registered trademark, which is likely to cause confusion; (3) selling commodities that infringe upon the right to exclusive use of a registered trademark; (4) counterfeit or unauthorized production of the label of another's registered trademark, or sale of any such label that is counterfeited or produced without authorization; (5) changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of the registered trademark; (6) providing, intentionally, convenience for activities infringing upon others' exclusive right of trademark use, and facilitating others to commit infringement on the exclusive right of trademark use; or (7) causing other damage to the right to exclusive use of a holder of a registered trademark. In the event of infringement of the registered trademark above that leads to disputes, the parties concerned shall

settle such disputes through negotiations; where no negotiation is prospective or fails, the trademark registrant or any interested party may file a lawsuit before the People's Court or request the administrative department for industry and commerce for handling.

# Patent Law

Batents in the PRC are mainly protected under the Patent Law of the PRC (《中華人民共和國專利法》), which was promulgated by the Standing Committee of the NPC on March 12, 1984 and amended on September 4, 1992, August 25, 2000 and December 27, 2008, and its implementation rules (《中華人民共和國專利法實施細則》), which was promulgated by the State Council on June 15, 2001 and amended on December 28, 2002 and January 9, 2010. The Patent Law of the PRC and its implementation rules provide for three types of patents, "invention", "utility model" and "design". "Invention" refers to any new technical solution relating to a product, a process or improvement thereof; "utility model" refers to any new technical solution relating to the shape, structure, or their combination, of a product, which is suitable for practical use; and "design" refers to any new design of the shape, pattern, color or the combination of any two of them, of a product, which creates an aesthetic feeling and is suitable for industrial application. The duration of a patent right for "invention" is 20 years, and the duration of a patent right for "utility model" or "designs" is 10 years, from the date of application.

In the event that a dispute arises due to a patent being exploited without the prior authorization of the patentee, that is to say an infringement upon the patent right of the patentee, then it shall be settled through consultation involving both parties. In the event that one or both parties are unwilling to submit to consultation, or if the consultation fails, then the patentee or any interested party may initiate legal proceedings in the people's court, or request the patent administrative department to handle the matter. In the event the patent administrative department, when handling the matter, believes the infringement is established, it may order the infringing party to cease the infringement with immediate effect. If the infringing party is not satisfied with the ruling, it may, within 15 days from the date of receiving the notification of the order, initiate legal proceedings in the people's court in accordance with the Law of the People's Republic of China on Administrative Proceedings. If the infringing party neither takes legal action at the expiration of the time limit nor ceases the infringement, the patent administrative department may request the people's court for a compulsory execution of the aforementioned order. The patent administrative department may, upon the request from both or either of the parties, conduct mediation in respect of the amount of compensation for the damage caused by the infringement upon the patent right. If the mediation fails, the parties may initiate legal proceedings in the people's court in accordance with the Civil Procedure Law of the People's Republic of China.

#### Domain names

The Measures for the Administration of Domain Names for the Chinese Internet (《中國互聯網絡域名管理辦法》) (the "Domain Name Measures") were promulgated by the then existing Ministry of Information Industry on November 5, 2004, and came into effect on December 20, 2004. The Domain Name Measures regulate registrations of domain names with the Internet country code ".cn" and domain names in Chinese. The establishment of any domain name root server or institution for operating domain name root servers within the territory of the People's Republic of China shall be subject to the approval of the Ministry of Information Industry. In case anyone establishes any domain name root server or institution for operating the domain name root servers without administrative license or establishes any

domain name registry or domain name registrar without permission, the Ministry of Information Industry shall take measures to prevent it from carrying out business or providing services in accordance with the provisions of Article 81 of the Administrative Licensing Law of the People's Republic of China, and give it warnings or impose a fine of less than RMB30,000 according to the circumstances.

#### Copyright

The Copyright Law of the People's Republic of China (《中華人民共和國著作權法》) was promulgated by the Standing Committee of the National People's Congress on February 26, 2010, and came into effect on April 1, 2010. Works of Chinese citizens, legal persons or other organizations, whether published or not, enjoy copyright under this Law. The term "copyright" shall include the following personal rights and property rights: (1) The right of publication, i.e., the right to decide whether or not to make a work available to the public; (2) The right of authorship, i.e., the right to affix one's name to a work to indicate the author's identity; (3) The right of revision, i.e., the right to revise or authorize others to revise one's work; (4) The right of integrity, i.e., the right to protect one's work against misrepresentation and distortion; (5) The right of reproduction, i.e., the right to make one or more copies of one's work through such means as printing, photocopying, rubbing, making an audio recording, making a video recording, duplicating a recording, reproducing by photographic or cinematographic means, etc.; (6) The right of distribution, i.e., the right to provide the original or reproduction of one's work to the public by means of sale or gift; (7) The right of rent, i.e., the right to permit others to temporarily use one's cinematographic work, work created by a process analogous to cinematography or computer software for consideration, except where the computer software itself is not the essential object of the rental arrangement; and (8) Other rights to which a copyright owner is entitled. An author's rights of attribution, revision and integrity shall continue in perpetuity.

# Laws and Regulations Relating to Taxation

# Enterprise Income Tax

On March 16, 2007, the National People's Congress enacted the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法》), which became effective as of January 1, 2008 and was amended on February 24, 2017. On December 6, 2007, the State Council enacted the Implementation Rules for the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法實施條例》), which also became effective as of January 1, 2008 (collectively, the "EIT Law"). According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control entity is within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but (i) have entities or premises in China, or (ii) have no entities or premises but have income generated from China. According to the EIT Law, foreign invested enterprises in the PRC are subject to enterprise income tax at a uniform rate of 25%. A non-resident enterprise that has an establishment or premises within the PRC shall pay enterprise income tax at a rate of 25% on its income that is derived from such establishment or premises inside the PRC and that is sourced outside the PRC but is actually connected with the said establishment or premises. A non-resident enterprise that has no establishment or premises within the PRC but has income from the PRC, and a non-resident enterprise that has establishment or premises in the PRC but

its income has no actual connection to such establishment or premises in the PRC, shall be subject to PRC withholding tax at the rate of 10% on its income sourced from the PRC. High and new technology Enterprises that require key state support are subject to the reduced enterprise income tax rate of 15%.

The Circular on Improving the Policy on Extra Pre-tax Deduction of Research and Development Expenses (《關於完善研究開發費用税前加計扣除政策的通知》) was promulgated by the State Administration of Taxation, the Ministry of Finance, the Ministry of Science and Technology on November 2, 2015, and came into effect on January 1, 2016. Where the research and development expenses that are actually incurred in the research and development activities of enterprises and do not constitute intangible assets are recorded into the current profit or loss, such expenses shall be deducted from the taxable income for the current year at 50% of the actual amount incurred in the current year and on an actual basis as required; if intangible assets are constituted, such expenses shall be amortized at 150% of the costs of the intangible assets before tax.

# Dividend Tax

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements (《國家税務總局關於執行税收協定股息條款有關問題的通知》), which was promulgated by the State Administration of Taxation (the "SAT") and became effective on February 20, 2009, all of the following requirements shall be satisfied in order to enjoy the preferential tax rates provided under the tax agreements:

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

Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion on income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》),a PRC resident enterprise which distributes dividends to its Hong Kong shareholders must pay income tax according to PRC law. However, if the beneficial owner of the dividends is a Hong Kong resident enterprise that directly holds no less than 25% equity interests of the aforesaid enterprise (i.e., the dividend distributor), the distributed dividends may be subject to a reduced tax rate of 5%. If the beneficial owner is a Hong Kong resident enterprise, which directly holds less than 25% equity interests of the aforesaid enterprise, the tax levied will be 10% of the distributed dividends. Notice of the State Administration of Taxation Concerning the Meaning and Determination of the Identity of "Beneficial Owner" in Tax Treaties (《國家稅務總局關於如何理解和認定稅收協定中"受益所有人"的通知》) has stipulated some factors for the determination of the "Beneficial Owner."

On August 27, 2015, the SAT promulgated the Announcement on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers 《國家稅務總局關於發布<非居民納稅人享受稅收協定待遇管理辦法>的公告》, which became effective on November 1, 2015. Under the Announcement on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers, any non-resident taxpayer meeting conditions for enjoying the convention treatment may be entitled to the convention treatment itself/himself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities. Such taxpayers who make their own declaration shall self-assess whether they are entitled to tax treaty benefits, make truthful declaration and submit the relevant reports, statements and materials required by the relevant tax authorities.

#### Value-Added Tax

Pursuant to the Interim Regulations on Value-added Tax of the PRC (《中華人民共和國增值税暫行條例》), which was amended by the State Council on February 6, 2016, and the Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-Added Tax (《中華人民共和國增值税暫行條例實施細則》), which was amended by the Ministry of Finance of the PRC (中華人民共和國財政部) and SAT on October 28, 2011, entities or individuals engaging in sale of goods, provision of processing services, repairs and replacement services and importation of goods within the territory of the PRC are subject to the payment of value-added tax (the "VAT"). The VAT payable is calculated as "output VAT" minus "input VAT" and the VAT rate is 17% or in certain limited circumstances 13%, depending on the products, except for a small-scale taxpayer under the Interim Regulations on Value-added Tax of the PRC.

Pursuant to the Circular on Value-Added Tax and Consumption Tax Policies on Exported Goods and Services issued by the Ministry of Finance and the SAT (《財政部、國家税務總局關於出口貨物勞 務增值税和消費税政策的通知》), which took effect from January 1, 2011, the units or individually owned business that have gone through the formalities for industrial and commercial registration, taxation registration and foreign trade operator archival-filing registration as required by the law, which export goods on a self-operated basis or a commission basis; and the manufacturing enterprises that have gone through the procedure for industrial and commercial registration and taxation registration according to the law but have not gone through the formalities for foreign trade operator archival-filing registration, which export goods through agents, shall apply the policies concerning the exemption and refund of Value-added Tax (hereafter referred to as the "VAT refund (exemption)"). The VAT refund (exemption) of re-exported goods processed with imported materials of the manufacturing enterprises shall be determined based on the FOB price of the exported goods after having deducted the amount of customs bonded imported materials and parts as included in the exported goods. For the purpose of this Circular, the "customs bonded imported materials and parts" means the materials and parts imported from abroad and from special areas by the export enterprises which are under the supervision of the Customs under trading imported materials for processing. The customs bonded imported materials and parts include the materials and parts which are purchased from overseas units or individuals and drawn from the Customs bonded warehouses by the export enterprises where the formalities for the imported materials and parts of the Customs have been completed, and the imported materials and parts which are purchased from the enterprises within the bonded zone by the export enterprises outside the bonded zone where the formalities for the imported materials and parts of the Customs have been completed. Pursuant to the Measures of the Customs of the PRC for the Supervision and Administration of Processing Trade Goods (《中華人民共和國海關加工貿易貨物監管辦法》), in the event that the imported materials or

finished products under processing trade are instead sold on the domestic market due to certain reasons, Customs may, on the strength of the valid document of approval for domestic sale issued by the competent authority, collect taxes on the bonded imported materials in accordance with the law and collect additional interest for late tax collection, unless otherwise stated.

In accordance with Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》), which was promulgated on March 23, 2016 and with effect from May 1, 2016. Upon approval of the State Council, the pilot program of the collection of value-added tax in lieu of business tax shall be promoted nationwide in a comprehensive manner as of May 1, 2016, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to payment of value-added tax instead of business tax.

#### Laws and Regulations Relating to Foreign Exchange

Foreign exchange administration

The principal law governing foreign currency exchange in the PRC is the Foreign Exchange Administration Regulations (《中華人民共和國外匯管理條例》). The Foreign Exchange Administration Regulations was enacted by the State Council on January 29, 1996 and implemented on April 1, 1996. On January 14, 1997 and August 5, 2008, the State Council amended the Foreign Exchange Administration Regulations. According to the Foreign Exchange Administration Regulations currently in effect, international payments in foreign currencies and transfer of foreign currencies under current items shall not be restricted. Foreign currency transactions under the capital account are still subject to limitations and require approvals from, or registration with, the State Administration of Foreign Exchange ("SAFE") and other relevant PRC governmental authorities.

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 People's Bank of China ("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 authorized 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.

On August 29, 2008, the SAFE promulgated the Notice of the General Affairs Department of the SAFE on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises (《國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》) (the "SAFE Circular 142") regulating the conversion by a foreign-invested enterprise of its foreign currency registered capital into Renminbi. The SAFE Circular 142 provides that the Renminbi fund converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. The use of such Renminbi fund may not be altered without approval, and such Renminbi fund may not in any case be used to repay any Renminbi loans that were taken out but that have not been utilized. Violations of the SAFE Circular 142 could result in severe monetary penalties. On March 30, 2015, the SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital 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》) (the "SAFE Circular 19"), which became effective on June 1, 2015 and replaced the SAFE Circular 142. Under the SAFE Circular 19, the restriction is abolished that the using the Renminbi fund converted from foreign currency registered capital of a foreign-invested enterprise for equity investments within the PRC. Meanwhile, the use of such Renmibi should still obey the restrictions as set in this circular, such as it cannot be directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by national laws and regulations; investment in securities unless otherwise provided by laws and regulations; granting the entrust loans in Renminbi (unless permitted by the scope of business), repaying the inter-enterprise borrowings (including advances by the third party) or repaying the bank loans in Renminbi that have been sub-lent to the third party; and paying the expenses related to the purchase of real estate not for self-use, except for the foreign-invested real estate enterprises. On June 9, 2016, the SAFE promulgated the Circular of SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《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》). This Circular shall come into force as of the date of promulgation. Where the previous provisions, such as the SAFE Circular 19 are not consistent with this Circular, the latter shall prevail.

#### Dividend distribution

The principal laws governing dividend distributions by our PRC Subsidiaries include the PRC Company Law (《中華人民共和國公司法》), which was promulgated on December 29, 1993 and became effective on July 1, 1994 and was subsequently amended on December 25, 1999, August 28, 2004 and October 27, 2005 and on December 28, 2013. Dividend distribution by wholly foreign-owned enterprises ("WFOE") and Sino-foreign equity joint ventures ("EJV") are further governed by the PRC Law Concerning Wholly Foreign-Owned Enterprises (《中華人民共和國外資企業法》), which was promulgated on April 12, 1986 and amended on October 31, 2000, September 3, 2016 respectively and the Implementation Rules of the PRC Laws on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法實施細則》), which was promulgated on December 12, 1990 and amended on April 12, 2001 and February 19, 2014, the PRC Law on Sino-foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》) promulgated on July 8, 1979 and amended on March 15, 2001, September 3, 2016 respectively and the Implementation Regulations on Sino-foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法實施條例》) promulgated on September 20, 1983 and revised on December 21, 1987, July 22, 2001, January 8, 2011 and February 19, 2014.

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

#### Circular No. 37

The SAFE promulgated Circular 37 on July 4, 2014 which rescinded the Circular 75. Pursuant to 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 aforesaid complementary registration, administrative penalty would be imposed in accordance with relevant laws. According to the Circular on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《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》) (the "SAFE Circular 13") which was promulgated on February 13, 2015 and became effective on June 1 2015, the above mentioned registration under Circular 37 will be handled directly by the bank that has obtained the financial institution identification codes issued by the foreign exchange regulatory authorities and that has opened the capital account information system at the foreign exchange regulatory authority in the place where it is located and the foreign exchange regulatory authorities shall perform indirect regulation over the direct investment-related foreign exchange registration via banks.

# OVERSEAS LAWS AND REGULATIONS RELATING TO PRODUCT QUALITY AND CONSUMER PROTECTION

During the Track Record Period, the majority of our products were sold in the United States and Europe. Our sales in the United States, the United Kingdom and the European Union (all member states except for Luxembourg and the United Kingdom) in aggregate accounted for 57.0%, 62.7%, 70.0% and 74.8% of our total revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively. Our products sold in these jurisdictions are required to comply with certain laws and regulations in the respective jurisdiction in relation to consumer protection, product safety and product liabilities. Below is a summary of the relevant consumer protection, product safety and product liability laws and regulations of the United States, the United Kingdom and the European Union that we consider material to our business.

#### U.S. laws and regulations

# Product Liability Law

In the United States, Product Liability Law is one of the separate and distinct areas of law that may apply to product defects or injuries caused by a product. This primary body of law governs a party who designs, manufactures, sells or supplies an offending product, whether that causes an injury or in some cases where there is a likelihood that a product could cause injury. Product Liability Law governs private litigation of product accidents.

There are four basic theories of recovery when dealing with a product alleged to be defective: (i) strict products liability; (ii) negligence; (iii) breach of warranty; and (iv) tortious misrepresentation. A litigant is not limited to one theory in bringing the lawsuit, but rather can assert any and all theories simultaneously. In addition, all of the four theories have broad application to a vast array of products—including outdoor leisure products.

Strict products liability is generally the most common cause of action asserted in lawsuits involving allegedly defective products. This is because, unlike negligence, strict products liability wrongs do not depend on the degree of carefulness by the defendant. The analysis depends solely on the product and whether it was defective at the time it left the hands of the manufacturer. A product can be defective in its manufacture, that is the product does not conform to design specifications or performance standards, or it deviated in some material way from otherwise identical units of the same product line. A product can also be defective in its design. A product has a design defect when its design or configuration is what makes it unreasonably dangerous. Finally, a product can be defective because it lacks proper warning or instructions. These are generally called failure to warn claims.

With strict products liability, it is irrelevant whether the manufacturer or supplier exercised all due care in the design, manufacture, or marketing of the product; if there is a defect in the product that causes harm, he or she will be liable for it. Thus, strict product liability is liability without fault for an injury proximately caused by a product that is defective and not reasonably safe.

Negligence actions, on the other hand, require a plaintiff to show that (1) the defendant owed the plaintiff a duty of due care, (2) the defendant breached that duty by furnishing a defective product, and (3) the defendant's breach caused the plaintiff's injury. The analysis focuses on the acts or omissions of the manufacturer of the product. The duty to exercise reasonable care involves every phase of getting the product to the public. For example, not only must the product be manufactured with reasonable care, the product must also be designed in a way that is safe when used as intended. The product must be inspected and tested at appropriate stages in the manufacturing, distribution and selling process. The product must be made from appropriate (i.e., safe and non-defective) materials, and assembled with appropriate care to avoid against its negligent manufacture. The product's container or packaging must be adequate (and not itself dangerous or defective), and contain appropriate warnings and directions for use. An otherwise non-defective product can be made unsafe by the failure to provide adequate instructions for its safe use.

A breach of warranty cause of action is governed by contract law. In the simplest of terms, a warranty is a promise, claim, or representation made about the quality, type, number or performance of a product. In general, the law assumes that a seller always provides some kind of warranty concerning the product he sells and the he should be required to meet the obligation created by the warranty.

For the most part, the law that governs the sale of goods, in general, and warranties, in particular, is uniform from state to state. The law that governs the sale of goods is Article 2 of the Uniform Commercial Code—or, as it is typically referred to, the UCC. The UCC has been adopted in every state. Under the UCC, there are two kinds of warranties: express and implied. An express warranty can be created by a representation by the seller, or by showing a sample of a product to the buyer where the buyer reasonably assumed that a second shipment of the same quality as the first would be provided. An implied warranty, on the other hand, is presumed to exist unless the buyer clearly and unambiguously disclaims it in writing as part of the sales agreement.

Finally, tortious misrepresentation is similar to warranty in that it seeks to hold a party liable for misrepresenting a material fact about a product that causes either damage or injury. The rules governing tortious mispresentation are judge-made and vary from jurisdiction to jurisdiction.

#### Product Safety Regulations

At a federal level, product safety in the United States is regulated primarily by the Consumer Products Safety Commission ("CPSC"). Our products fall under CPSC's jurisdiction. The Consumer Product Safety Act ("CPSA"), which was substantially amended by the Consumer Product Safety Improvement Act ("CPSIA"), is the primary law administered by the CPSC. Under the CPSA, CPSC has authority to develop product safety standards, to recall products with safety defects, and to ban products under certain circumstances. The CPSIA, which was initially enacted in 2008 and further expanded in 2011, has provided CPSC with significant new regulatory and enforcement tools.

Under the CPSIA, a General Certificate of Conformity (the "GCC") is required for any product manufactured in or imported into the U.S. that is subject to a consumer product safety rule or any similar CPSC rule, ban, standard or regulation enforced by the CPSC. The GCC is a certification of compliance with applicable product safety requirements, which in addition to the CPSA and CPSIA include the Flammable Fabrics Act, Federal Hazardous Substance Act, and Poison Prevention Packaging Act. The CPSIA specifies that the GCC must be based on a "test of each product or a reasonable testing program." The GCC must accompany the product or shipment of products, and a copy must be furnished to each distributor or retailer, to U.S. Customs, and upon request the CPSC.

Products imported into the U.S. that fail to comply with the requirements are subject to confiscation and the importer and/or distributor in the U.S. is subject to civil penalties and fines, as well as possible criminal prosecution.

#### California Specific Regulations

Various states in the United States also regulate consumer product safety. The most significant state regulations are those enacted by California.

California's Safe Drinking Water and Toxic Enforcement Act of 1986 (commonly known as "**Proposition 65**") applies to approximately 800 chemicals identified by the state as a carcinogen and/or a reproductive toxicant. Various phthalates which can be used in plastics and vinyl (BBP, DEHP, DBP, DnHP, DIDP and DINP) are among the chemicals on the Proposition 65 list.

Proposition 65 requires that persons doing business in California give a clear and reasonable warning before exposing any individual to a listed chemical, unless the exposure is determined not to pose a significant risk. A person in the course of doing business, who manufactures, produces, assembles, processes, handles, distributes, stores, sells, or otherwise transfers a consumer product that is known to contain a listed chemical in an amount requiring a warning is to provide the warning to any person to whom the product is sold or transferred.

Under Proposition 65, enforcement for failure to provide an appropriate warning is brought about either by government authorities in California or by private parties and may result in civil penalties of up to US\$2,500 per day per violation. In wide-reaching settlements of actions involving a variety of phthalate-containing products, dozens of product manufactures have agreed, in addition to payment of substantial penalties, to reformulate their products so that they contain less than 1,000 ppm or 0.1% by weight each of the listed phthalates or to give the Proposition 65 warning if those levels are exceeded.

### EU laws and regulations

In the EU, there is extensive legislation governing the health and safety, as well as the interests of consumers. Accordingly, EU regulations and directives in this sector cover a wide range of issues, such as consumer protection, product safety and product liability, and product packaging and labeling.

While a regulation is a legal act that becomes immediately enforceable and directly applicable in all EU Member States without the need for implementing measures, a directive normally leaves the EU Member States to which it is addressed a certain amount of discretion as to its exact implementation. In this regard, a distinction must be drawn between the degrees of harmonization of EU Member States' legislations pursued by the directives: in particular, directives providing for minimum harmonization merely set a threshold that must be met by national legislation, while allowing EU Member States to put in place stricter rules at their own discretion; by contrast, directives providing for maximum harmonization do not permit the EU Member States to adopt rules that are stricter than those provided for in the directive, even in order to achieve a higher level of consumer protection.

#### Product safety and product liability

All products entering the EU must comply with product safety law. There are two principal EU directives that deal with the compliance of products in the EU: (i) Directive 2001/95/EC of the European Parliament and of the Council of 3 December 2001 on general product safety (the "General Product Safety Directive"), and (ii) Directive 85/374/EEC of the Council of July 25, 1985 on the approximation of the laws, regulations and administrative provisions of the EU Member States concerning liability for defective products (the "Product Liability Directive"), as amended by Directive 1999/34/EC of the European Parliament and of the Council of May 10, 1999.

The General Product Safety Directive aims to ensure that only safe products are made available on the market. It applies to any product that is intended for consumers or likely to be used by consumers and placed in the EU market, provided that there are no sector-specific EU provisions or national standards with the same objective governing the safety of the products concerned.

The General Product Safety Directive requires producers to place only safe products on the market. In determining whether a product is considered safe under the General Product Safety Directive, various factors are taken into account, including the following: (i) national safety standards, (ii) guidelines from the European Commission on product safety, (iii) product safety codes of good practice in force in the sector concerned, (iv) the state of the art and technology, and (v) reasonable consumer expectations concerning safety. The General Product Safety Directive further provides that national governments must appoint local authorities to carry out market surveillance to ensure that safety standards are implemented.

The Product Liability Directive is a maximum harmonization directive and sets out the principle that a producer (including the manufacturer and the importer into the EEA and, if neither manufacturer nor importer can be identified, the retailer) shall be liable for the damage caused by a defect in its product, irrespective of fault. Under the Product Liability Directive, a product is defective if it fails to provide the safety that a person is entitled to expect, taking into account all circumstances, including: (i) the presentation of the product; (ii) the reasonable use to which it could reasonably be expected that the product would be put; and (iii) the time when the product was put into circulation. While the injured person is required to prove the damage, the defect and the causal relationship between defect and damage, the producer will nevertheless not be held liable if it can prove, e.g., that it did not put the product into circulation, or that (with regard to the circumstances) it is probable that the defect that caused the damage did not exist at the time when the product was put into circulation by him or that this defect came into being afterwards; or that the defect is the result of the product's compliance with mandatory regulations issued by the public authorities.

To the best knowledge of the Directors having made reasonable enquiries, no legal claim has been made against us arising from product defects during the Track Record Period.

#### The EU framework on consumer protection

The main EU directive on consumer protection is Directive 2011/83/EU of October 25, 2011 on consumer rights (the "Consumer Rights Directive"), the purpose of which is to achieve a high level of consumer protection across the EU. Apart from some exceptions (such as financial services and insurance), the Consumer Rights Directive covers contracts between traders and consumers for the sale of goods, services such as the supply of water, gas, electricity and heating, and online digital content. While certain rules of the Consumer Rights Directive provide only for a minimum harmonization, the remaining rules set forth a full harmonization regime.

Besides the Consumer Rights Directive, the most relevant EU directives regarding the purposes of consumer protection are:

- (i) Directive 1999/44/EC of May 25, 1999 on certain aspects of the sale of consumer goods and associated guarantees (as modified by Directive 2011/83/EU), which is intended to harmonize EU legislation on consumer contracts relating to the legal warranty of conformity of goods and, to a lesser extent, to contractual warranties (the "Directive on Consumer Sales and Guarantees");
- (ii) Council Directive 93/13/EEC of April 5, 1993 on unfair terms in consumer contracts (the "Directive on Unfair Contract Terms"), which protects consumers against the use by traders of standard (not individually negotiated) contract terms that, contrary to the requirement of good faith, create a significant imbalance in the parties' rights and obligations to the detriment of the consumer;
- (iii) Directive 2005/29/EC of May 11, 2005 concerning unfair business-to-consumer commercial practices in the internal market (the "Unfair Commercial Practices Directive"), which protects consumers against practices by businesses that are contrary to professional diligence requirements and may affect consumer behavior;

- (iv) Directive 2006/114/EC of the European Parliament and of the Council of December 12, 2006 concerning misleading and comparative advertising (the "Directive on Misleading and Comparative Advertising"), which is partially applicable to B2C relations;
- (v) Directive 98/6/EC of February 16, 1998 on consumer protection in the indication of the prices of products offered to consumers (the "**Price Indication Directive**"), which deals with the indication of the selling price and the price per unit of measurement of products offered by traders to consumers, with the aim to improve consumer information and make it easier to compare prices; and
- (vi) Directive 2000/31/EC of the European Parliament and of the Council of June 8, 2000 on certain legal aspects of information society services, in particular electronic commerce, in the internal market (the "e-Commerce Directive"), which sets out detailed information rights for parties concluding an electronic contract that are mandatory in the case of consumer contracts.

The Directive on Consumer Sales and Guarantees, the Directive on Unfair Contract Terms, the Directive on Misleading and Comparative Advertising, and the Price Indication Directive are all minimum harmonization directives, thus allowing EU Member States to adopt or maintain in force more stringent provisions in the fields in question in order to ensure a higher level of consumer protection.

#### Product labeling

EU law imposes an obligation on the manufacturer (or its authorized representative established within the EU) to draw up and sign an EU declaration of conformity before placing a product on the market. The EU declaration of conformity is the document that states that the product satisfies all the relevant requirements of the applicable legislation. As such, it must be translated into the language of the EU Member States in which the product is placed in or made available on the market.

The "CE" marking is a key indicator of a product's compliance with EU legislation and enables the free movement of products within the EEA and Turkish markets. A CE marking may be affixed only by the manufacturer or its authorized representative established within the EU. In addition, it may be affixed only to products to which its affixing is provided for by specific EU harmonization legislation. By affixing such CE marking, the manufacturer indicates that it takes responsibility for the conformity of the product with all applicable requirements set out in the relevant EU harmonization legislation providing for its affixing, such as safety, health and environmental protection requirements.

#### Product-specific regulations

Any products containing electrical parts must also comply with Directive 2014/35/EU of the European Parliament and of the Council of 26 February 2014 on the harmonization of the laws of the EU Member States relating to the making available on the market of electrical equipment designed for use within certain voltage limits (the "Low Voltage Directive"). The Low Voltage Directive establishes safety objectives for electrical equipment within certain voltage limits and requires all manufacturers of products containing electrical parts to undertake testing and assessment of the products to ensure their conformity with Annex I of the Low Voltage Directive. Moreover, pursuant to the Low Voltage Directive, such manufacturers shall draw up an EU declaration of conformity and affix CE marking to the electrical equipment.

The Low Voltage Directive provides for maximum harmonization in the fields covered, which means that it supersedes any existing national legislation.

With respect to electrical and electronic equipment, another relevant instrument is Directive 2012/19/EU of the European Parliament and of the Council of July 4, 2012 on waste electrical and electronic equipment (the "WEEE Directive"). The WEEE Directive lays down measures to protect the environment and human health by preventing or reducing the adverse impacts of the generation and management of waste from electrical and electronic equipment ("WEEE") and by reducing overall impacts of resource use and improving the efficiency of such use. In particular, the WEEE Directive calls for selective collection of electrical and electronic equipment waste, selective treatment of certain components and waste recovery through recycling (material and energy recovery). It requires EU Member States to set up recycling programs for electrical and electronic equipment waste. The WEEE Directive places several obligations on producers, such as the requirement to inform users in private households about the obligation to separately collect electrical and electronic equipment waste and the return and collection systems available to them, and labeling requirements.

As of August 2018, the scope of the WEEE Directive will be extended to all equipment designed for use with a voltage rating not exceeding 1000 V for alternating current and 1500 V for direct current, depending on the electric currents or electromagnetic fields required to work properly as well as to equipment for the generation, transfer or measurement of such currents, irrespective of whether it is used in private households or intended for professional use.

In the absence of a specific provision in the WEEE Directive that clarifies whether it provides for maximum or minimum harmonization, and in light of its legal basis (i.e., Article 192(1) of the Treaty on the Functioning of the European Union ("**TFEU**"))<sup>1</sup>, it cannot be ruled out that each EU Member State has adopted (or will adopt) more stringent provisions in this regard.

#### Requirements on chemical substances

The manufacturing, handling, use and trading of chemicals are regulated in the EU and its Member States. Specific requirements are laid down in Regulation (EC) No. 1907/2006 of the European Parliament and of the Council on the Registration, Evaluation, Authorization and Restriction of Chemicals (the "**REACH Regulation**"), which has been adopted to improve the protection of human health and the environment from the risks that chemicals pose.

Under the REACH Regulation, manufacturers of chemicals, as well as importers of these products (so-called "articles") in the EU bear responsibility for their safety. Particularly stringent requirements apply with respect to certain substances (including substances that are carcinogenic, mutagenic or toxic to reproduction) listed in the REACH Regulation as "substances of very high concern" ("SVHC"), for which there is a duty to notify the European Chemicals Agency ("ECHA") and provide information to consumers.

SVHCs are listed in Annex XIV of the REACH Regulation and in the ECHA "Candidate List".

Pursuant to Article 193 TFEU, when acting on the basis of Article 192 TFEU, EU Member States may maintain or introduce more stringent protective measures.

#### (i) Notification Obligation

Article 7(2) of the REACH Regulation requires a producer or importer to notify ECHA of substances in articles when:

- The substance is included in the Candidate List for authorization;
- The substance is present in articles produced and/or imported above a concentration of 0.1% (weight by weight, or "w/w"); and
- The total amount of the substance present in all articles produced and/or imported, which contain more than 0.1% (w/w) of the substance, exceeds one tonne per importer per year.

# (ii) Communication Obligation

Article 33 of the REACH Regulation imposes a duty to communicate information on SVHCs in articles. The aim of Article 33 is to ensure that sufficient information is communicated down the supply chain to allow the safe use of articles containing SVHCs. The obligations in Article 33 apply to articles containing SVHCs in a concentration above 0.1% (w/w).

"Suppliers" of articles must provide "recipients" of the articles with sufficient information to allow their safe use.

A "supplier" is any producer, importer or distributor of an article, or any other actor in the supply chain who places an article on the market. "Producer" means any person who makes or assembles an article within the EU. For a producer outside of the EU, the communication requirement rests with the entity that imports the products into the EU (that is, the physical introduction into the customs territory of the EU). For the purposes of the REACH Regulation, import is deemed to be "placing on the market".

"Recipients" are defined as industrial or professional users, or distributors, that are supplied with the article but do not include consumers (i.e., the end users).

# (iii) Restrictions

Title VIII of the REACH Regulation imposes restrictions on the manufacturing, marketing and use of certain dangerous substances. These substances, and the corresponding restrictions, are listed in Annex XVII to the Regulation. A substance on its own or in an article for which Annex XVII contains a restriction shall not be manufactured, placed on the market or used unless it complies with all the relevant restrictions.

# (iv) Implications

Both the Candidate List and Annexes are subject to regular amendment as new substances are added. For instance, Annex XIV was last amended in 2017. It is therefore necessary to keep these aspects of the REACH Regulation under review to ensure regulatory compliance at all times.

Furthermore, Directive 2011/65/EU of the European Parliament and of the Council of 8 June 2011 on the restriction of the use of certain hazardous substances in electrical and electronic equipment (the "RoHS 2 Directive") lays down rules restricting the use of hazardous substances in electrical and electronic equipment ("EEE") with a view to contributing to the protection of human health and the environment, including the environmentally sound recovery and disposal of WEEE. In particular, it sets forth restrictions (with some exceptions) with respect to the use of six hazardous substances by producers during the manufacture of EEE, cables and spare parts.

The RoHS 2 Directive provided a recast of Directive 2002/95/EC of the European Parliament and of the Council of 27 January 2003 on the restriction of the use of certain hazardous substances in electrical and electronic equipment (the "RoHS 1 Directive"), and was mainly aimed at extending the requirements to all EEE, cables and spare parts, reviewing the list of restricted substances (while allowing EU Member States to propose new substance restrictions), and putting forth clearer and more transparent rules for granting, renewing or deleting exemptions. The restricted substances and list of exemptions from the restrictions are periodically reviewed and amended, to adapt both lists to technical and scientific progress, taking into account the precautionary principle.

In the absence of a specific provision in the RoHS 2 Directive that clarifies whether it provides for maximum or minimum harmonization, and in light of its legal basis (i.e., Article 114(4) and (5) TFEU, which, in certain cases, allows EU Member States to introduce or maintain national provisions relating to the protection of health or environment which may diverge from the EU harmonization measures), it cannot be ruled out that each EU Member State has adopted (or will adopt) diverging (and thus more stringent) provisions in this respect.

With regard to the restriction of substances in EEE, the RoHS 2 Directive does not affect the application of the REACH Regulation, and *vice versa*.

# United Kingdom laws and regulations

Product liability

In the United Kingdom, product liability claims may be made under the Consumer Protection Act 1987 (the "CPA 1987"), in negligence or in respect of breach of contract. The CPA 1987 was implemented by the Product Liability Directive 85/374/EEC, which lays down a scheme dealing with civil liability for unsafe goods under which the producer of an unsafe product or, as the case may be, another person in the chain of supply, is held strictly liable in damages with respect to any defect in those goods which causes damage. A product is defective if it is not as "safe as persons generally are entitled to expect," taking account of all of the circumstances, including any instructions or warnings provided with the product and the manner in which it has been marketed. In order to establish negligence, it is necessary to prove that that the defendant owed a duty of care to the plaintiff, that he breached that duty by failing to take reasonable care, and that the breach caused the damage complained of. The primary liability for defective products lies on the producer but there are special provisions for components, persons who market products under their own brand name and importers. In order to meet cases where he cannot identify the producer, the person injured by the product may in the first instance hold liable his immediate supplier, who may then in turn pass liability up the chain of distribution by identifying his supplier, who may then in turn pass liability up the chain of distribution by identifying

his supplier, and so on to the ultimate manufacturer or importer. Claims for breach of contract may only be brought against the immediate supplier of the defective product to the person injured. Liability for damage caused by a defective product does not extend to all damage but only to specified damage.

The CPA 1987 imposes strict liability, which means that people who are injured by defective products can sue for compensation without having to prove that the manufacturer was negligent. Strict liability cannot be excluded. Liability under the CPA 1987 exists alongside with the liability in negligence, and in some cases a common law claim may succeed where a claim would not be available under the CPA 1987.

#### Statutory rights of consumers

Consumer contracts are regulated by the Consumer Rights Act 2015, which provides consumers with certain statutory rights. All contracts to supply goods include a term that the goods are of satisfactory quality (which includes their safety) and comply with the description applied to them or a sample seen or examined. The goods must also be fit for any particular purpose made known by the consumer to the seller before the contract is concluded. The seller will not, however, be liable for faults drawn to the buyer's attention prior to the contract, or which should have been revealed by the buyer's examination of the goods. Public statements made by manufacturers, importers, distributors and retailers of the product, for example, in labelling and advertising, must also be factually correct and form part of the retailer's contract with the consumer. These statutory rights cannot be contracted out of. Nor can traders make exercising these rights more difficult for consumers or place the customer at a disadvantage for exercising the rights.

# Requirements on chemical substances

The RoHS Directive 2011 has been implemented in England and Wales by the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Regulations 2012 ("RoHS Regulations 2012"). The RoHS Regulations 2012 prohibit producers of EEE from marketing new EEE in the UE that contains more than the prescribed levels of six hazardous substances, subject to certain exemptions. The RoHS Regulations 2012 require manufacturers to take certain steps before placing EEE on the market (e.g. produce technical documentation, obtain a declaration of conformity and obtain CE marketing). The UK's RoHS regulator is Regulatory Delivery. Regulatory Delivery has powers to investigate and gather evidence from producers, including the power to test purchases and enter premises. If the Regulatory Delivery has reasonable grounds to suspect that a producer is in breach of the regulations, the producer may be subject to a compliance notice requiring the producer to produce evidence demonstrating compliance, serve an enforcement notice specifying action required by the producer given their failure to comply which could be withdrawing of goods from the market, or prosecution for non-compliance. On conviction following a prosecution, if before the magistrates court (which hears less serious offences) the breaching party could face an unlimited fine for offences committed on or after 12 March 2015, prior to which the maximum fine is £5,000.

#### Product Safety

The E.U. Directive 2001/95/EC on general product safety was implemented by the General Product Safety Regulations 2005 (the "GPSR 2005") in the United Kingdom. The GPSR 2005 imposes criminal liability on producers and distributors of unsafe products in the U.K. The maximum penalty of the most serious offence is a fine of £20,000 or 12 months' imprisonment, or both.

Under the regulations, a "producer" is the manufacturer of a product and any other person presenting itself as the manufacturer and that a "distributor" means a professional in the supply chain whose activity does not affect the safety properties of a product.

The GPSR 2005 stipulates a number of offences, which includes:

- (i) the producer failing to: supply only safe products; provide consumers with information about risks in a product; adopt measures to stay informed about risks; or take appropriate action, including, where necessary, withdrawal, or recall or product;
- the distributor being involved in the supply of a product that it knows, or should have presumed, is a dangerous product or failing to participate in the monitoring or product safety; or
- (iii) the producer or distributor failing to notify and/or co-operate with enforcement authorities or comply with a safety notice.

The offence of a producer placing an unsafe product on the U.K. market is a strict liability offence, so that the offence is committed once the producer places an unsafe product on the market (even though it did not know at that stage that the product was unsafe). The only defense that the producer has is one of due diligence.

#### OVERSEAS LAWS AND REGULATIONS RELATING TO TARIFFS

# U.S. laws and regulations

Our products being sold to customers in the United States are subject to U.S. statutes and regulations that impose requirements and procedures for importing goods into the United States. Our products being imported for sale in the United States may be subject to tariff duties as provided in the Harmonized Tariff Schedule of the United States (the "HTSUS"). Under section 484 of the Tariff Act of 1930, as amended (the "Tariff Act"), at the time of importation, importers of our product, namely our customers or their agents, must submit entry documentation with U.S. Customs and Border Protection ("CBP"), report the value of the imported merchandise, identify the country of origin of the products, assign tariff codes to the merchandise and pay tariff duties in accordance with the HTSUS so that the merchandise can be released from CBP to be sold on the U.S. market. Our products must also be properly marked with the country of origin.

CBP is the principal administrative and enforcement agency of U.S. customs laws. CBP may stop goods at U.S. ports of entry or impose penalties on persons who fail to comply with the laws and regulations governing the importation of foreign products. Section 592 of the Tariff Act imposes penalties on any person who, by fraud, gross negligence, or negligence, introduces or attempts to enter or introduce any merchandise into the commerce of the U.S. by means of any document or electronically transmitted data or information, written or oral statement, or act which is material and false, or any omission which is material. Any person who aids or abets any other person, including foreign producers of exports, to commit such violations may also be penalized. In addition, CBP has the authority to seize and forfeit merchandise that is unlawfully imported into the United States.

We sell our products to our customers mainly on FOB terms. Our customers or their agents act as the importers of our products and therefore are primarily responsible for the importation process. However, we as their supplier play a role in ensuring that the importation of our products into the United States complies with U.S. laws, which include providing our customers with documentation or information required for the customs entry process and properly marking our products with the country of origin.

### E.U. laws and regulations

In principle, while goods can circulate freely between member states of the European Union, customs duties are imposed on goods imported into the E.U. from a non-E.U. country.

The E.U. qualifies as a customs union with a common customs tariff ("CCT"). The CCT applies to the importation of goods across the external borders of the E.U. The same tariff is levied irrespective of the E.U. member states where customs clearance is conducted. Goods are classified, and the applicable tariff rate is set, on the basis of a uniform system throughout the European Union.

#### Laws relating to export/import customs and tariffs

Products that we import to the U.K. are subject to customs tariffs in accordance with E.U. Council Regulation No. 2658/87. This Regulation is binding and directly applicable in all E.U. Member States, including the U.K.. The U.K., as a member of the E.U., applies the "Common External Tariff", which sets out the custom duties payable on goods imported from countries outside the E.U.. Uniform implementation of the Common External Tariff by customs authorities across the E.U.'s external borders is ensured through the Customs Union Code. There is an exception to the usual imposition of customs duties in the form of E.U. tariff quotas. Tariff quotas allow limited amounts of certain goods to be admitted to free circulation in the U.K. at reduced or nil rates of custom tariffs.

The applicable custom tariff in the U.K. is calculated on the basis on the value of the imported products. Our products do not currently fall within the tariff quota exemption, and as such any applicable import customs tariffs have to be paid by our customers in the U.K..

### SANCTIONS LAWS

### **United States**

U.S. statutes, executive orders, and regulations impose economic sanctions against certain countries and territories, including Cuba, Crimea, Sudan, Iran, Syria and North Korea, as well as entities and individuals specifically designated for sanctions by the U.S. and certain of their affiliates. These statutes, executive orders and regulations, primarily administered by OFAC, generally apply to U.S. persons (U.S. citizens and permanent residents, entities established in the U.S. and their non-U.S. branch offices, any individual located in the territory of the U.S., and, in the case of Cuba and Iran sanctions, any entity or corporate branch owned or controlled by the foregoing), activities conducted in whole or in part in the U.S. and to activities otherwise subject to U.S. jurisdiction because of a direct or indirect connection to U.S. persons, goods, or services. Persons acting within U.S. jurisdiction are prohibited from engaging in most direct or indirect commercial activities or transactions with Sanctioned Countries and sanctioned persons (including individuals or entities), or evading, avoiding, or conspiring to evade or avoid those prohibitions, and U.S. persons are also prohibited from facilitating such

activities or transactions. In some cases, particularly with regard to certain sector-based sanctions against designated entities in the Russian financial, energy, and arms industries, restrictions short of a complete ban on all dealings may be imposed. U.S. sanctions and related export control laws and regulations also restrict the export and re-export of U.S.-origin items from the U.S. or third countries to Cuba, Crimea, Sudan, Iran, Syria and North Korea.

U.S. statutes, executive orders, and regulations may also target the activities of non-U.S. companies engaged in dealings outside U.S. jurisdiction with U.S.-sanctioned persons in certain sectors or with respect to certain activities. These so-called "secondary" sanctions primarily target Iran and were substantially narrowed following the 2015 Joint Comprehensive Plan of Action ("*JCPOA*") providing sanctions relief in return for restrictions on Iran's nuclear program, although these sanctions may be re-imposed without warning if the United States determine that the JCPOA has been breached. However, certain Iran-related secondary sanctions remain, and secondary sanctions programs also target certain activities related to Cuba, North Korea, Syria, and Ukraine. Moreover, substantially all U.S. sanctions programs provide authority to impose sanctions on persons providing material support to persons sanctioned under the program.

A number of the 50 U.S. states have laws or policies targeting companies with specified operations in certain Sanctioned Countries, generally Iran and/or Sudan. These laws generally require that government-controlled funds (such as pension or university endowments) divest from or do not invest in companies that are identified as doing business with one or more Sanctioned Countries. U.S. state and municipal investors may be restricted from investing in the Company as a result of its business dealings with Sanctioned Countries during the Track Record Period.

#### **European Union**

The E.U. also imposes economic sanctions against listed persons and, to a much more limited extent, certain countries which include, but are not limited to, Iran and Russia. E.U. sanctions typically are not territory-wide, with limited exceptions (such as Crimea), and focus instead on restrictions on dealings in certain industrial sectors, trade in certain goods and services, arms and related technology embargoes, asset freezes, and prohibitions on making funds or economic resources available, directly or indirectly, to or for the benefit of designated individuals and entities. E.U. sanctions may further prohibit provision of technical assistance, brokering services and/or financing or financial assistance in support of certain prohibited activities. E.U. sanctions apply: (i) within the territory of the E.U., including its airspace; (ii) on board any aircraft or any vessel under the jurisdiction of an E.U. member state; (iii) to any person inside or outside the territory of the E.U. who is a national of a member state; (iv) to any legal person, entity or body, inside or outside the territory of the E.U., which is incorporated or constituted under the law of a member state; and (v) to any legal person, entity or body in respect of any business done in whole or in part within the E.U.. Persons and entities to whom E.U. sanctions apply are referred to hereafter as "E.U. Persons." E.U. sanctions are implemented through E.U. regulations, which are directly applicable in the 28 member states of the E.U., and do not require further implementing legislation. Under the E.U. sanctions regime, certain activities are either prohibited or require approval from the competent authority of an E.U. member state. E.U. sanctions also contain wide anti-circumvention provisions, which prohibit E.U. Persons from taking steps knowingly and intentionally to circumvent prohibitions.

Although E.U. regulations are directly applicable, each member state sets the penalties for breaches of E.U. sanctions, generally by way of national legislation. In some member states of the E.U., national legislation creates criminal offences and may further elaborate on activities which will be regarded as being contrary to the E.U. regulations. In the UK, for example, it is generally considered a criminal offence not only to circumvent prohibitions in the E.U. regulations, but also to "enable" or "facilitate" a contravention. Accordingly, if E.U. sanctions apply to a party subject to UK jurisdiction, then the approach to risk will be informed by these provisions.

In order to fully assess E.U. sanctions risk it is necessary to consider the effect of E.U. regulations, the domestic legislation in each E.U. member state governing penalties for breaches of E.U. sanctions, and any applicable member state national legislation which may be engaged by the particular circumstances of a proposed investment.

As part of the JCPOA, the majority of E.U. nuclear-related sanctions targeting Iran have been suspended, though they may be re-imposed should the JCPOA be breached, unless all five permanent members of the U.N. Security Council agree to the contrary. Should a snap-back occur, the scope of the reimposed E.U. sanctions would be determined at the time. Despite the easing of E.U.'s nuclear-related sanctions targeting Iran, a number of human rights-related sanctions will remain in force. These sanctions include asset freezes directed at specified persons engaged in human rights abuses and restrictions on the supply of items that might be used in internal repression.

#### Australia

In Australia, sanctions laws are implemented through two related regimes: the United Nations Security Council ("UNSC") sanctions regimes ("UN sanctions") and Australian autonomous sanctions regimes ("autonomous sanctions"). The relevant Australian legislation which underpins the sanctions are as follows: (a) UN sanctions are implemented primarily under the Charter of the United Nations Act 1945 (Cth) and its set of regulations; and (b) autonomous sanctions are implemented primarily under the Autonomous Sanctions Act 2011 (Cth) and the Autonomous Sanctions Regulations 2011 (Cth) ("Australian Sanctions Laws").

The autonomous sanctions regimes can either operate separate to or in addition to the UNSC sanctions regimes. For example both the U.N. sanctions and Australian autonomous sanctions apply to Iran, whereas only the U.N. sanctions apply to Iraq and Lebanon. Only autonomous sanctions apply to Russia, the Ukraine and former Federal Republic of Yugoslavia (which includes the present day nation of Bosnia and Herzegovina). There are also autonomous sanctions in place in relation to Crimea and Sevastopol.

Australian sanctions have extraterritorial reach and apply to: (a) Australian citizens; (b) persons incorporated in Australia and persons controlled by a person incorporated in Australia; (c) persons located in Australia; (d) activities conducted in or through Australia; and (e) conduct that occurs wholly outside Australia by a non-Australian person or entity where a result of the conduct occurs wholly or partially within Australia and the country in which the conduct took place has a law that creates an offence that corresponds to the Australian offence.

Breaches of Australian Sanctions Laws are strict liability criminal offenses. It is possible to obtain a "sanctions permit" authorizing otherwise restricted or prohibited activities, although an application must be made to the Minister for Foreign Affairs.

There are differences between the sanctions regimes implemented for each Sanctioned Country, however generally, Australian Sanctions Laws prohibit the following:

- (a) the export or supply of goods, such as direct or indirect supply of "export sanctioned goods." What constitutes export sanctioned goods depends on the relevant Sanctioned Country, for example in relation to Iran this includes arms or related material, graphite, raw and semi-finished metals, nuclear related goods and software for integrating industrial processes;
- (b) the export or provision of services that assist with the supply, sale, manufacture, maintenance, use or transfer of "export sanctioned goods";
- (c) procuring the import of certain goods from a Sanctioned Country or from a person or entity in a Sanctioned Country;
- (d) certain commercial activities, for example in relation to Iran selling or otherwise making available an interest involving uranium mining or production, nuclear materials or technology or arms and related materials (including ballistic missiles);
- (e) the use or dealing with an asset ("asset" is defined broadly to include intangible, tangible, movable or immovable property) owned or controlled by, or acting on behalf of or at the direction of a person listed on the Consolidated List maintained by the Department of Foreign Affairs and Trade;
- (f) certain "declared person(s)" from travelling to, entering or remaining in Australia (unless prohibition waived).

#### **United Nations**

U.N. sanctions are binding on U.N. member states, the domestic laws of which will determine whether further action, such as domestic legislation, is needed to impose their requirements on private parties. Accordingly, the means of implementation, the interpretation and enforcement of U.N. sanctions may differ among U.N. member states. There is no U.N. enforcement authority, and U.N. sanctions are not directly binding on private actors (though they are likely to be implemented through the laws of one or more nations with jurisdiction. In other words, U.N. sanctions are a source of national sanctions programs that may bind the Company, but they do not impose any additional direct obligations to those that obtain under national law.

#### **GENERAL**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on June 25, 2012. As a result of the Reorganization, the Company became the holding company of our Group with our business conducted through Bestway Enterprise, our indirect wholly-owned subsidiary, which in turn owns our operating subsidiaries.

Please see "History, Development and Reorganization—Our History and Business Milestones" and "History, Development and Reorganization—Reorganization" for further details of the corporate and business development and reorganization of our Group.

#### **OUR HISTORY AND BUSINESS MILESTONES**

#### Our origins and corporate development

The history of our Group can be traced back to the establishment of 上海柏威塑膠製品有限公司 (Shanghai Bestway Plastic Products Co., Ltd.) ("Shanghai Bestway Plastic") in 1994, which carried on the business of producing and selling leisure, recreational and sporting goods and is the predecessor of our group. Shanghai Bestway Plastic was managed by Mr. Zhu Qiang, our Chairman, executive Director and chief executive officer of the Company, and was owned as to 50.7% and 49.3% by 上海明光工貿實 業有限公司 (Shanghai Mingguang Industrial Enterprise Co., Ltd.) ("Shanghai Mingguang") and Rhode Island Novelty Inc., a company wholly-owned by Mr. Bogdan Nowak, a passive financial investor of our Group, respectively. Bestway Shanghai, Bestway Jiangsu and Bestway Nantong were established in 1999, 2004 and 2007, respectively, to gradually take over the production capacities of the Group in light of the increasing production needs. The details of the corporate development of Bestway Shanghai, Bestway Jiangsu and Bestway Nantong are set out below. During the period from 2004 to 2007, the equity interests of Shanghai Bestway Plastic were transferred to Bestway Shanghai and Mr. Zhu Qiang through a series of transactions and as at December 2007, subsequent to these transactions, Shanghai Bestway Plastic was owned as to 95% by Bestway Shanghai and 5% by Mr. Zhu Qiang. By 2009, Bestway Shanghai, Bestway Jiangsu and Bestway Nantong had replaced Shanghai Bestway Plastic in satisfying the Group's production capacities. The shareholders of Shanghai Bestway Plastic then, namely, Bestway Shanghai and Mr. Zhu Qiang, sold all their equity interests in Shanghai Bestway Plastic to two Independent Third Parties at a consideration of RMB11,000,000 determined based on arms' length negotiation between the parties.

In 1999, Bestway Shanghai was established to accommodate the increasing production needs of the Group and was owned as to 80%, 16% and 4% by Hong Kong Anson Enterprises Limited (香港永安實業有限公司) ("Hong Kong Anson"), a company controlled by Mr. Zhu Qiang, Rhode Island Novelty Inc. and Shanghai Mingguang, respectively, to carry on production of outdoor leisure and sporting goods. Subsequent to the establishment of Bestway Shanghai, there were various transactions among the companies controlled by Mr. Zhu Qiang, the nominee of Mr. Zhu Qiang and Mr. Bogdan Nowak (including Scrindale Limited) from 2001 to 2004 with considerations based on arms' length negotiation between the parties. Subsequent to such transactions, Bestway Shanghai was held as to 80% by Bestway Enterprise, 16% by Scrindale Limited and 4% by 上海福梓工貿有限公司 (Shanghai Fuzi Trade and Industry Co., Ltd.) ("Shanghai Fuzi"), a company controlled by Mr. Zhu Qiang.

In 2001, Bestway USA was established and owned as to 50% by Mr. Zhu Qiang and 50% by Mr. Bogdan Nowak. In the same year, Bestway Europe was established and was wholly-owned by the Group's business partners in Italy that were Independent Third Parties.

In 2002, Bestway Central & South America was established, which was owned as to 50% by Bestway Shanghai and 50% by the Group's business partner in Chile that was an Independent Third Party.

In 2003, Bestway Enterprise was established and was wholly-owned by Mr. Zhu Qiang as a holding company to hold our operating subsidiaries. Further, Scrindale Limited was established in 2004 as an investment company and was owned as to 51% by Mr. Zhu Qiang and 49% by Mr. Bogdan Nowak. As described in "History, Development and Reorganization—Reorganization," upon completion of the Reorganization, Scrindale Limited was no longer part of our Group and Mr. Bogdan Nowak remained as a passive financial investor of the Group.

In 2004, Bestway Jiangsu was established and owned as to 70% by Bestway Enterprise and 30% by Scrindale Limited.

In 2007, Bestway Nantong was established and owned as to 78.8% by Bestway Enterprise and 21.2% by Scrindale Limited.

In 2008, Great Success was incorporated in the British Virgin Islands as an investment holding company and wholly-owned by Mr. Zhu Qiang.

Subsequent to the above establishments and transactions and before the commencement of the Reorganization, there were various transactions from 2009 to 2010 among the companies controlled by Mr. Zhu Qiang and Mr. Bogdan Nowak with considerations based on arms' length negotiation between the parties. As a result of such transactions, (1) Bestway Nantong became the wholly-owned subsidiary of, and Bestway Shanghai and Bestway Jiangsu became indirect wholly-owned subsidiary of, Bestway Enterprise, with Bestway Shanghai owned as to approximately 96% by Bestway Enterprise and approximately 4% by Bestway Nantong and Bestway Jiangsu owned as to approximately 63% by Bestway Nantong and approximately 37% by Bestway Enterprise; (2) Bestway Enterprise was owned as to approximately 78.8% by Great Success and approximately 21.2% by Scrindale Limited.

Further, Bestway Central & South America, Bestway Europe and Bestway USA became subsidiaries of Bestway Enterprise in 2007, 2011 and 2012, respectively.

As at the Latest Practicable Date, our Group has since 1999 established subsidiaries in 10 countries to carry out our business and all of our operating subsidiaries, including Bestway Shanghai, Bestway Jiangsu, Bestway Nantong and all other operating subsidiaries over the world, are held by Bestway Enterprise. The table below sets forth the establishment and development of our major subsidiaries:

Name	Date of Incorporation	Place of Incorporation	Principle Business
Bestway Shanghai	June 25, 1999	PRC	Production and sale of outdoor leisure products, polymer films and related mechanical and electrical products; provision of computer information technology services, graphic design, packaging design and consultation services

Name	Date of Incorporation	Place of Incorporation	Principle Business
Bestway Europe	January 10, 2001	Italy	Trading
Bestway USA	June 1, 2001 (re-registered in Arizona, U.S. on April 23, 2010)	Delaware, U.S.	Trading
Bestway Central & South America	July 26, 2002	Chile	Trading
Bestway Jiangsu	April 5, 2004	PRC	Production of polymer films, camping products, sporting goods and recreation products
Bestway Hong Kong	June 2, 2004	Hong Kong	Trading
Bestway Nantong	February 2, 2007	PRC	Production of high frequency welding machines, polymer films, composite materials, above-ground pools, camping products, sporting goods and recreation products
Bestway Shanghai Enterprise	May 18, 2009	PRC	Wholesale of outdoor leisure products and import and export of products and technology
Bestway Italy	August 1, 2011	Italy	Trading
Bestway France	August 4, 2011	France	Trading
Bestway Germany	August 31, 2011	Germany	Trading
Bestway Russia	September 27, 2013	Russia	Trading
Bestway Australia	November 15, 2013	Australia	Trading
Bestway USA Holdings	April 29, 2015	Arizona, U.S.	Trading
Bestway Shanghai Investment	May 28, 2015	PRC	Investment management, industrial investment, provision of investment and economic information consultation services and renting of equipment
Bestway Brazil	May 4, 2017	Brazil	Trading

We did not conduct any major acquisitions, disposals or mergers throughout the Track Record Period.

# Our milestones

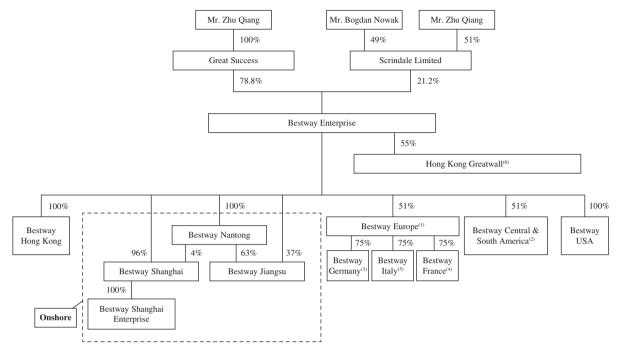
Set out below are the significant milestones of our corporate and business development:

Year	Milestones			
1994	• Shanghai Bestway Plastic was established. Along with its establishment, manufacturing facilities, warehouses, office buildings were set up			
1999	<ul> <li>Bestway Shanghai, which was our important manufacturing site in Shanghai, covering manufacturing facilities, warehouses, office building and employee dormitories to facilitate our own production lines, was established</li> </ul>			
2000	<ul> <li>We cooperated with OBI Group in Germany and Carrefour Store in France to sell our products</li> </ul>			
2001	Bestway Europe and Bestway USA were established			
	• We cooperated with Kmart Australia Ltd. in Australia to sell our products			
2002	<ul> <li>Bestway Central &amp; South America was established in Chile, which marked our Group's initial entry in Central and South America</li> </ul>			
	• We cooperated with Argos Retail Group (Hong Kong) Limited in Hong Kong and Toys "R" Us France in France to sell our products			
	● Bestway Shanghai was first recognized as 上海工業銷售收入500強 (Shanghai Top 500 Industrial Enterprise) by 上海現代統計產業發展中心 (Shanghai Statistics Modern Industrial Development Center)			
2003	<ul> <li>We cooperated with SNC Organisation Intra-Goup Des Achats (Auchan) in France, Tesco International Sourcing Limited in Hong Kong, Sears Holdings Global Sourcing Ltd. in Hong Kong and Aldi Inc. in U.S. to sell our products</li> </ul>			
2004	<ul> <li>We established our second manufacturing site in Yancheng, Jiangsu province, covering manufacturing facilities, warehouses, office building and employee dormitories, to accommodate the increase in our annual production capacity</li> </ul>			
2005	• Our global revenue exceeded US\$100 million			
	• We cooperated with Aldi Einkanf GmbH & Co. in Germany and Walgreen Co. in U.S. to sell our products			
2006	• We cooperated with Fred Meyer Inc. and Dollar General Mds., Inc. in U.S. to sell our products			
2007	<ul> <li>We established our third manufacturing site in Nantong, Jiangsu province, covering manufacturing facilities, warehouses, office building and employee dormitories, to accommodate the continued increase in our annual production capacity</li> </ul>			

Year	Milestones				
2011	• Our global revenue exceeded US\$300 million				
	Bestway Italy, Bestway France and Bestway Germany were established				
	• We cooperated with one of the leading global retailers customers in the United States to sell our products				
2012	• We cooperated with Target in Australia to sell our products				
2013	Bestway Australia was established				
	• We cooperated with one of our leading global retailer customers in United States to sell our products				
2014	• Bestway Russia was established				
	● We were recognized as 中國馳名商標 (Well-known Chinese Trademark) by 國家工商行政管理總局商標評審委員會 (Trademark Review and Adjudication Board of the State Administration for Industry and Commerce)				
2015	• Our global revenue exceeded US\$500 million				
	● We were recognized as Top 100 Enterprise of China Light Industry (中國輕工業百強企業) by 中國輕工業聯合會 (China Light Industry Association)				
	● We were recognized as Shanghai Famous Brand (上海名牌) by 上海市名牌推薦委員會 (Shanghai City Famous Brand Recommendation Committee) in relation to our above-ground pool products				
	• We were awarded as the "Exceptional Performance for Price/Value award" by one of our leading global retailer customers in the United States				
2016	● We were recognized as 中國輕工業體育用品行業十強企業 (Top 10 Enterprises of Sports Goods Industry in China Light Industries) by 中國輕工業聯合會下的中國文教體育用品協會 (China Educational, Cultural and Sports Good Association under the China National Light Industry Council)				
	• We were one of the four nominees for "Supplier of the Year" award of one of our leading global retailer customers in the United States				
2017	<ul> <li>We were ranked as one of the top seven Chinese Suppliers and awarded the "Best Climate Change Performance among Chinese Suppliers" in 2016 by Carbon Disclosure Project (CDP) Global Environmental Information Research Center</li> </ul>				
	● Bestway Shanghai was elected as the president unit for 戶外運動器材專業委員會 (the Outdoor Sports Equipment Professional Committee) under 中國文教體育用品協會 (the Chinese Sports Association of Culture and Education)				

#### REORGANIZATION

In preparation for Listing, our Group has undertaken the Reorganization. Set out below is the corporate structure of our Group immediately prior to the Reorganization:



#### Notes:

- (1) Bestway Europe was held as to 51% by Bestway Enterprise, 39% by Mr. Patrizio Fumagalli and 10% by Mr. Simone Zesi, both being members of the senior management of the Group.
- (2) Bestway Central & South America was held as to 51% by Bestway Enterprise and as to 49% by Inversiones Las Pircas Limitada, which in turn was held as to 99% by Mr. Cristobal Achurra Staplefield, a member of the senior management of the Group, and 1% by his spouse.
- (3) Bestway Germany was held as to 75% by Bestway Europe and 25% by Mr. Malte Ohnesseit, a member of the senior management of Bestway Germany.
- (4) Bestway France was held as to 75% by Bestway Europe and 25% by Mr. Sellitri Libero Stefano, a member of the senior management of Bestway France.
- (5) Bestway Italy was held as to 75% by Bestway Europe and 25% by Mr. Simone Zesi, a member of the senior management of the Group.
- (6) Hong Kong Greatwall was held as to 55% by Bestway Enterprise and 45% by Mr. Shi Heping, an Independent Third Party.

# Incorporation of the Company and Bestway Resources

The Company was incorporated in the Cayman Islands on June 25, 2012 as a wholly-owned subsidiary of Great Success, a company incorporated in the British Virgin Islands on May 13, 2008 and wholly-owned by Mr. Zhu Qiang immediately before the Reorganisation.

Bestway Resources was incorporated in the British Virgin Islands on June 26, 2012 as a wholly-owned subsidiary of the Company.

#### Reorganization of Bestway Enterprise

On February 8, 2013, Scrindale Limited and Great Success entered into a sale and purchase agreement, pursuant to which Scrindale Limited agreed to transfer 10,600 shares in Bestway Enterprise, representing approximately 21.2% of its total issued share capital, to Great Success for a consideration of allotment and issuance of 188 shares in Great Success representing approximately 19.6% of the enlarged issued share capital of Great Success, to Mr. Bogdan Nowak. Such 10,600 shares in Bestway Enterprise being transferred was subscribed by Scrindale Limited for a consideration of US\$10,600 on April 3, 2009. The issuance of 188 shares in Great Success to Mr. Bogdan Nowak as consideration for the said transfer of shares in Bestway Enterprise was determined in consideration of his long term financial support to the Group.

On February 8, 2013 and upon completion of the above transfer and allotment, Great Success and Bestway Resources entered into a sale and purchase agreement, pursuant to which Great Success agreed to transfer 50,000 shares in Bestway Enterprise, representing its then-entire issued share capital, to Bestway Resources for a consideration of allotment and issuance of 100 shares by Bestway Resources, representing 50% of its enlarged issued share capital, to Great Success. On the same day, Great Success and the Company entered into a sale and purchase agreement, pursuant to which Great Success agreed to transfer 100 shares in Bestway Resources, representing approximately 50% of its then-issued share capital, to the Company for a consideration of allotment and issuance of one share by the Company, representing its then total issued share capital, to Great Success. Such transfers and allotments were completed on February 8, 2013.

Upon completion of the above transfers and allotments, Bestway Enterprise became a wholly-owned subsidiary of Bestway Resources, which remained as a wholly-owned subsidiary of the Company, which in turn remained as a wholly-owned subsidiary of Great Success. Furthermore, Scrindale Limited was no longer part of our Group and Mr. Bogdan Nowak remained as a passive financial investor of the Group through his shareholding in Great Success after completion of the above transfers and allotments.

#### Incorporation of Great Access and Outland Enterprise and Reorganization of Great Success

Great Access was incorporated in the British Virgin Islands on June 19, 2012 and was wholly-owned by Mr. Zhu Qiang. On February 8, 2013, Mr. Zhu Qiang and Great Access entered into a sale and purchase agreement, pursuant to which Mr. Zhu Qiang agreed to transfer one share in Great Success, representing its then entire issued share capital, to Great Access for a consideration of allotment and issuance of 10 shares by Great Access to Mr. Zhu Qiang. On the same day, (1) Great Success allotted and issued 811 shares of a par value of US\$1 per share to Great Access for a consideration of US\$811; (2) Great Success redeemed 40 shares in Great Success from Great Access for a consideration of HK\$1, representing the nominal value of the shares; and (3) Great Success allotted and issued 188 shares to Mr. Bodgan Nowak as a consideration for the transfer of 10,600 shares in Bestway Enterprise from Scrindale Limited to Great Success. Upon completion of such transfer, allotments and redemption, Great Success was held as to approximately 80.4% by Great Access and approximately 19.6% by Mr. Bogdan Nowak.

Outland Enterprise was incorporated in the British Virgin Islands on November 27, 2013 and wholly-owned by Mr. Zhu Qiang. The purpose of establishing Outland Enterprise was to implement the Pre-IPO Share Incentive Scheme through issuing shares in Outland Enterprise to the employees of the Group to reward their past contribution to the Group and to incentivize them. For details of the shareholding in Outland Enterprise and the Pre-IPO Share Incentive Scheme, please see "History,

Development and Reorganization—Pre-IPO Share Incentive Scheme." On January 5, 2015, Great Success allotted and issued 84 shares, representing approximately 8.1% of its enlarged issued share capital, to Outland Enterprise for a consideration of US\$15,687,800. Such consideration was determined based on the appraisal value of Great Success and was settled in cash on the same day by 34 shareholders of Outland Enterprise who subscribed for a total of 19,999 shares of Outland Enterprise, representing approximately 99.9% of its then-issued share capital. On July 11, 2016, Great Access and Outland Enterprise entered into a sale and purchase agreement, pursuant to which Great Access agreed to transfer one share of a par value of US\$1 per share in Great Success, representing approximately 0.1% of its then-issued share capital, to Outland Enterprise for a consideration of US\$1. The transfer was completed on July 13, 2016.

On March 20, 2015, Great Access transferred 15 shares in Great Success, representing approximately 1.5% of its then-issued share capital, to Mr. Patrizio Fumagalli, our Chief Strategic Officer, for nil consideration in recognition for his contribution to the Group and to incentivize him.

Upon completion of such transfers and allotments, Great Success was held as to 72.4% by Great Access, 8.1% by Outland Enterprise, 18.0% by Mr. Bogdan Nowak and 1.5% by Mr. Patrizio Fumagalli.

#### Subsequent issue of shares in Great Access

On July 13, 2016, Great Access allotted and issued 72 shares and eight shares of a par value of US\$1 per share to Mr. Zhu Qiang and Mr. Zhu Jiachen, the son of Mr. Zhu Qiang, respectively for a consideration of US\$72 and US\$8, respectively.

Upon completion of such allotments, Great Access was held as to 92.0% by Mr. Zhu Qiang and 8.0% by Mr. Zhu Jiachen.

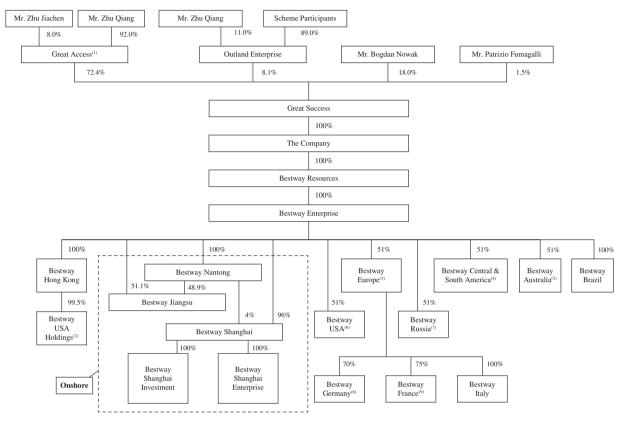
# **Exclusion of Hong Kong Greatwall from Our Group**

Hong Kong Greatwall was incorporated in Hong Kong on September 24, 2003 and was owned as to 55% by Bestway Enterprise and 45% by Mr. Shi Heping, an Independent Third Party except for his shareholding in Hong Kong Greatwall. Hong Kong Greatwall has no business activity other than being an investment holding company, and its only asset was its shareholding in a wholly-owned subsidiary that only owns one piece of land in the PRC. The revenue of Hong Kong Greatwall for the year ended December 31, 2012 was nil. Hong Kong Greatwall was part of Mr. Zhu Qiang's personal business and was unrelated to the business of our Group. Accordingly, in preparation of Listing, Great Enterprise and Great Access entered into a sale and purchase agreement on February 8, 2013, pursuant to which Great Enterprise agreed to transfer 550 shares in Hong Kong Greatwall, representing approximately 55% of its issued share capital, to Great Access for a consideration of HK\$55. The transfer was completed on February 8, 2013. Such consideration was determined based on the net asset value of Hong Kong Greatwall. Our Directors confirm that prior to the disposal of Hong Kong Greatwall on February 8, 2013, Hong Kong Greatwall was not involved in any material legal proceedings or disputes, and it had, save for certain non-systemic non-compliance incidents which are immaterial to us as a whole, complied with all applicable laws and regulations in all material respects in Hong Kong.

Upon completion of such transfer, Hong Kong Greatwall was owned as to 55% by Great Access and 45% by Mr. Shi Heping, an Independent Third Party, and was no longer part of the Group.

#### OUR STRUCTURE IMMEDIATELY PRIOR TO THE GLOBAL OFFERING

The following chart sets forth our corporate structure after the Reorganization and immediately prior to the Global Offering:

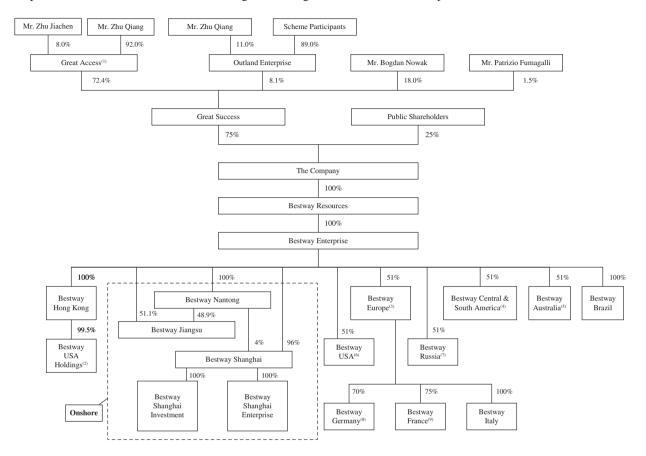


#### Notes:

- (1) Great Access was held as to 92.0% by Mr. Zhu Qiang and 8.0% by Mr. Zhu Jiachen, the son of Mr. Zhu Qiang.
- (2) Besyway USA Holdings was held as to 99.5% by Bestway Hong Kong and 0.5% by Mr. Patrizio Fumagalli, a member of the senior management of the Group.
- (3) Bestway Europe was held as to 51% by Bestway Enterprise, 29% by Mr. Patrizio Fumagalli and 20% by Mr. Simone Zesi, both being members of the senior management of the Group.
- (4) Bestway Central & South America was held as to 51% by Bestway Enterprise and 49% by Inversiones Las Pircas Limitada, which in turn was held as to 99% by Mr. Cristobal Achurra Staplefield, a member of the senior management of the Group, and 1% by his spouse.
- (5) Bestway Australia was held as to 51% by Bestway Enterprise and 49% by Edmond Enterprises Pty Limited, which was wholly-owned by Mr. Edmond Yip, a member of the senior management of Bestway Australia.
- (6) Bestway USA was held as to 51% by Bestway Enterprise and 49% by Mr. Patrizio Fumagalli, a member of the senior management of the Group.
- (7) Bestway Russia was held as to 51% by Bestway Enterprise and 49% by Mr. Denis Kurganskiy, a member of the senior management of Bestway Russia.
- (8) Bestway Germany was held as to 70% by Bestway Europe and 30% by Mr. Malte Ohnesseit, a member of the senior management of Bestway Germany.
- (9) Bestway France was held as to 75% by Bestway Europe and 25% by Mr. Sellitri Libero Stefano, a member of the senior management of Bestway France.

#### OUR STRUCTURE IMMEDIATELY FOLLOWING THE GLOBAL OFFERING

The following chart sets forth our shareholding structure immediately after the completion of the Capitalization Issue and Global Offering, assuming the Over-allotment Option is not exercised:



# Notes:

- (1) Great Access was held as to 92.0% by Mr. Zhu Qiang and 8.0% by Mr. Zhu Jiachen, the son of Mr. Zhu Qiang.
- (2) Besyway USA Holdings was held as to 99.5% by Bestway Hong Kong and 0.5% by Mr. Patrizio Fumagalli, a member of the senior management of the Group.
- (3) Bestway Europe was held as to 51% by Bestway Enterprise, 29% by Mr. Patrizio Fumagalli and 20% by Mr. Simone Zesi, both being members of the senior management of the Group.
- (4) Bestway Central & South America was held as to 51% by Bestway Enterprise and 49% by Inversiones Las Pircas Limitada, which in turn was held as to 99% by Mr. Cristobal Achurra Staplefield, a member of the senior management of the Group, and 1% by his spouse.
- (5) Bestway Australia was held as to 51% by Bestway Enterprise and 49% by Edmond Enterprises Pty Limited, which was wholly-owned by Mr. Edmond Yip, a member of the senior management of Bestway Australia.
- (6) Bestway USA was held as to 51% by Bestway Enterprise and 49% by Mr. Patrizio Fumagalli, a member of the senior management of the Group.
- (7) Bestway Russia was held as to 51% by Bestway Enterprise and 49% by Mr. Denis Kurganskiy, a member of the senior management of Bestway Russia.
- (8) Bestway Germany was held as to 70% by Bestway Europe and 30% by Mr. Malte Ohnesseit, a member of the senior management of Bestway Germany.
- (9) Bestway France was held as to 75% by Bestway Europe and 25% by Mr. Sellitri Libero Stefano, a member of the senior management of Bestway France.

#### PRE-IPO SHARE INCENTIVE SCHEME

In order to reward the past contribution of, and to incentivize, the employees of the Group, Mr. Zhu Qiang set up Outland Enterprise on November 27, 2013 to implement the Pre-IPO Share Incentive Scheme. Pursuant to the Pre-IPO Share Incentive Scheme, Outland Enterprise would allot and issue or Mr. Zhu Qiang would transfer shares in Outland Enterprise to the employees of the Group.

During the period from January 2015 to August 2016, an aggregate of 21,115 shares were allotted, issued or transferred to a total of 36 Scheme Participants, including three Executive Directors, namely Mr. Tan Guozheng, Mr. Liu Feng and Mr. Duan Kaifeng and four members of the senior management of the Company, namely Mr. Huang Shuiyong, Mr. Yan Yu, Mr. Huang Yaoguang and Mr. Zhang Yong. The aggregate consideration for the issuance and transfer of such 21,115 shares in Outland Enterprise was US\$16,561,906. Among these allotted and issued shares, 1,750 shares were subsequently repurchased by Outland Enterprise from a retired Scheme Participant at a consideration equivalent to the amount of consideration initially paid by such Scheme Participant.

Subsequent to the above issuance and transfer, Mr. Zhu Qiang was (1) allotted 875 shares for a consideration of US\$686,350; and (2) transferred an aggregate of 2,275 shares from four Scheme Participants for a consideration of approximately US\$1,782,446. Mr. Zhu Qiang was allotted, issued and transferred the shares in Outland Enterprise for the purpose of the Pre-IPO Share Incentive Scheme with the intention of transferring them to new or existing employees of the Group or the Scheme Participants in the future to reward their contribution to the Group and to incentivize them.

During the period from November 2016 to April 2017, Mr. Zhu Qiang transferred a total of 912.5 shares in Outland Enterprise to 11 Scheme Participants, including one member of the senior management of the Company, namely Mr. Simone Zesi, for a consideration of US\$735,945. In February 2017, pursuant to the reorganization agreements entered into among Outland Enterprise, Mr. Zhu Qiang and 20 employees of the Group, including one member of the senior management of the Company, namely Mr. Yan Yu, Mr. Zhu Qiang agreed to transfer a total of 1,312.5 shares in Outland Enterprise to such employees for a total consideration of US\$1,052,625.

The Company does not expect any allotment and issuance or transfer of shares in Outland Enterprise upon Listing. As at the Latest Practicable Date, the total number of issued shares of Outland Enterprise was 20,240 shares, of which 2,237.5 shares and 18,002.5 shares were held by Mr. Zhu Qiang and 46 Scheme Participants, respectively, representing approximately 11.0% and 89.0% of the issued share capital of Outland Enterprise, respectively. The consideration in respect of the issuance and transfer, or repurchase, of the shares in Outland Enterprise to or from the Scheme Participants was determined based on the then-available valuation of Great Success conducted by a valuation company and were settled in cash, save for the transfer of one share from Mr. Zhu Qiang to a member of the senior management of the Company, namely Mr. Tan Guozheng in January 2015, for nil consideration. Our Directors confirm that the Pre-IPO Share Incentive Scheme has no financial impact on the Group's financial results both before and after Listing. Please see "Appendix IV—Statutory and General Information—D. Pre-IPO Share Incentive Scheme" for more details of the Pre-IPO Share Incentive Scheme.

For the purpose of calculating the considerations for the allotment and issuance or transfer of shares in Outland Enterprise under the Pre-IPO Share Incentive Scheme, the exchange rates on the corresponding settlement dates were used.

The table below sets out the total number of shares issued by Outland Enterprise and its shareholding as at the Latest Practicable Date:

Number of issued shares	Number of shares held by Mr. Zhu Qiang	Number of shares held by Scheme Participants	Number of Scheme Participants	Identities of the Directors and members of senior management of the Company among the Scheme Participants
20,240	2,237.5	18,002.5	46	Three Directors, namely Mr. Tan Guozheng, Mr. Liu Feng and Mr. Duan Kaifeng
				Five members of senior management of the Company, namely Mr. Huang Shuiyong, Mr. Yan Yu, Mr. Huang Yaoguang, Mr. Zhang Yong and Mr. Simone Zesi

Each of the Scheme Participants entered into a reorganization agreement (the "Reorganization Agreement") with Outland Enterprise (in case the shares in Outland Enterprise held by the Scheme Participants were new shares allotted and issued to them) or with Outland Enterprise and Mr. Zhu Qiang (in case of the shares held by the Scheme Participants were transferred from Mr. Zhu Qiang to them). Please see "Appendix IV—Statutory and General Information—D. Pre-IPO Share Incentive Scheme" for the terms of the Reorganization Agreement.

### COMPLIANCE WITH PRC LAWS

#### SAFE Circular No. 37

The SAFE promulgated Circular 37 on July 4, 2014 which rescinded Circular 75. Subject to Circular 37, domestic resident, individuals or institutions are required to register with the relevant bureau of foreign exchange administration before they could 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 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 in special purpose vehicles with legitimate assets or equity interests inside and outside the PRC prior to the implementation of Circular 37, but fail to conduct the foreign exchange registration of overseas investments, shall submit an explanatory statement stating the reasons to the relevant bureau of foreign exchange administration. The relevant 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 aforesaid complementary registration, administrative penalty would be imposed in accordance with the relevant laws.

Our PRC Legal Advisors has confirmed that Mr. Zhu Qiang, Mr. Zhu Jiachen and 44 domestic residents among the Scheme Participants have completed the registration under Circular 37 as at the Latest Practicable Date.

#### **OVERVIEW**

We are a leading and one of the most well-established branded companies in the global water leisure products market, with a reputation for excellent product design, quality, functionality and value. According to the Frost & Sullivan Report, we are the third largest player in the global water leisure products market, with a market share of 2.3% in terms of retail sales in 2016. Water leisure products form a key component of the broader US\$180.7 billion global outdoor leisure products market in terms of retail sales value in 2016, of which we are also an important player, particularly in the inflatables and related products category, our traditional strength and key focus area. According to the Frost & Sullivan Report, we are the second largest player in the global inflatable outdoor leisure products market, with a market share of over 30% in terms of retail sales in 2016. Founded in 1994 in Shanghai, China, our vision is to create fun, lasting experiences for everyone in the world through the products and services we provide. Since our humble beginnings, we have devoted our efforts to strengthening our research, design, development and manufacturing capacities, while continuously expanding our product and brand portfolio. Our products can now be found in over 110 countries across six continents worldwide.

Our corporate values are based on "Happy Employees, Happy World and Happy Consumers."

- *Happy employees*. We create a work environment in which our employees can develop their skills, build their careers, and cultivate and pursue their professional interests.
- Happy world. We place emphasis on corporate sustainability and aim to minimize the impact
  our business and manufacturing process have on the environment. We are actively investing
  in and pursuing more efficient alternative energy sources and materials recycling initiatives.
- Happy consumers. Our creative and professional team delivers innovative, functional and exceptional products with the goal of bringing fun and memorable users' experiences to consumers.

We predominantly design, develop, manufacture and sell an extensive range of high quality and innovative outdoor leisure products primarily under our own BESTWAY brand umbrella, in conjunction with a portfolio of sub-brands to market specific product series. Strategically, to complement our ownbrand products business, we also design, develop and manufacture private label products for some of our customers on a selective basis, and also selectively design, develop and manufacture co-branded products with well-known international co-brand partners. We believe these arrangements allow us to most effectively increase our sales, enhance our customer relationships and further grow our market share. We currently offer approximately 1,100 products across our four core product groups, including a comprehensive selection of above-ground pools and portable spas, recreation products, sporting goods, and camping products, designed to cater to a wide range of consumer groups and geographic markets. We have a proven track record of successfully pioneering new product categories. For example, our innovative POWER STEEL above-ground pools, LAY-Z-SPA portable spas, H<sub>2</sub>O GO! water slides, as well as COOLERZ outdoor water sports products and HYDRO FORCE inflatable stand-up paddle boards, have become some of our best-selling and fastest growing products in recent years and are also some of the leading, most recognized and fastest growing brands on the market in their respective product categories, according to the Frost & Sullivan Report.

Our products are sold through an extensive international sales network to more than 110 countries across six continents worldwide, one of the broadest networks within the global outdoor leisure products market, according to the Frost & Sullivan Report, providing us a presence in every key geographic market. Our sales model leverages the regional market knowledge, resources and expertise of the local sales forces to sell our products directly to a diverse customer base comprised predominantly of retailers such as hypermarkets, department stores and other retailers, eliminating the need for layers of distributors, saving costs and providing us closer interaction with our customer base and end-consumers.

Our operations are vertically integrated on a global basis, spanning across product research, design, development, manufacturing, sales and marketing as well as aftersales services. According to Frost & Sullivan, a globally integrated business model is rare in the outdoor leisure products industry, which provides us with distinct and important competitive advantages. We are able to effectively leverage our international research, design and development capabilities, together with our in-house manufacturing scale and technical capabilities in China and our extensive worldwide sales network to maximize growth, profitability and operational efficiency.

We enjoyed strong and stable revenue growth over the Track Record Period, with significant improvements in profitability as we firmly established ourselves in key target growth markets such as the U.S. Our revenue increased from US\$467.9 million for the year ended December 31, 2014 to US\$584.5 million for the year ended December 31, 2016, representing a CAGR of approximately 11.8%, outpacing overall industry growth. Our revenue increased by 19.3% from US\$353.4 million in the six months ended June 30, 2016 to US\$421.6 million in the same period of 2017. Our profit for the year ended December 31, 2014 to US\$43.0 million for the year ended December 31, 2014 to US\$43.0 million for the year ended December 31, 2016, representing a CAGR of approximately 125.9%. Our profit for the period increased by 14.3% from US\$30.3 million in the six months ended June 30, 2016 to US\$34.6 million in the same period of 2017, while our profit for the period (excluding listing expenses for the Global Offering) increased by 23.0% from US\$30.3 million to US\$37.2 million in these same respective periods. During the Track Record Period, by the start of each year, we were typically able to procure purchase orders for our products that accounted for approximately 40% to 50% of the revenue for the relevant year, which provides us with a high degree of visibility over our sales for the year and allows us to implement a robust strategic budgeting and planning process.

#### **OUR COMPETITIVE STRENGTHS**

We believe the following competitive strengths underpin our success and put us in a favorable position to pursue attractive growth opportunities.

#### A global, market-leading brand

We are a leading and one of the most well-established branded companies in the global water leisure products market, with a reputation for excellent product design, quality, functionality and value. Our history dates back over 20 years to 1994, when we were founded with a vision to bring fun, lasting experiences for everyone in the world through the products and services we provide. We have since built our reputation globally over the years by consistently providing quality and innovative products with reliable performance, practical features and great value to our end-consumers. Our products, which are predominantly sold under the BESTWAY brand umbrella in conjunction with a portfolio of sub-brands, can now be found in over 110 countries across six continents worldwide. According to the Frost & Sullivan Report, BESTWAY and many of our sub-brand product series, such as POWER STEEL above-

ground pools, LAY-Z-SPA portable spas, H<sub>2</sub>O GO! water slides, as well as COOLERZ and HYDRO FORCE outdoor water sporting goods, are some of the leading, most recognized and fastest growing brands in the market in their respective product categories. Strategically, to complement our own-brand products business, we also design, develop and manufacture private label products for some of our customers on a selective basis, and also selectively design, develop and manufacture co-branded products with well-known international co-brand partners. We believe these arrangements allow us to most effectively increase our sales, enhance our customer relationships and further grow our market share.

Our extensive product and brand portfolio spans across all major categories within the global water leisure products market, which forms a key component of the broader US\$180.7 billion global outdoor leisure products market in terms of retail sales value in 2016. According to the Frost & Sullivan Report, the global water leisure products market size was US\$33.3 billion in terms of retail sales in 2016 and is expected to grow to US\$46.3 billion at a CAGR of 6.8% from 2017 to 2021, driven by increases in household leisure spending, greater emphasis of healthy and active lifestyles together with continued product innovation and new technologies.

We are the third largest player in the global water leisure products market, with a market share of 2.3% in terms of retail sales in 2016, according to the Frost & Sullivan Report. We are also an important player in the broader outdoor leisure products market, particularly in the inflatables and related products category, our traditional strength and key focus area. Within the broader outdoor leisure products market, inflatable products represented approximately 2% of the overall market, with US\$3.1 billion of retail sales in 2016. This segment is expected to grow to US\$5.3 billion at a CAGR of 11.4% from 2017 to 2021, a much faster rate as compared to non-inflatables, driven by increasing consumer preference for portable products that are convenient to use, as well as continued product innovation and enhanced manufacturing technologies for inflatable products. In the inflatables category, we are the second largest player globally, with a market share of over 30% in terms of retail sales in 2016, according to the Frost & Sullivan Report.

We believe our well-established brand, attractive industry dynamics and leading market positions globally form a strong foundation for future growth and profitability.

# Broad portfolio of fun, functional and innovative products with proven design and development track record

Our product portfolio comprises an extensive range of fun, functional and innovative outdoor leisure products. Our product range includes a comprehensive selection of above-ground pools and portable spas, recreation products, sporting goods, and camping products, designed to cater to a wide range of consumer groups and geographic markets. We currently offer approximately 1,100 products across our four core product groups.

Product innovation and development has always been a critical element of our business, and we invest significant resources into it. We adopt a globally integrated product development platform, consisting of four functional elements: strategic management, portfolio management, project management and marketing management. Our Chief Strategic Officer, Mr. Patrizio Fumagalli, who is based in Phoenix, U.S., and the heads of our research and development, marketing, sales, compliance, intellectual property and manufacturing teams analyze market information and set overall strategic directions for our product development phase (strategic management). Product managers based in

Phoenix, U.S. and Milan, Italy are responsible for managing our product portfolio, evaluating consumers' feedback and producing industrial designs of products and project proposals for further development (portfolio management). We also engage third-party product developers in the U.S. and Europe, who bring deep industry knowledge and experience and sophisticated product design expertise to our product development process. These teams work closely with our headquarters-based technical center in Shanghai to complete the details in the design. Our headquarters-based technical center includes our research and development, quality assurance, compliance and intellectual property teams, and is responsible for project assessment, structural product design, prototype evaluation and testing, as well as trial production and formal manufacturing (project management). Lastly, our global marketing teams are responsible for developing sales and marketing plans and the preparation of related promotional materials and activities (marketing management). For details of our integrated product development platform, please see "-Research and Development-Integrated Product Development Platform." We believe such a globally integrated platform allows us to best capture the strengths of our worldwide presence and fully take into consideration industry dynamics, regulatory and product requirements as well as consumer preferences throughout the entire product development process and on a global basis, in order to maximize the success of our existing product portfolio as well as new product introductions.

We have a proven track record of bringing new and exciting products to the market. Of the approximately 1,100 products we offer, we generally aim to introduce New Products and update or replace approximately 20% to 25% of the products in our product portfolio each year to freshen our product lineup. We have been highly successful in pioneering new product categories. For example, our innovative portable spas introduced in 2005, HYDRO FORCE inflatable stand-up paddle boards introduced in 2013, H<sub>2</sub>O GO! water slides introduced in 2013, and COOLERZ outdoor water sporting goods introduced in 2014 have become some of our best-selling and fastest growing product categories. For the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, our sales of these products and product categories in aggregate amounted to approximately US\$23.2 million, US\$45.4 million, US\$97.5 million and US\$99.7 million, representing approximately 4.9%, 8.8%, 16.7% and 23.6% of our total revenue for the corresponding periods. We believe New Products and new product categories are a key driver of our business growth, while expanding and complementing the composition of our product portfolio. We also expect to see significant growth from new products that we launched in 2016, such as the FORTECH airbeds and new categories of snow tubes and swim trainers. In addition to new product development, we also focus on advancing the technology and design of the polymer films and composite materials we use in manufacturing our products to further enhance the quality and functionality of our products as well as to reduce costs.

Consumer preferences and market dynamics are constantly evolving. The strength of our integrated global research, design and development platform has allowed us to continuously bring to the market innovative, industry defining and complementary products over the years, which has played a key role for us in achieving and maintaining our leading market positions globally. In addition, we believe such strong research, design and development capabilities, our industry expertise and knowledge accumulated over the past 20 plus years together with the establishment of a global patent portfolio, can only be cultivated over time and form high barriers to entry for new competitors.

#### Extensive international sales network supported by local market expertise

Our products are sold through an extensive international sales network to more than 110 countries across six continents, one of the broadest networks within the global outdoor leisure products market, according to the Frost & Sullivan Report, providing us a presence in every key geographic market. Our Shanghai head office, where we devise our global sales strategies and execute the vast majority of our sales contracts, is supported by nine overseas subsidiaries across all key regions together with third-party regional relationship managers on a global basis. These regional teams form the core of our sales force and are responsible for identifying local business and market opportunities and executing sales and marketing strategies in their respective regions. We have put in place bespoke performance-based incentive schemes, including commissions and bonuses, to ensure our sales force is highly motivated and that their interests are aligned with our overall group strategy. We believe this sales model is the most effective and cost-efficient for quickly penetrating into the markets as well as establishing and maintaining strong long-term customer relationships, while still providing us with control over sales terms and development of our overall sales network.

Our sales model leverages the regional market knowledge, resources and expertise of our sales force to sell our products directly to a diverse customer base comprised of local retailers such as hypermarkets, department stores and other retailers, as well as local importers. This type of model eliminates the need for layers of distributors, saving costs and providing us with closer interaction with our customers as well as end-consumers. Accordingly, we are able to react more quickly to industry trends and offer our customers with a more customized product mix that caters to current market dynamics and local consumers' preferences. In addition, we actively provide our retailer customers with value-added services, including aftersales services to end-consumers as well as general marketing and sales support. This has allowed us to form solid, long-term and stable relationships with our customers. Of the 50 largest retailers globally, according to the Frost & Sullivan Report, we have had a long term business relationship with at least 20 of them. Over the Track Record Period, approximately 80% of our revenue was generated through sales directly to retailers. We consider our customers to be our strategic partners, and we have also become important suppliers of theirs. For example, in the U.S., we were awarded the "Exceptional Performance for Price/Value Award" by one of our leading global retailer customers in the United States in 2015 and we were one of the four nominees for its "Supplier of the Year" award in 2016. We were awarded the "High Standard & Quality Award" by Metro in 2013 and awarded the "Gold Award for Best Auchan Retail Supplier for 2016" and the "Best Supplier for Compliance for 2016" by Groupe Auchan SA in 2017.

Recognizing the significant growth of e-commerce in recent years, we have successfully implemented various e-commerce initiatives to expand our online sales, especially in key growth markets such as China. Over the Track Record Period, revenue generated from the online sales profiles we maintain through third-party e-commerce platforms increased from US\$0.2 million for the year ended December 31, 2014 to US\$0.7 million for the year ended December 31, 2016, representing a CAGR of 87.4%. Going forward, e-commerce and online channels will be one of our key focus areas, and we expect online sales to contribute a greater share of our total revenue in the years ahead.

#### Vertically integrated business model with strong in-house manufacturing capabilities

We operate a vertically integrated business model with operations spanning across product research, design, development, manufacturing, sales and marketing as well as aftersales services on a global basis. This type of globally integrated operations allows us to effectively leverage our international research, design and development capabilities, our manufacturing capacities in China together with our extensive worldwide sales network to maximize growth, profitability and operational efficiency. It also provides us visibility and control over the most critical elements of the value chain, including ability to manage intellectual property protection, quality control, sales network, customer relationships and cost control, whilst maintaining operational flexibility. According to the Frost & Sullivan Report, this type of integrated business model on a global basis is rare in the outdoor leisure products industry, and provides us with distinct and important competitive advantages.

At the heart of our manufacturing capabilities are our in-house manufacturing facilities located in Shanghai, Nantong and Yancheng, China. These strategically located production centers are equipped with state-of-the-art facilities and in aggregate staffed with over 9,000 personnel. We believe that keeping manufacturing in-house enables us to continually enhance our production, technological and management capabilities to achieve greater production efficiency, reduce waste and minimize costs, while being able to strictly control overall product quality across the value chain and ensure punctual product delivery, which in turn translates into happy customers and end-consumers, leading to repeating business opportunities and the strengthening of our brand. Our strong in-house manufacturing facilities are complemented by well-developed back-end infrastructure. For example, core operations, including production and inventory control, are centrally managed through an advanced ERP program by SAP, which provides us with real-time visibility across the supply chain on a global basis. All major business processes, such as production, quality control, inventory and warehouse management, and sales, are supported by our ERP system to effectively coordinate resources among our manufacturing facilities and departments.

Through effective allocation and organization of our manufacturing personnel and resources, we are able to conduct large-scale production in an integrated and standardized manner to ensure consistent product quality and on-time product shipment while optimizing supply chain management and capacity utilization. For example, our new 91,000 square meters manufacturing facility in Nantong, which is expected to be put into use in the fourth quarter of 2017, is a facility that will feature a high degree of automation and further centralize various existing production functions of our Shanghai and Nantong facilities into our Nantong site to increase operational efficiency. We expect this advanced facility to enable a lean management system, streamline headcount requirements, and avoid duplicative processes, thereby reducing costs and enhancing overall operational efficiency.

# Emphasis on product quality, customer satisfaction and corporate sustainability

Our vision is to create fun, lasting experiences for everyone in the world through the products and services we provide. Accordingly, ensuring the quality of our products and the satisfaction of our customers is of utmost importance to us to maintain the strong reputation of our BESTWAY brand portfolio and the long-term sustainability of our business.

We place significant emphasis on global safety standards. Our global compliance team dynamically monitors global safety requirements and reports to our headquarters on a weekly basis so that responsible managers can communicate with the research and development team on a timely basis and make necessary adjustments to relevant product specifications. We believe our quick turnaround time enables us to provide the market with up-to-date products in an efficient manner as compared to other industry peers, who may take longer to react to changes in global safety standards. We also operate a product quality assurance system that spans from the early stages of product development all the way through to the end of the product life-cycle, from design and development to consumer usage. This comprehensive system allows us to identify and rectify potential quality issues at an early stage of product development. Save as disclosed in this prospectus, all products we offer are in compliance with safety requirements stipulated in national and regional laws and regulations. We have also participated in the establishment of various U.S. and European industry standards.

As part of our integrated business model and comprehensive quality assurance system, we operate 41 customer service centers globally, covering the majority of our sales network and providing our customers and end-consumers with a full range of aftersales support services throughout the product lifecycle. We believe providing these types of value-added services differentiate us from our competitors, strengthen our relationships with our customers and end-consumers and in turn enhance long-term customer satisfaction and brand loyalty. We also place emphasis on corporate sustainability and aim to minimize the impact our business and manufacturing processes have on the environment. To this end, we are investing in and pursuing more efficient alternative energy sources and materials recycling initiatives. According to the public disclosure program organized by CDP (Carbon Disclosure Project), an international organization providing a standardized environmental disclosure system for companies to measure and report their sustainability efforts, we were ranked as one of the top seven Chinese suppliers among the 400 Chinese manufacturers who participated in the program.

# Highly experienced, dedicated and professional international management team

We possess an international management team with deep industry experience and dedicated commitment to our Company. Most of our senior management team members have been with us for over 10 years and possess an average of over 15 years of relevant industry and management experience. In particular, Mr. Zhu, our visionary and entrepreneurial founder and Chairman, has over 23 years of experience across product research, design, development, sales and marketing, manufacturing and management. Mr. Zhu has accumulated rich expertise across key comprehensive enterprise management processes, including strategic business planning, brand management, domestic and overseas market development and establishment of sales channel, product research and development, and lean production management in manufacturing, among others.

Mr. Zhu is supported by over 100 experienced regional managers with diverse ethnic and professional backgrounds across nine subsidiaries worldwide, who have nurtured a corporate culture that encourages the creativity and entrepreneurial spirit we were founded upon, whilst passionately reinforcing our mission of "Happy Employees, Happy World and Happy Consumers." The strength and effectiveness of our international management team is clearly demonstrated by our track record of success, well-established global brand presence and leading market positions worldwide.

#### **OUR GROWTH STRATEGIES**

Our mission is to bring happiness to our employees, the world, and our consumers. Our goal is to leverage our traditional strengths in the inflatable and related products industry to strengthen our market position across the entire outdoor leisure products industry globally. We aim to achieve this by implementing the following strategies:

## Continue product innovation and development to enhance and broaden our product and brand portfolio

We plan to further strengthen our product development capabilities and build upon our successful track record of new product launches to expand our product offerings, broaden our end-consumer base and increase overall industry demand for our product categories. We will continue to bring new, innovative, fun and functional products to the market on a regular basis. Of our approximately 1,100 products on offer, we generally aim to introduce New Products to update or replace approximately 20% to 25% of the products in our product portfolio each year to freshen our product lineup and keep our customers engaged. We have at least one additional new product series in the pipeline for 2018: constant-air play centers (functional structures that rely on a continuous supply of air pressure to maintain shape) to complement our existing product portfolio. We also expect significant growth from new products we launched in 2016, such as the FORTECH airbeds as well as new categories of snow tubes and swim trainers. In addition to new product development, we also focus on advancing the technology and design of the polymer films and composite materials we use in manufacturing our products to further enhance the quality and functionality of our products as well as to reduce costs. We are also aiming to expand the functionalities for products with seasonal-usage pattern to prolong usage of these products to increase demand throughout the year. As part of our strategy to enhance and broaden our product and brand portfolio, we intend to increase emphasis on our own BESTWAYbranded products going forward, while decreasing emphasis on our private label and co-branded products businesses, as appropriate and in accordance with market conditions.

According to the Frost & Sullivan Report, there is a clear global trend towards increasing spending on leisure and entertainment and an emphasis on healthy lifestyles, together with a preference for portable products that are convenient to use. We believe there are substantial growth opportunities within the global outdoor and water leisure products market, particularly in the inflatables category and in emerging markets such as China and other parts of Asia. For example, the inflatables category only represented approximately 2% of the total US\$180.7 billion outdoor leisure products industry in terms of retail sales in 2016. However, the category is expected to grow at a CAGR of 11.4% from 2017 to 2021 to US\$5.3 billion in terms of retail sales, far outpacing the expected growth of non-inflatable products. To this end, we will also focus on further educating customers and end-consumers about our brand and the functionality of our products with the aim of increasing market awareness and gaining market share for ourselves as well as our key product categories.

We may also selectively consider complementary acquisition opportunities to further expand our global presence and enhance our product portfolio.

## Build upon our heritage to develop the underpenetrated China and Asia markets and increase overall market consumption

The China and Asia markets for outdoor leisure and water leisure products are extremely underdeveloped as compared to markets such as Europe and the U.S.. According to the Frost & Sullivan Report, China's outdoor leisure products market size was only US\$3.3 billion in terms of retail sales in 2016. We see significant growth potential in these markets. Driven by rising disposable income, increased spending and an emphasis on leisure and entertainment, together with greater consumer awareness of such products, China's outdoor leisure products industry is expected to grow to US\$5.2 billion by 2021 at a CAGR of 9.2% from 2017 and the inflatables category is expected to grow to US\$91.4 million at a CAGR of 22.1%. Similarly, Asia (excluding China)'s outdoor leisure products industry is expected to grow to US\$36.8 billion by 2021 at a CAGR of 7.2% from 2017 and the inflatables category is expected to grow to US\$662.5 million at a CAGR of 14.4%. We believe our well-established brand, high quality product portfolio, combined with our local heritage and deep understanding of the domestic market, will enable us to be the pre-eminent driver of industry growth in China and Asia, and position us well to become the undisputed market leader in the region in the years ahead.

We intend to aggressively promote awareness of and educate consumers on the functionality of our products as we believe this will be critical to driving market penetration and consumer adoption of the outdoor leisure and water leisure product categories. We also intend to develop more tailored products with chic designs and greater convenience to satisfy the China and Asia consumer demand profile, which differs from traditional markets such as Europe and North America given comparatively smaller spaces for recreational activities. In China, we have already begun to effectively leverage the extremely popular social media and e-commerce platforms such as Weibo, Red, WeChat, Tmall, Taobao and JD.com to promote and market our products. These online channels are expected to be a key component of our sales strategy in the region going forward.

#### Reinforce our leading market position and increase market share in key global markets

Our largest geographic markets are Europe and North America, which represented 53.1% and 27.6% of our total revenue in the year ended December 31, 2016, respectively. These markets are also the largest outdoor leisure products markets in the world, and we will continue to place significant emphasis on reinforcing our market positions in them.

According to the Frost & Sullivan Report, we are the largest player in Europe with a 38.9% market share in the inflatable outdoor leisure products industry in terms of retail sales in 2016. In North America, we are the second largest player, with a 24.3% market share. As such, we believe there are significant growth opportunities for us in the North American market not only in the inflatable and related products category, but across the entire US\$60.1 billion outdoor leisure products industry. We achieved significant growth in the North American market during the Track Record Period, with revenue increasing from US\$77.3 million for the year ended December 31, 2014 to US\$161.2 million for the year ended December 31, 2016, representing a CAGR of 44.5%, and further increasing by 17.7% from US\$120.2 million in the six months ended June 30, 2016 to US\$141.5 million in the same period of 2017. We believe our ability to quickly establish such a strong foothold in this highly important and competitive market is a testament to the strength of our brand, the quality of our products and services,

and the effectiveness of our local sales and management teams. In combination, they position us well to further increase our market share in this region as well as successfully penetrate other markets going forward.

We intend to continue to invest in marketing efforts across all key global markets to increase our brand recognition and drive growth. Our range of marketing strategies includes developing our brand exposure across social media platforms, such as Instagram and Snapchat, as well as traditional platforms, such as popular television shows, print media and event sponsorships. Our marketing team is devoted to producing bespoke, consumer-centric and well-tuned marketing campaigns as tools to increase our brand awareness and promote new products, as well as educate consumers about the competitive advantages and functionality of our products.

## Expand and strengthen in-house manufacturing capabilities while enhancing operational efficiency across the value chain

As of the Latest Practicable Date, our sites in Shanghai, and Nantong and Yancheng in Jiangsu province cover an aggregate land area of approximately 953,097 square meters. We expect to expand the land area of our site in Nantong by 140,000 square meters in 2018. Accordingly, we expect the aggregate land area of our three sites will be over one million square meters by the end of 2018. For more details, please see "—Production." We are currently in the process of expanding our in-house manufacturing capabilities to better fulfill the ever-increasing demand for our products globally. We intend to expand our existing manufacturing capabilities by building new manufacturing facilities and materials handling centers at our current production site in Nantong. For details of our expansion plans, please see "—Production—Expansion Plans." We intend to fund the construction of our expansion plans through our operating cash flow, bank facilities together with proceeds from the Global Offering, and expect to commence initial production on the first phase of these new facilities towards the end of 2017. Construction of these facilities is expected to be completed by September 2019 and been put into full operation by 2020.

Continuing to embrace technological advancements in manufacturing processes and systems will be important for us to enhance operational efficiency across the value chain and effectively control our cost structure. We plan to invest in our production and logistics systems to upgrade existing facilities and equipment to further promote the automation and mechanization level of our manufacturing capabilities, and more effectively utilize production space and human resources. For example, we expect to complete construction of two automated warehousing facilities at our existing facility in Nantong, the first by mid-2018 and the second in the second half of 2019, with an aggregated gross floor area of 43,000 square meters and an expected storage capacity of 170,000 cubic meters. We plan to staff these new facilities with around 30 employees. A conventional facility with similar capacity would have required gross floor area of 120,000 square meters and staff by over 250 employees. In addition to the significantly reduced floor area and headcount requirements, the advanced WMS logistics and storage management system is expected to enhance efficiency and accuracy during the onsite collection and delivery process, ensure product packaging quality and save costs. We are also constantly strengthening and upgrading our real-time supply chain management systems to optimize new product planning and management, effectively manage raw material usage, enhance labor efficiency, control manufacturing costs and reduce wastage.

#### Integrate advanced technology solutions to further enhance our competitiveness

We recognize the importance of technology and innovation, and will continue to embrace advanced technology solutions across multiple business aspects with the goal of further enhancing our competitiveness:

- Lean Value Chain. Our core supply chain operations, including production and inventory control, are centrally managed through an advanced ERP program by SAP, providing real-time visibility across the supply chain on a global basis. We are in the process of introducing a product life management system for our product development process, enabling timely communication and sharing between our global design team and our research and development resources. In addition, our manufacturing execution system ("MES"), together with our warehouse management system ("WMS"), allow us to utilize automated production planning, planning execution and results analysis, support a more efficient management of the product delivery process, improve service quality and lower costs. Going forward, we aim to apply web-enabled production facilities and establish an integrated value chain system, from which we can obtain relevant manufacturing and operating information and leverage our customer relationship marketing ("CRM") system and big data analysis to respond to market demand trends in a more timely manner, more accurately define consumer segments and develop more consumer-centric products.
- Web-enabled Product Development. We are actively looking to incorporate "Internet of Things" and "Smart Furniture" concepts within our product portfolio. For example, we are developing a mobile app for some of our products, such as airbeds, to support functions including remote heating and timed air inflation. This initiative has the potential to not only improve consumers' experiences, but also help us to collect additional data via the internet to further improve our products.
- Comprehensive Sales and Marketing Channels. We are actively exploring online sales channels to cater to modern consumer spending habits, especially in growth markets such as China, where we have already launched our own online stores on highly popular e-commerce platforms such as Tmall, Taobao and JD.com. In other markets and geographies where we currently do not have a strong existing presence, we will look to pursue our own online platforms as a way to establish our foothold. In markets where we already have an existing presence, our online strategy will be to focus on selling complementary and supplementary products so as to not conflict or compete with our retailer customers. Meanwhile, we are also increasingly managing orders and providing aftersales services through our global internet cloud management platform. Further, we will continue to implement and optimize our CRM system by leveraging consumers' feedback, product orders and market research data etc., to respond more quickly to the market, improve product and service quality, and accurately define and cater to our customer segments. We will further utilize social platforms such as Weibo, WeChat, Facebook and Instagram for brand and product promotion. The online sales channel has witnessed remarkable growth in recent years, which is expected to continue in the years ahead. We believe this sales channel to be an extremely important part of our overall sales strategy going forward and expect to invest significant resources to ensure our presence and visibility on these e-commerce platforms.

#### OUR VERTICALLY INTEGRATED BUSINESS MODEL

We believe our past success has been and our success going forward will continue to be in large part driven by our global vertically integrated operations, spanning across product research, design, development, manufacturing, sales and marketing as well as aftersales services, which we have been developing and strengthening since our inception over 20 years ago. Our vertically integrated business model gives us substantial control over the most critical elements of the value chain, including product development, raw material procurement, production, marketing, sales and aftersales services. It also provides seamless integration and helps us optimize resources management among our operating subsidiaries and departments globally, particularly in developing our products. Our capabilities at each key stage of the value chain enhances our ability to better manage product quality and cost, which in turn strengthens our brand recognition and our profitability. Unlike competitors who are mainly engaged in production or sales, we are able to adjust our product portfolio, production and sales to respond promptly to changes in supply and demand and allocate resources in the most efficient manner between our operations in different markets. The following chart illustrates the various components of our integrated business model:



We emphasize product development, and have developed our products by consolidating expertise and resources in key markets and all critical elements of the value chain—from production, marketing, sales and aftersales services. We develop and deliver a broad array of products adapted to diverse consumer needs. We manufacture almost all of our products, including our main materials, in our manufacturing facilities located in Shanghai, Nantong and Yancheng, which allows us to maintain a high degree of product quality control.

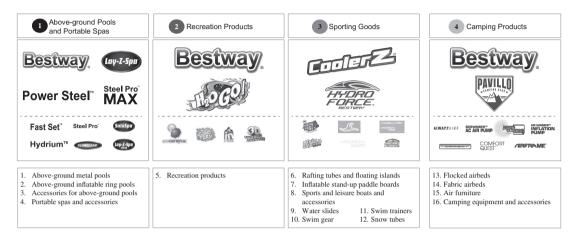
In addition, our extensive international sales network supports us in reaching a diverse global consumer base. We directly sell our products to our customers, most of which are major retailers. Our headquarters-based sales operations team develops and drives firm-wide sales strategy, and our overseas sales teams together with third-party regional relationship managers identify and develop business opportunities in their respective regions. We believe our sales model gives us greater control over our interaction with customers around the world and helps us to respond to changing market conditions and customer expectations more timely and effectively.

#### **OUR BRANDS**

We predominately design, develop, manufacture and sell our products primarily under our own BESTWAY brand umbrella, in conjunction with a portfolio of sub-brands. During the Track Record Period, sales of our products under our BESTWAY brand and sub-brands contributed the vast majority of our total revenue. Our multi-brand strategy helps us to expand our brand presence and meet diverse consumer demands.

We categorize our products into four core product groups and 16 product categories. We market and sell these products primarily under the following major sub-brands based on their product categories and market positioning:

## **Bestway**



To complement our own-brand products business, we also design, develop and manufacture private label products for some of our customers on a selective basis, and also selectively design, develop and manufacture co-branded products with well-known international co-brand partners. We believe these arrangements allow us to most effectively increase our sales, enhance our customer relationships and further grow our market share. Please see "—Private Label Products Business" and "—Co-branded Products Business" for more details.

The following table sets forth our revenue by brand type and as a percentage of total revenue for the periods indicated:

	For the year ended December 31,							For the six months ended June 30,			
	2014		2015 2016		2016		6 2017		7		
	US\$'000	% of total revenue	US\$'000	% of total revenue	US\$'000	% of total revenue	US\$'000 (unaudited)	% of total revenue	US\$'000	% of total revenue	
Own-brand products	346,790	74.1	352,778	68.7	435,108	74.4	255,665	72.3	310,282	73.6	
Private label products	92,742	19.8	106,392	20.7	92,956	15.9	57,265	16.2	70,885	16.8	
Co-branded products	28,382	6.1	54,362	10.6	56,465	9.7	40,485	11.5	40,458	9.6	
Total:	467,914	100	513,532	100	584,529	100	353,415	100	421,625	100	

#### **OUR PRODUCTS**

We offer a variety of outdoor leisure products. We organize our products into four core product groups: above-ground pools and portable spas, recreation products, sporting goods and camping products; and 16 product categories: (i) above-ground metal pools, (ii) above-ground inflatable ring pools, (iii) accessories for above-ground pools, (iv) portable spas and accessories, (v) recreation products, (vi) rafting tubes and floating islands, (vii) inflatable stand-up paddle boards, (viii) sports and leisure boats and accessories, (ix) water slides, (x) swim gear, (xi) swim trainers, (xii) snow tubes, (xiii) flocked airbeds, (xiv) fabric airbeds, (xv) air furniture, (xvi) camping equipment and accessories.

The following table provides the revenue breakdown for our four core product groups by amount and as a percentage of our total revenue during the Track Record Period:

_		For the	year ended	December 3	31,		For the s	ix months	ended June 3	30,
Product Group	2014		2015		2016		2016		2017	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
	(in million, except for percentages)									
	(unaudited)									
Above-ground pools and										
portable spas	193.6	41.4	236.3	46.0	274.3	46.9	168.1	47.5	201.2	47.7
Recreation products	113.4	24.2	119.7	23.3	125.7	21.5	75.8	21.5	82.2	19.5
Sporting goods	43.7	9.3	49.7	9.7	76.0	13.0	49.4	14.0	62.2	14.8
Camping products	117.2	25.1	107.8	21.0	108.5	18.6	60.1	17.0	76.0	18.0
Total:	467.9	100	513.5	100	584.5	100	353.4	100	421.6	100

Our product portfolio consists of approximately 1,100 products, and we introduce New Products each year to update or replace approximately 20% to 25% of the products in our product portfolio, which allows us to constantly refresh our product line-ups to cater to the latest market trends. We introduced 248, 228 and 227 New Products in 2014, 2015 and 2016, respectively. As of the Latest Practicable Date, in 2017 we had introduced 206 New Products to the market. We introduced two new product categories, namely snow tubes and swim trainers, under our core sporting goods product group at the end of 2016. As of the Latest Practicable Date, we had 16 product categories and are currently developing and expecting to introduce a new product category, constant-air inflatable play centers, under our core recreation products product group in 2018. Constant-air inflatable play centers are structures that rely on a continuous supply of air pressure to maintain their shape. For further details of the track record of our product development, please see "—Our Competitive Strengths—Broad portfolio of fun, functional and innovative products with proven design and development track record" and "—Our Products."

We have a track record of launching successful new products and product categories that help drive our business growth:

• Portable spas. We developed and introduced portable spas to the market in 2005 as one of the pioneers in introducing this new product category. We have regularly introduced new and improved features, such as water treatment systems, media stations and distinctive massage systems, to the portable spa market. Our LAY-Z-SPA brand has grown into a household brand in the European market, and was awarded the Gold Standard by the UK Pool & Spa Awards in 2016. One of our portable spas in the "Paris" series was awarded the Product of

the Year by the UK Pool & Spa Awards in 2016. According to the Frost & Sullivan Report, we are the leading player in terms of retail sales in the global portable spa market in 2016 with a market share of over 40%. Sales of our portable spas increased to US\$57.1 million in 2016, having grown at a CAGR of 85.6% from US\$16.6 million in 2014, and increased by 90.1% from US\$30.1 million in the six months ended June 30, 2016 to US\$57.2 million in the same period of 2017. Sales of our portable spas contributed 3.5%, 5.9%, 9.8% and 13.6% of our total revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively.

- Water Slides. We became aware of the increasing demand for inflatable water slides in 2013, and introduced our water slides under the H<sub>2</sub>O GO! sub-brand in the same year. We sold over 1.8 million units of water slides in 2016. Our water slides offer enhanced performance and value-added functions and have quickly gained recognition in the U.S. market. H<sub>2</sub>O GO!-branded water slides were awarded the No.1 Product in terms of sales growth and the highest brand value in the small-to-medium sized inflatable pools segment (having retail price lower than US\$150) in 2016, according to NPD Group, Inc., a market research company specialized in the U.S. retail market. Sales of our water slides increased to US\$10.5 million in 2016, having grown at a CAGR of 111.8% from US\$2.3 million in 2014, and increased by 69.3% from US\$7.3 million in the six months ended June 30, 2016 to US\$12.4 million in the same period of 2017. Sales of our water slides contributed 0.5%, 0.9%, 1.8% and 2.9% of our total revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively.
- Rafting Tubes and Floating Islands. We introduced COOLERZ-branded rafting tubes and floating islands in April 2014 as one of the pioneers for this new product category. Sales of our rafting tubes and floating islands increased to US\$21.8 million in 2016, having grown at a CAGR of 301.7% from US\$1.4 million in 2014, and increased by 34.5% from US\$16.4 million in the six months ended June 30, 2016 to US\$22.1 million in the same period of 2017. Sales of our rafting tubes and floating islands contributed 0.3%, 1.3%, 3.7% and 5.2% of our total revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively.
- Inflatable Stand-up Paddle Boards. We were one of the pioneers in the inflatable stand-up paddle board market, introducing this new product category in April 2013. Our HYDRO FORCE-branded inflatable stand-up paddle boards offer great potential as they are more affordable and lightweight compared to traditional fiberglass paddle boards. Sales of inflatable stand-up paddle boards increased to US\$8.1 million in 2016, having grown at a CAGR of 68.2% from US\$2.9 million in 2014, and increased by 38.4% from US\$5.8 million in the six months ended June 30, 2016 to US\$8.0 million in the same period of 2017. Sales of our inflatable stand-up paddle boards contributed 0.6%, 0.7%, 1.4% and 1.9% of our total revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively.

For the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, our sales of these products and product categories listed above in aggregate amounted to approximately US\$23.2 million, US\$45.4 million, US\$97.5 million and US\$99.7 million, representing approximately

4.9%, 8.8%, 16.7% and 23.6% of our total revenue for the corresponding periods, respectively. We believe New Products and product categories are a key driver of our business growth, while expanding and complementing the composition of our product portfolio.

Our products can be broadly categorized into the following four core product groups:

#### **Above-ground Pools and Portable Spas**

We offer above-ground pools and portable spas of different shapes, sizes and features. We are the leading player in the portable spa market with 41.7% market share and the second largest player in the above-ground pool market with 33.3% market share, in terms of global retail sales in 2016, according to the Frost & Sullivan Report. Sales of our above-ground pools and portable spas contributed 41.4%, 46.0%, 46.9% and 47.7% of our total revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively. The price ranges of our above-ground pools and portable spas were generally stable during the Track Record Period. The average life span of our above-ground pools and portable spas ranges from approximately two to three years. The following table provides approximate retail price ranges of our above-ground pools and portable spas by product series as of the Latest Practicable Date.

		Retail Price Range as of Latest
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Product Category	Major Product Series	(US\$)
Above-ground metal pools	Above-ground metal frame pools (POWER STEEL pool, STEEL PRO MAX pool and STEEL PRO pool)	79–999
	Above-ground metal wall pools (HYDRIUM pool)	399–1,999
Above-ground inflatable ring pools	Above-ground inflatable ring pools (FAST SET pool)	29–249
Accessories for above-ground pools	FLOWCLEAR	5–299
Portable spas and accessories	AirJet <sup>TM</sup>	299–499
	$HydroJet^{TM}$	499–799
	HydroJet Pro™	799–999
	Accessories for portable spas	6–100

**Approximate** 

Above-ground pools and accessories

We offer inflatable ring, metal frame and metal wall above-ground pools. Above-ground inflatable ring pools, which we market under our FAST SET sub-brand, are cost-effective, taking up the least space among our pools. They are also compact to carry and store. Set-up for these pools is simple, requiring only inflating the self-supporting top ring and filling the pool with water. Above-ground metal frame pools, which we market under our POWER STEEL, STEEL PRO and STEEL PRO MAX sub-brands, have rust-resistant metal frames around the pool liners, providing stronger support for longer life span. These are bigger pools requiring bigger spaces. They are easy to set-up and dissemble, allowing

users to store the dissembled pools during winter. We manufacture both our above-ground inflatable ring pools and our above-ground metal frame pools using our Tri-Tech<sup>TM</sup> polymer-based composite materials. These materials feature a 3-ply layering system; a polyester mesh core encased in two layers of polymer films, offering strength and durability. Above-ground metal wall pools, marketed under our HYDRIUM sub-brand, are manufactured using rust-resistant reinforced metal sidewalls with sturdy metal frames.

We also offer a variety of pool accessories under our FLOWCLEAR sub-brand to enhance our consumers' experience, including covers, ground cloths and floor protectors, cleaning and maintenance kits, heaters and filters, ladders, hoses and adapters, lights and alarms, and pumps. We developed and began manufacturing pool heaters in 2007 and solar thermal heat panels using polymer films and composite materials in 2010. These accessories can extend the use of above-ground pools beyond summer. We cost-effectively manufacture some of these accessories, including the pool covers and ground cloths, using recycled materials produced from returned products. For details of our recycling process, please see "—Environmental Matters."



Above-ground metal frame pools



Above-ground metal wall pools



Above-ground inflatable ring pools

#### Portable spas and accessories

Our portable spas provide the powerful combination of massage and hot water and deliver consumers an affordable and convenient spa experience. We market our portable spas under our SALUSPA sub-brand in North America and our LAY-Z-SPA sub-brand in other regions, using three distinctive massage systems—AirJet<sup>TM</sup>, HydroJet<sup>TM</sup> and HydroJet Pro<sup>TM</sup>—each targeting specific consumers' needs and budgets. We price our portable spas based on their massage features and size. Our AirJet<sup>TM</sup> system generates air bubbles from the bottom of the spas, delivering thousands of bubbles that thoroughly support and massage users for an invigorating experience. Our HydroJet<sup>TM</sup> system comes with directional adjustable water jet nozzles that generate high pressure water flow that provides more concentrated deep massaging. Our HydroJet Pro<sup>TM</sup> system combines both the AirJet<sup>TM</sup> and HydroJet<sup>TM</sup> features.

Our portable spas showcase our creativity and aesthetics, while also delivering excellent users' experiences that differentiate our products from other portable spas in the market. All of our portable spas are built with sturdy vertical and horizontal beam construction, which offers superior structural stability while maintaining a comfortable surface. These designs allow our spas to retain well-defined shapes after being inflated and deflated. Our portable spas also feature different functions in a variety of styles, including an automatic time-controlled heating system to enhance energy efficiency; a built-in water filtration system to provide a hygienic spa experience; the ClearSoft<sup>TM</sup> water softening and water treatment system; a microelectronic control system to control different functions such as filtration, child

protection locks and heating; a positive temperature coefficient heating system that provides efficient and safe heating, less susceptible to overheating and reducing operating costs and downtime; as well as a ground fault detection device that maintains power distribution and reports ground faults to ensure safety. We believe the introduction of new materials and technologies has delivered better experiences and extended the average life of our portable spas.

We offer a variety of spa accessories to enhance our consumers' experience, including add-on entertainment stations featuring floating speakers, Bluetooth connection, LED lighting, inflatable steps, removable beverage holders, LED floating lights, and cleaning and maintenance equipment.







AirJet<sup>TM</sup> portable spas

HydroJet<sup>TM</sup> portable spas

HydroJet Pro<sup>TM</sup> portable spas

#### **Recreation Products**

Our recreation products include inflatable water, lawn and indoor recreation products. The sales of our recreation products contributed 24.2%, 23.3%, 21.5% and 19.5% of our total revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively. The price ranges of our recreation products were generally stable during the Track Record Period. The average life span of our recreation products ranges from approximately one to two years. The following table provides approximate retail price ranges of our recreation products by major product series as of the Latest Practicable Date.

	Approximate Retail Price Range as of Latest Practicable Date
Major Product Series	(US\$)
Play centers	10–60
Play pools	5–30
Pool floats	1–20
Ride-on pool floats	5–20
Ball pits	10–50

We offer a wide range of inflatable water, lawn and indoor recreation products such as play centers, play pools, pool floats, ride-on pool floats and ball pits. Most of our recreation products are designed for use in pools or on lawns while some of them can be used indoor. Our ball pits, play centers and play pools can be used indoors or on lawns, while pool floats are designed for use in pools. Product safety is crucial, and our products have fulfilled all applicable safety requirements and accompanied by instructions for use and warnings, as necessary. Our central laboratory and independent test laboratories conduct tests on the chemical and physical properties of the products and the materials used in

manufacturing these products. For details of our testing facilities and our internal control measures, please see "—Research and Development—Research and Development Capabilities" and "—Quality Control."







Play centers

Play pools







Pool floats

Ride-on pool floats

Ball pits

## **Sporting Goods**

Our sporting goods can be divided into seven product categories: rafting tubes and floating islands, inflatable stand-up paddle boards, boats and accessories, swim gear, swim trainers, water slides and snow tubes. The sales of our sporting goods contributed 9.3%, 9.7%, 13.0% and 14.7% of our total revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively. The price ranges of our sporting goods were generally stable during the Track Record Period. The approximate life span of our sporting goods ranges from approximately one to two years. The following table provides average retail price range of our sporting goods as of the Latest Practicable Date.

# Approximate Retail Price Range as of Latest Practicable Date

Product Category	(US\$)
Rafting tubes and floating islands	20–200
Inflatable stand-up paddle boards	200–400
Sports and leisure boats and accessories	100-1,000
Water slides	10–50
Swim gear	2–20
Swim trainers	2–20
Snow tubes	10–50

#### Rafting Tubes and Floating Islands

We launched our rafting tubes and floating islands under our COOLERZ sub-brand in April 2014. These products are inflatable rafting tubes, floating islands and loungers for users to sit and relax in pools, rivers, lakes and the seas. Capacities range from one to eight persons. To provide premium comfort and product experience while relaxing in the sun, available features within this product line include backrests, removable sun shades, cup holders and coolers. In addition, we use Inflata-Shield<sup>TM</sup> materials in our designs to enhance durability. Inflata-Shield<sup>TM</sup> materials are thicker and highly engineered polymer-based composite materials designed to provide superior puncture resistance and tear strength against a wide range of tough conditions.







Floating islands

## Inflatable Stand-up Paddle Boards

We introduced our HYDRO FORCE-branded inflatable stand-up paddle boards in April 2013 as one of the pioneers introducing this product. Inflatable stand-up paddle boards can be used in leisure outings, touring and fitness sessions on flat water and in catching small- to medium-size waves of sea. According to the Frost & Sullivan Report, inflatable stand-up paddle boarding is one of the outdoor sporting activities with the most first-time participants in recent years. The inflatable nature of these products makes them lighter and much easier to transport than fiberglass boards, which was previously the dominant design in this product category. Our inflatable stand-up paddle boards are constructed using our Tri-Tech<sup>TM</sup> and drop-stitch materials. These materials are premium grade, offering strength and durability, making them resistant to extreme nautical conditions including exposure to petroleum products and ultraviolet rays. These materials are strong and rigid when inflated, and light and easily portable when deflated. Our drop-stitch materials are two layers of polymer-based composite materials, with vertical polyester fibers of uniform length connecting the upper and lower layer. This drop-stitch construction allows the inflatable stand-up paddle boards to withstand much higher internal air pressure and gives it rigidity. Our inflatable stand-up paddle boards are more lightweight and portable than traditional fiberglass stand-up paddle boards, while designed to offer top performance.

We produce and sell nine different styles of inflatable stand-up paddle boards, divided into mini, leisure, professional and sporting boards, with lengths ranging from 204cm to 335cm and weight capacities ranging from 60kg to 145kg. Other than our mini boards, all boards come with a seating option, an oar, and three fins. Features available within this product range include elastic cords for extra storage, non-slip traction pads, backpacks to carry the deflated paddle boards, and hand pumps.



Inflatable stand-up paddle boards

We have introduced significant improvements in our inflatable stand-up paddle board design and construction that make the products more convenient and easier to use. Further, we developed and have been manufacturing our own materials for inflatable stand-up paddle boards since 2015, which gave us full control of the materials' quality and cost.

## Sports and Leisure Boats and Accessories

#### (i) Leisure Boats

We produce and market a range of HYDRO FORCE-branded inflatable leisure boats. These leisure boats are designed for cruising and fishing in calm water and are manufactured using enhanced polymer film. They have capacities ranging from one to four persons and come with accessories such as double-bladed aluminum paddles, paddle holders, storage space, fishing rod holders and heavy-duty repair patches.

## (ii) Sports Boats

We produce and market a range of HYDRO FORCE-branded inflatable sports boats. We manufacture our sports boats using polymer film with an extra nylon outer layer that is resistant to sun, oil and sea water to provide additional protection. Our sports boats are manufactured using multiple air chamber construction and are built with extra tough strakes to protect the users from impact and friction. They have capacities ranging from two to six persons. Our sports boats are designed to be rowed, and some of the advanced models can be used as motor-powered vessels by installing motors. Our advanced sports boats are manufactured using our Tri-Tech<sup>TM</sup> materials offering strength and durability to provide protection against extreme nautical conditions. In addition, our advanced sports boats also feature floorboards made of drop-stitch materials, marine-grade plywood or aluminum alloys.

We also offer accessories to enhance our end-consumers' experience with our sports boats, including electric motors (312W and 624W), motor mounts, oars and paddles (plastic and aluminum).







Leisure Boats

Sports Boats

## Water Slides

Our  $H_2O$  GO!-branded water slides are designed to deliver a fast, safe and exciting sliding experience. Most of them feature a soft splash landing zone and speed ramps, and can be easily set up by inflating the landing zone and speed ramp, and filling the landing zone with water to anchor. We introduced the Slide-n-Splash series of bowling water slides that come with six inflatable bowling pins and LED water slides in 2016 to enhance users' experience. We also developed water preserving devices that feature in some of our water slides.







Water slides

## Swim Gear

Our swim gear product category includes a wide range of swimming goggles, caps, dive masks, snorkels, ear plugs, kickboards, flotation armbands and other flotation devices.

## Swim Trainers

Our swim trainer product category includes a wide range of swim training products designed for children under the sub-brand of SWIM SAFE ABC. We developed and introduced swim trainers in October 2016. Our swim trainers are designed to provide safe and reliable support for children to practice swimming at a young age. Products are divided into three groups, each designed for a specific age group.

## Snow Tubes

We developed and introduced snow tubes in December 2016. These products are designed specifically for use in riding down snow-covered slopes. Our snow tubes are manufactured using polymer-based textile composite materials and are capable of withstanding temperature of as low as  $-40^{\circ}$ C.







Snow tubes

## **Camping Products**

**Product Category** 

We divide our camping products into four product categories: flocked airbeds, fabric airbeds, air furniture and camping equipment and accessories. The sales of our camping products contributed 25.1%, 21.0%, 18.6% and 18.0% of our total revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively. The price ranges of our camping products were generally stable during the Track Record Period. The average life span of our camping products ranges from approximately one to two years. The following table provides approximate retail price ranges of the camping products as of the Latest Practicable Date.

Approximate Retail Price Range
as of Latest Practicable Date
(US\$)
_

Flocked airbeds	5–50
Fabric airbeds	20–120
Air furniture	10–50
Camping equipment and accessories	10–700

#### Flocked Airbeds and Fabric Airbeds

We divide our airbeds into two basic categories: flocked airbeds and fabric airbeds. They come in different sizes with various features such as built-in air pumps, foam tops and built-in pillows. The major difference between flocked airbeds and fabric airbeds is the finishing of the airbeds. The flocked airbeds are made of polymer-based composite materials with flocked velvet-like coating that eliminates the needs for bed sheets. We introduced our fabric airbeds under our FORTECH sub-brand in 2016 to the market. Fabric airbeds, made with polymer-based textile composite materials, can withstand higher air pressure than our flocked airbeds while maintaining their form, providing extra support and stability to our users. Polymer-based textile composite materials also have higher wear resistance and puncture resistance than polymer films, giving fabric airbeds a longer life span.

Our airbeds are portable, easy to set up and take little space to store when deflated. They can be set up for full-time permanent use or temporary guest accommodation in homes, and they are suitable for camping and temporary use in office premises or vehicles. To deliver a comfortable and supportive sleeping experience, we manufacture our airbeds using two types of constructions, i-beam and coil-beam constructions. I-beam construction uses parallel PVC beams oriented vertically or horizontally to provide structural stability. Coil-beam construction uses open loops of PVC, each attached by a circular weld at the top and bottom of the bed, this mimics the support and stability that a regular mattress offers. Our airbeds designed for outdoor use are lightweight and portable. Product features of our outdoor airbeds include built-in foot pumps, flocked finishes and built-in pillows, and are designed to provide a comfortable and practical users' experience. Most of our indoor airbeds are built using multi-layer construction, including multi-level beds that add extra support and firmness. In addition, we developed and introduced a new series of airbeds in 2015 with our AlwayzAire<sup>TM</sup> technology, using built-in sensors that continuously monitor air pressure throughout the night and automatically engaging a silent secondary pump if pressure drops.







Flocked airbeds

Fabric airbeds

## Air furniture

We offer a wide range of air furniture including chairs, loungers and travel pillows. We offer multifunctional air furniture that can be used as a couch or a bed as our users unfold the independent air chambers, which can be easily folded and unfolded due to their lightweight materials and multi-chamber construction. Air furniture products are also portable and require no special maintenance.







Air furniture

## Camping equipment and accessories

#### (i) Tents

We offer a wide range of PAVILLO-branded tents, including tents for camping, trekking, beach tents, family tents, and Airframe<sup>TM</sup> tents. Tent capacities range from one to six persons, and weights range from 1.1kg to 26.3kg. Our tents are made of polyester, with polyurethane or polyacrylate coating depending on water resistance requirements. The Airframe<sup>TM</sup> technology we developed in 2015 has drastically reduced the set-up time to approximately eight minutes for our four-person tents, as the inflation of the structure sets up the tent, which is quicker and easier than conventional pole-based structures. The set-up of these tents requires our users to hook the tent inlet valve to a pump and the tent is pitched once there is sufficient air pressure in the inflatable poles of the tent. Other features available within our tent product range include water resistance, fire retardant, UV protection, organizer pockets and insect nets.

## (ii) Sleeping bags

Our PAVILLO-branded sleeping bags are manufactured using polyester shells, with linings made of polyester or pongee, and are available in two fill options (hollow fiber or bonded padding) and two shapes (envelope and mummy). Our sleeping bags are designed for temperature range of -3C to 16C and have weights ranging from 600g to 1900g. Features available within this product line include 2-way zippers, rip-stop fabric, draft tubes for insulation along the zipper, "zip 2gether" design (which allows two sleeping bags to be zipped together), and a carry bag for the compressed sleeping bag.

## (iii) Backpacks

Our PAVILLO-branded backpacks are suitable for activities ranging from trekking, mountain climbing, and camping. Their outer layer is made of polyester or rip-stop fabric, and the trim fabrics include polyester, honeycomb and synthetic nylon. The backpacks have weights ranging from 0.6kg to 2.3kg, and volumes ranging from 30L to 70L. Features available within this product range include laptop sleeves, buckles, gear loops, water pouches, emergency whistles, hip belts, side pockets, rain covers, helmet compartments, and sternum straps.







Sleeping bags

#### PRIVATE LABEL PRODUCTS BUSINESS

We strategically design, develop and manufacture private label products for some of our customers, primarily retailers, on a selective basis. These products bear the brand of the relevant private label customer only. We retain the intellectual property rights to the products we produce under these private labels. We believe our private label products business is complementary with our own-brand products business as it allows us to more effectively increase our sales and market share in specific markets and/or to selected customers. We adopt different strategic arrangements with various private label customers, taking into various considerations, including local market dynamics as well as customers' brand image and needs, among others:

- In markets where we have a strong presence (such as United Kingdom and Australia), we
  design, develop and manufacture private label products for certain of our customers targeting
  different customer demographics in the same region to avoid sales cannibalization of our
  products;
- In some regions, mainly emerging markets such as Brazil and Eastern Europe, in order to
  avoid direct price competition among our customers, which may arise if we only sold our
  own-brand products, we selectively design, develop and manufacture private label products
  with differentiating features, including packaging styles and/or product color; and
- In some circumstances, certain of our large retailer customers identify and select some of our products that fit their brand image and demands, and we design the packaging and special features that they request and produce the respective private label products.

Total sales of our private label products were US\$92.8 million, US\$106.4 million, US\$93.0 million and US\$70.9 million in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively.

#### CO-BRANDED PRODUCTS BUSINESS

We also design, develop, manufacture, market and sell co-branded products under brand license agreements with well-known international brands. These products carry our BESTWAY brand together with the co-brand partner's brand. We have had business relationships with our co-brand partners since 2009. The co-branded products we produce and market under these arrangements mainly include aboveground pools, airbeds and recreation products. Total sales of our co-branded products were US\$28.4 million, US\$54.4 million, US\$56.5 million and US\$40.5 million in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively.

Our co-brand arrangements allow us to benefit from the brand recognition and marketing power of our co-brand partners while also highlighting and expanding the market for our own brands and garnering customer confidence in us and our products. These co-branding partnerships also encourage and allow for complementary cross-promotional marketing efforts.

The brand license agreements with our co-brand partners typically range from approximately one to four years, during which our co-brand partners grant us the rights to their brands for incorporation into our products. In return we typically pay an upfront fee upon signing of the agreements and pay royalties calculated as an agreed percentage of our total sales of the relevant products in each year, subject to minimum annual royalty payments. These fixed percentages of royalties generally range from 2% to 16% of sales. The co-brand partners may terminate the brand license agreements if we, among other things, fail to pay the minimum royalties. The agreements are terminated upon the end of the term unless we serve a written notice to the co-brand partner to renew the agreements. The renewal agreements can be entered into upon negotiated terms and conditions satisfactory to both parties.

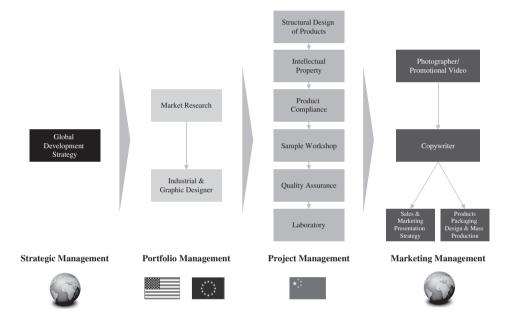
We sell co-branded products and pay royalties to our co-brand partners in return for the use of their trademarks, copyrights and logos and depiction of selected characters of our co-brand partners. We register for patents when we identify novel and unique features in products we design, and we own the intellectuals property rights that we registered in respect of products we designed and manufactured including the co-branded products.

#### RESEARCH AND DEVELOPMENT

## **Integrated Product Development Platform**

Our product development platform is an essential part of our growth strategies, as we believe that improving our existing products and introducing new products are critical to maintaining our market share and meeting consumers' demands. Instead of focusing on a single element of a new product at each stage of the product's development cycle, we take into account a variety of factors, including competitive dynamics, regulatory and product requirements and consumer expectations throughout the entire development process. We believe our success has in large part been driven by our integrated product development platform, encompassing our management, research and development, procurement, manufacturing, compliance, as well as sales and marketing functions.

The diagram below illustrates our globally integrated product development platform:



Our integrated product development platform comprises four functional elements: strategic management, portfolio management, project management and marketing management:

#### Strategic Management

Our Chief Strategic Officer, Mr. Patrizio Fumagalli, leads and manages our strategies on product development. He and the heads of our research and development, sales, marketing, compliance, and manufacturing teams analyze market information and set overall strategic direction for our product development function. This approach allows us to react to market trends and make strategic decisions that match our long term business development plans.

#### Portfolio Management

Our portfolio management function is supported by our headquarters-based technical center and overseas product development teams in Phoenix, United States and Milan, Italy. Our overseas product development teams analyze our product portfolio and evaluate consumer feedback collected through market research and surveys, and they capture and screen market-driven ideas for new or enhanced products. Our product managers within the overseas product development teams then prepare project proposal to suggest adjustments to our product portfolio, while aligning these changes with our overall strategic directions. An industrial design of a proposed product—designed by us or third-party professional design team—typically includes the basic design, features and functional requirements. The project proposal and the industrial designs of the proposed products are sent to our headquarters-based technical center for further development.

## Project Management

Our headquarters-based technical center in Shanghai consists of our research and development team, quality assurance team, compliance team and intellectual property team. Once a new project proposal has been delivered to the technical center, it is assigned to a specific project group under our research and development team based on the relevant production processes and technologies involved. We develop the products through the following steps:

- Project Assessment. The project director and product engineers of the specific project group coordinate with other teams within the technical center, such as the quality assurance, compliance, intellectual property and procurement teams, to evaluate the design. The goal of this process is to examine the feasibility of the proposed product by accessing the industrial design and structural design based on aesthetics, function, development cost, production cost, product positioning, and competitive environment.
- The Structural Design of the Product. Our product engineers develop the industrial design to include additional structural and technical details and prepare the bill of materials, setting out the quantity and specifications of all raw materials, accessories and materials needed to manufacture the product, for the product based on the specified functions, features and target cost. Our intellectual property team registers patents when they identify novel and unique features as the product develops, to protect our intellectual property against potential infringements. For more details on our intellectual properties, please see "—Intellectual Property" and "Appendix IV—Statutory and General Information—B. Further Information About Our Business—2. Intellectual Property Rights of Our Group."

Our compliance officers stationed in Phoenix and Milan monitor the applicable product safety standards in the United States and Europe. We assign specific personnel in our compliance team in Shanghai to closely monitor regulatory updates in other regions and oversee the compliance with product safety standards in these regions. We have also undertaken a proactive role in product safety by participating in and providing constructive feedback to committees and consultation groups on safety standards legislation. For example, we are a member of the technical committee in the European Committee for Standardization that focuses on standardization in the field of domestic swimming pools and spas, as well as a member of the dedicated-purpose pool pumps

working group of the United States Department of Energy to participate in the drafting of the relevant energy conservation standards. These practices allow us to get a better understanding of the rules and requirements in advance, and incorporate new and developing requirements into our design to ensure conformity with safety standards.

Meanwhile, our procurement team works with our product engineers to engage reliable suppliers to develop parts and accessories that fit the specifications on functionality, features, and physical and chemical properties as set out in the bill of materials.

- Prototype Evaluation. In this stage, a number of prototypes are built and we evaluate and refine the design through both technical and marketing analysis. Technical analysis focuses on the functionality and practicality of the design, the feasibility of manufacturing process and the performance stability. Our sales teams and overseas marketing teams evaluate the product's prospects in the marketplace from a sales and marketing perspective. Given the seasonal differences between the northern and southern hemisphere, some of our practicality and user-experience tests of the prototypes are done in our quality assurance center in Sydney. As our products are often designed for the summer, during the northern hemisphere's winter, our quality assurance center in Sydney provides a more desirable venue to test the performance of our products than in cities in the northern hemisphere.
- Test batches. During our internal evaluations, a prototype is sent to an independent laboratory for further evaluations on its chemical and physical properties. Subsequent to all internal and external evaluations, test batches are produced for our procurement team, technical center and technical unit within our manufacturing facilities to evaluate the manufacturing processes and take responsive measures to enhance our manufacturing efficiency. The product is then passed on to our manufacturing facilities for mass production.

#### Marketing Management

During the development of a product's structural design, our overseas marketing teams develop sales and marketing plans and prepare for promotional materials based on the product's industrial design and product positioning, aiming to give the new or enhanced product a competitive edge that aligns with our overall marketing strategies. We or the third-party product developer we engage design the packaging layout for different target markets, before our headquarters-based technical center completes the designs with additional graphical details.

Our marketing teams are also responsible for naming the product, preparing the product descriptions and promotional contents. They also arrange for the translation of product descriptions and user's guide up to 26 languages for packaging and marketing purposes. We also arrange for photography and video production for our promotional materials and work with our overseas sales teams in choosing the most effective promotional channels.

#### Research and Development Capabilities

Our goal is to offer safe, high quality, innovative and functional products to consumers that suit their needs. We conduct research and development activities across our production process with a particular focus on materials and accessories, product development and manufacturing technologies. For the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, our research and development expenses, including relevant staff costs, equipment depreciation expenses and other expenses, were US\$7.7 million, US\$10.1 million, US\$11.5 million and US\$5.7 million, respectively. We recorded all of these research and development expenses as expenses in our financial statements and none of our research and development expenditures were capitalized during the Track Record Period. We intend to maintain our position as a technology leader in our industry by investing substantial resources in research and development activities in connection with new products development.

As of September 30, 2017, our research and development team in our headquarters-based technical center had over 320 staff members, which includes five project directors and 25 project groups with over 120 product engineers, who have an average of more than five years working with us. Three members of our research and development team had obtained master's or higher degrees and over 90 held diploma or undergraduate qualifications in the relevant disciplines including polymer materials and engineering, chemical engineering and electrical technology.

We also engage third-party product developers in the United States and Europe to design some of our products that are mainly sold in these regions, who bring deep industry knowledge and experience and sophisticated product design expertise to our product development process. The scope of their services mainly include the design of the appearance, shape and external feature of the products and their packaging layout. Our own research and development team is responsible for the structural design and development of our products, such as the manufacturing technologies and functions. Revenue derived from products that we engaged third-party product developers for were US\$0.7 million, US\$2.0 million, US\$4.3 million and US\$1.7 million, accounting for 0.1%, 0.4%, 0.7% and 0.4% of our total revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively. We typically enter into product development agreements with the third-party product developers (the "Product Development Agreements") which set out the scope of work, payment terms, confidentiality and other terms. Under the Product Development Agreements, the third-party product developers expressly grant to us all intellectual property rights in relation to the work performed for us, and they shall indemnify and defend us against any liabilities, damages and other expenses related to alleged infringement of the intellectual property rights of any other party.

Our central laboratory in Shanghai conducts tests and assessments on the chemical and physical properties of our proposed products during the product development stage to ensure the product's feasibility and conformity to safety standards. Our central laboratory has obtained multiple domestic and international accreditations. For example, it is an accredited laboratory accredited by the China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會), a certified customers' testing laboratory accredited by TÜV (Rheinland) Group (a national certification body of the International Electrotechnical Commission (the "IEC")) under the IEC system for Conformity Assessment Schemes for Electrotechnical Equipment and Components, and a United States Consumer Product Safety Commission accepted firewalled third-

party testing laboratory. According to the Frost & Sullivan Report, we have the only in-house test laboratory in our industry in China to receive all of these accreditations. Our central laboratory also conducts tests on raw materials and accessories procured from our suppliers and products we manufacture; this approach ensures the quality of our products on an efficient, cost-effective basis. As tests and assessments are conducted in-house, we can control the whole process directly, address issues promptly and better respond to market trends by focusing on our high priority projects. It creates the least disruption to our production and product development.

We have a track record of launching successful new products to the market, please see "—Our Products" and "—Research and Development—Integrated Product Development Platform —Portfolio Management" for more details. We have been continuously developing new materials and construction techniques to enhance the quality and life span of our products. For example, we developed the built-in AlwayzAire<sup>TM</sup> air pump in 2015. We introduced new airbeds under our ALWAYZAIRE sub-brand in April 2016 to embody the newly developed AlwayzAire<sup>TM</sup> air pump to maintain constant air pressure in the airbeds automatically at the desired setting, eliminating loss of pressure and sagging. Other than the technical functionality of our products, we have also developed cost-effective accessories to enhance our users' experience, such as the waterproof entertainment station compatible with our portable spas, which features speakers, Bluetooth connection and LED strips.

Our research and development efforts also seek to generate consumer demand in new markets. We bring innovations to new markets by utilizing our polymer materials, polymer-based composite materials and inflatable systems technology. For example, we developed inflatable stand-up paddle boards to enter the stand-up paddle boards market to compete with the established fiberglass paddle boards.

On top of exploring new markets, one of our long-term research and development strategies is to lessen the inherent seasonality of our products by generating consumer demand. For example, we are developing a low temperature heating system which we plan to incorporate into our portable spas. This system heats water in low temperature environments and allows users in countries with longer and cooler winters to use the portable spa for longer period of time. We also replaced the aluminum spa covers with inflatable covers, which help prevent heat loss, and the solar heating panels and heat pumps in covered portable spas are notably more effective.

## **Expansion plans**

We have a headquarters-based technical center with gross floor area of approximately 6,000 square meters, and regional product design and development centers in Phoenix and Milan with gross floor area of approximately 1,500 square meters and 500 square meters, respectively.

The following table sets forth the details of our expansion plans for our research and development facilities in Shanghai as of the Latest Practicable Date. We believe these expansions will allow us to conduct a wider scope of tests and support the increasing volume of product inspection throughout the production process. We expect to finance these expansion plans with bank loans, our internal funds and the net proceeds from the Global Offering. Please see "Future Plans and Use of Proceeds" for further details.

	Existing Size (square meters)	Expected Size upon Completion (square meters)	•	Estimated Development Costs (RMB million)	Development Costs paid as of the Latest Practicable Date (RMB million)	Remaining development costs as of the Latest Practicable Date (RMB million)
Expansion of the central laboratory and construction of an indoor quality assurance testing area	500	2,048	November 2017	12.0	1.4	10.6
Improvement of sampling workshops	1,800	4,800	December 2017	9.0	0.8	8.2
Upgrading the quality assurance test center	600	2,100	December 2017	3.0		3.0
Total:	2,900	8,948	N/A	24.0	2.2	21.8

## **OUR SALES NETWORK AND MARKETING**

#### **Global Sales Network**

We sell our products through an extensive international sales network to more than 110 countries across six continents worldwide. In light of the international nature of our business, we develop and manage our sales by regions. This regional focus allows us to cater to the specific retail landscape and consumer demographics of each region by engaging our overseas sales teams and third-party regional relationship managers. Regional relationship managers are independent third parties that we engage in different regions to assist in our sales and marketing efforts.

The following table sets forth revenue attributable to each region by amount and as a percentage of total revenue during the Track Record Period:

		For the year ended December 31,						For the six months ended June 30,			
Region	2014	2014		2015		2016		2016		2017	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%	
				(in mil	lion, except fo	r percentag	es)				
				(unaudited)							
Europe <sup>(1)</sup>	259.8	55.5	259.4	50.5	310.4	53.1	198.3	56.1	217.9	51.7	
North America(2)	77.3	16.5	124.2	24.2	161.2	27.6	120.2	34.0	141.5	33.6	
China	8.8	1.9	7.7	1.5	9.4	1.6	3.4	1.0	10.5	2.5	
Rest of the world	122.0	26.1	122.2	23.8	103.5	17.7	31.5	8.9	51.7	12.3	
Total:	467.9	100	513.5	100	584.5	100	353.4	100	421.6	100	

<sup>(1)</sup> Includes countries in the European Economic Area, Switzerland, Turkey, Russia, Kazakhstan, Kyrgyzstan, Albania, Andorra, Armenia, Bosnia and Hercegovina, Georgia, Macedonia, Moldavia, Serbia, Montenegro and Ukraine.

<sup>(2)</sup> Includes the United States, Canada and Puerto Rico.

For a discussion of the revenue by regions, see "Financial Information—Description of Selected Items of the Consolidated Statements of Profit or Loss—Revenue."

We manage our global sales network from our headquarters in Shanghai by supervising the operations of our nine overseas subsidiaries, which are strategically located across the world. To benefit from local market knowledge and expertise, we engage our overseas sales teams as well as third-party regional relationship managers to promote and market our brand and our products on a global basis. We believe this arrangement is beneficial to our sales strategy and that the two teams are complimentary to each other.

Our headquarters-based sales operations team is stationed in Shanghai, and our nine overseas sales teams are stationed in (i) Milan, Italy, (ii) Phoenix, United States, (iii) Hamburg, Germany, (iv) Sydney, Australia, (v) Santiago, Chile, (vi) Nice, France, (vii) São Paulo, Brazil, (viii) Saint Petersburg, Russia, and (ix) Hong Kong. The following map shows our global sales presence:



## Our Sales Teams

Our sales teams include our headquarters-based sales operations team and overseas sales teams. Our headquarters-based sales operations team is responsible for developing sales strategies, establishing global sales plans, driving sales strategies, processing sales transactions, expanding and organizing our global sales network, and overseeing our overseas sales teams, third-party regional relationship managers and other sales activities. We provide extensive training to our headquarters-based sales operations team as it drives the global sales strategies and plays a critical role in our business. The training covers areas including sales and marketing, product engineering, product trials, product safety, manufacturing and overseas markets.

To better serve the needs of our customers in different markets, our overseas sales teams are responsible for the daily operations within their respective countries. Their role is to promote and market our products, manage key accounts and channels, engage, train and oversee third-party regional relationship managers, provide marketing support and oversee customer service centers in their respective regions.

## Sales Management

With the support of our sales teams and third-party regional relationship managers, we manage our global sales network in a structured and efficient manner. The efficiency of our sales process is based on preparedness and training, teamwork, organization and the use of sales data. As part of our structured sales process, each of our customers is assigned to a sales manager who tracks and monitors that customer's purchases, visits the customer and its outlets and conducts regular and irregular market research. For our key accounts, we obtain weekly sales reports and closely monitor their sales, inventory level and product returns in relation to our products. Our sales teams and third-party regional relationship managers also visit other customers periodically to understand the sales and inventory level of our products. This market information helps us to make timely adjustments to our manufacturing plans.

To coordinate and support our global sales efforts, we host annual sales conferences. Our meetings for the U.S. market are held in the United States in March, and in Europe in May for other regions. Our headquarters-based sales operations team, overseas sales teams, third-party regional relationship managers and representatives of our research and development department and marketing department attend the relevant sales conference. The agendas of these sales conferences include setting out our global sales plan, conducting performance reviews and assessments with our third-party regional relationship managers, introducing new products and providing training.

At these events, our sales team explains and sets out the global sales plan for the year, which includes the sales targets and targeted gross profit margin along with specific marketing plans and strategies. We believe that our sales personnel's understanding of our products is critical in promoting our products and aligning our product mix with our customers' sales objectives. Our product development personnel and research and development personnel introduce new products, distribute new product catalogs and demonstrate the functions and features of these products. Our overseas sales teams and third-party regional relationship managers are also invited to use our new products to give them a better understanding of product functionality. Our management team reviews the performance of the regional relationship managers regularly and renews their engagement on an annual basis, as appropriate.

As part of our initiatives to automate our sales and sales force management functions, in addition to our basic ERP system to integrate various functions into a complete system, we have also developed our own purchase order management system, customer relationship management system and business-to-business retailer system ("B2B system") to provide real-time updates of the information gathered by our global sales force. These systems generate meaningful information by utilizing market data, pricing information and manufacturing status, giving our management team better control of our sales activities. For example, these systems allow our key customers, regional sales teams and third-party regional relationship managers to obtain sales information, place orders and assess the payment and order status. Our sales force can also use these systems to track their performance and progress in meeting our key performance indicators.

To manage our customers' experiences and interactions with us, our B2B system allows our customers to place purchase orders and access order history, and access the product information generated by a Product 360 product information system that showcases all of our products. The B2B system also shows the kind of products each customer usually orders, their reorder frequency and the new products they might be open to adding to their product mix.

We were granted an Authorized Economic Operator ("AEO") certification in October 2015. The AEO is a voluntary-based public-private partnership under the World Customs Organization ("WCO") framework. Only corporations meeting AEO requirements, including customs compliance, record-keeping, financial solvency, security and safety standards, and proven practical standards of competence or professional qualifications are granted AEO certification. We, as an AEO-certified corporation, enjoy a streamlined inspection process and priority treatment if selected or inspected at the customs of WCO member countries. This further enhances our time and cost efficiencies in international trade.

#### Third Party Regional Relationship Managers

In addition to our overseas sales teams, we engage third-party regional relationship managers to assist us in promoting and marketing our products, enhance our brand recognition and customer relationships and provide support and services to our customers and end-consumers before, during and after the sales process. Since we sell our products globally to more than 110 countries, we believe the engagement of third-party regional relationship managers is an efficient and cost-effective way in satisfying the needs and desires of our customers around the world and facilitating the expansion of our sales network on a global basis. As of September 30, 2017, we engaged 51 third-party regional relationship managers. Each relationship manager is assigned to specific territories or customers designated by us and they are responsible to manage the sales and marketing activities of our products in their assigned territories and for the relevant customers.

Third-party regional relationship managers generally collect, research and analyze market data, consumer needs and the competitive landscape of local markets, perform a useful role in identifying new business and market opportunities for us, and carry out our marketing plans in their respective regions. They may also meet with our customers to gather feedback and understand sales objectives and service needs. With their local market knowledge and expertise, our regional relationship managers can offer sales proposals to customers with the appropriate product mix that best fit the targeted consumers' needs. Meanwhile, they are also able to provide sales and aftersales services suggestions and recommend sales and marketing strategies in their respective designated regions. For regions in which we do not have offices or customer service centers, selected third-party regional relationship managers may also be responsible for providing aftersales services to our customers and end-consumers.

By utilizing their knowledge and resources, the regional relationship managers may also refer new customers to us. The customers referred to us by the regional relationship managers generally place orders and settle payment directly with us. The transaction terms with the customers referred to us by the regional relationship managers are similar to those with our other customers, including price, return policy and payment terms.

We generally pay service fees (including commissions) to our regional relationship managers. The service fees are agreed between us and the regional relationship manager, with reference to the aggregate sales value of the respective regional relationship manager's scope of coverage, performance record, resources and contributions devoted, as well as the region's market size and conditions. In 2014, 2015,

2016 and the six months ended June 30, 2017, the service fees (including commissions) that we paid to our third-party regional relationship managers amounted to US\$14.3 million, US\$10.5 million, US\$13.4 million and US\$9.2 million, respectively.

While the specific terms vary from agreement to agreement with the typical key terms of our third-party regional relationship manager agreements are summarized as follows:

Term: Effective until either party gives the other party notice of intent to

terminate the agreement. We conduct annual evaluations on the performance of the regional relationship managers and normally renew the relevant agreements with the regional relationship

managers who pass our performance evaluation each year.

Service fees: Agreed by the parties, typically with reference to the aggregate sales

value of the respective regional relationship manager's scope of

coverage, and paid on a quarterly basis.

Region and Customers: The regional relationship managers typically cover specific customers

and/or a specific territory which might include several countries, as

specified in the agreements.

Exclusivity: The regional relationship managers are restricted from promoting or

selling similar products for other suppliers in the specified region.

Confidentiality: The regional relationship managers agree to keep confidential any of

our intellectual property in the specified products and/or services and may not share with other parties such knowledge, design, methodologies, concepts and any other information that may be

deemed confidential or are intellectual property.

Termination: Some of the agreements provide that the relevant agreement may be

terminated by either party by written notice, and some of the agreements also provide that the relevant agreement is terminated if either party breaches the terms and conditions of the relevant

agreement.

To the best knowledge of our Directors, all of our regional relationship managers are Independent Third Parties. We have maintained long-term business relationships with our regional relationship managers and some of our regional relationship managers have more than 10 years of cooperation with us. We believe the arrangements with our third-party regional relationship managers enable us to sufficiently manage and incentivize them to actively promote and market our brand and products and provide us with sufficient controls over the sales network to ensure an orderly market for our products as well as quality customer service.

## **Pricing Policy**

We are the third largest water leisure company globally, and second largest inflatable outdoor leisure products company in terms of global retail sales in 2016 with more than 30% market share, according to the Frost & Sullivan Report, which helps us in setting and maintaining our product prices. In determining our product prices, we usually take into account various factors such as production costs (including the costs of raw materials), customer relationships, production cycle, transportation costs, product types and specification, market prices, exchange rates and general economic conditions. We also consider our gross profit margin and overall market strategy. Based on these factors, we review and adjust our selling prices periodically (usually annually), and in June of each year our headquarters-based sales operations team prepares a global price list and sales policy. Upon receiving the global price list, our overseas sales teams prepare regional price lists for their respective region based on the retail landscape, consumer demographics, average purchasing power, competitive climate, market demand and other market conditions. Our overseas sales teams distribute the regional price lists to the respective third-party regional relationship managers. We generally sell our products to our customers at the prices stated in the regional price list, as determined for the respective region of the customers. The prices in the regional price list are generally not lower than the prices suggested in the global price list. At the same time, we reserve some flexibility in our pricing policy to facilitate particular sales strategy or specific customers on a case-by-case basis. If our regional sales team considers it appropriate to offer additional discounts to a specific customer based on their understanding of the sales environment, market condition, transaction history and the competitive climate of the region, they need to seek for prior approval from our headquarters-based sales operations team on the prices to offer to the customer that deviate from our regional price list. We cannot control the prices at which our products are sold by our customers.

To facilitate efficient manufacturing planning, during the Track Record Period, we offered 2% to 6% advance-purchase discounts to our customers to encourage them to place orders with us before late August each year and arrange payment of deposit by mid-October. Our customers submit their orders early in return for the advance-purchase discounts, and this in turn enables us to plan our manufacturing schedule efficiently and reduce excessive inventory. In addition, we offer sales volume discounts of 1% to 7% to our customers on purchase orders above certain amounts to encourage bulk purchases.

#### **Marketing**

We, together with third party regional relationship managers, promote our brand and products primarily through our (i) trade marketing activities, (ii) event marketing campaigns, and (iii) media marketing. Our advertising and promotional expenses were US\$1.8 million, US\$4.0 million, US\$7.8 million and US\$5.7 million for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively.

## Trade Marketing Activities

Our sales teams, together with the assistance of our third-party regional relationship managers, are responsible for identifying business and market opportunities, through referral by existing customers, enquiry through calls and email, direct customer visits and expositions and trade exhibitions. Our sales teams also deliver samples of our products to target customers, liaise with regional and local customers and collect local market information to facilitate our marketing and pricing strategies.

In addition, we promote our brand and products through conventional media, such as billboards, televisions and pre-show commercials in movie theatres. Our campaigns are designed regionally based on consumer demographics, but are coordinated on a global basis to promote a unified brand image. Our retailer customers also promote our products in their retail outlets, including through product displays, advertisements and flyers, and promotional campaigns.

## Event Marketing Campaign

As part of our sale strategies, our sales teams and regional relationship managers also participate in international sales expositions and industry trade exhibitions. We distribute product catalogs, solicit direct feedback, introduce and market our brand new products to potential customers, solicit purchase orders and conduct business negotiations through these forums. The customer information we collect at expositions and exhibitions is kept on file and assigned for follow-up to the relevant marketing officers according to their responsible product types and locations.







Trade Fair in Cologne, Germany in Salt Lake City, United States

The Sporting Goods and Garden Outdoor Retailer Summer Market

Gifts and Premium Fair in Hong Kong

In addition to participating in trade exhibitions, our regional sales teams also host themed sales events such as an outdoor movie experience with our portable spas. We invite a sizeable crowd to these activities to experience our products in a casual setting, with the aim of achieving positive word-ofmouth marketing. We also identify potential end-consumers and customers by analyzing participants' behavioral responses to our products, and follow up with them on their experiences and purchases, which we believe can enhance our brand awareness and broaden our customers base.

## Media Marketing

As our long-term marketing initiative to develop media marketing, we have started integrating and applying social media analytics and social relationship management into our marketing activities. By integrating the data we collect through different channels, analyzing and interpreting these data, engaging with potential end-consumers, and mapping our data with consumers' responses and feedback, we can create an integrated social ecosystem. We believe an integrated social ecosystem will visualize, track and quantify the data we collect, allowing us to apply these information to plan and adapt to effective marketing activities to support our brand strategy and brand positioning. As a first step to building a useful database, we have started engaging social media and internet users and collecting data through social media, product websites and online advertising since 2015.

- Social Media. Our sales teams and third-party regional relationship managers communicate
  with our end-consumers and potential consumers through social media such as Facebook,
  Instagram, WeChat and Weibo.
- Product Websites. By building product websites that provide information and warranty registration services in relation to specific products or product categories, we conduct consumer data analysis and revert consumers' experiences to our product development team or use these information for promotional purposes.
- Online Advertising. We subscribe to online advertising programs to boost our ranking in search results and exposure of our advertisements. We also publish online advertisements on online retail platforms such as Baidu, Tmall, Taobao and JD.com to engage our potential audience, enhance our brand awareness and in turn increase our sales in China.

## **Tariffs**

We sell most of our products to our customers outside China and these products are subject to tariffs imposed by the importing countries. Please see "Regulatory Overview—Overseas Laws and Regulations relating to Tariffs" for details regarding tariffs in the United States, United Kingdom and the European Union. Our products imported into the United States are subject to tariffs ranging from 0% to 14.9% of the value of the products, and our products imported into the European Union are subject to tariffs ranging from 0% to 12.0% of the value of the products, depending on the product category. The tariffs imposed on our products were generally stable during the Track Record Period. During the Track Record Period, we sold our products mainly on FOB terms, and under these terms import tariffs are borne by our customers. During the Track Record Period and up to the Latest Practicable Date, we were not subject to any anti-dumping duties upon importation into the United States and the European Union.

#### SALES AND OPERATIONS IN COUNTRIES SUBJECT TO SANCTIONS

The United States and to a lesser extent other jurisdictions, including E.U. and Australia, maintain broad economic sanctions targeting certain countries or territories, the Sanctioned Countries, which include Cuba, Crimea, Sudan, Iran, Syria and North Korea. In addition, the United States and other jurisdictions have implemented Targeted Sanctions Programs that target individuals or entities regardless of where they are located. For example, the United States and other jurisdictions, including the E.U. and Australia, impose limited sanctions targeting certain entities, individuals, and activities in Russia, as well as entities majority-owned by sanctions targets worldwide.

During the Track Record Period, we sold our products to customers in Iran and Cuba, which are Sanctioned Countries. Sales to customers in Iran were US\$31,247.3, nil, US\$42,979.0 and US\$49,070.0 for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively, accounting for approximately 0.01%, nil, 0.01% and 0.01% of our revenue for the respective period. Sales to customers in Cuba were US\$350,182.0, US\$272,750.1, US\$483,962.2 and US\$73,254.1 for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively, accounting for approximately 0.07%, 0.05%, 0.08% and 0.02% of our revenue for the respective period. Although we have a global sales and marketing effort, we did not specifically target our sales efforts to Sanctioned Countries, and the sales to Cuba and Iran were made as a result of customers from those countries contacting the Company through marketing activities held outside of

those countries. We have decided to discontinue making sales to customers in Iran and Cuba, please see "—Sales and Operations in Countries Subject to Sanctions—Internal Control Measures" for measures designed to ensure no such sales are made.

Our sales activities involving Sanctioned Countries were conducted on normal commercial terms in the ordinary course of business. All of the counterparties involving in these sales activities were Independent Third Parties. We have discontinued making sales to the Sanctioned Countries, and we have no present intention to undertake any future business with or make any future sales to persons in Sanctioned Countries or to take action that would otherwise cause us or any Relevant Person to violate or become a target under the sanctions laws of the U.S., E.U. or Australia.

During the Track Record Period, we sold our products to customers in certain countries with significant actors that are subject to sanctions. During the Track Record Period, we had sales to customers in Russia. One of our subsidiaries is located in St. Petersburg, Russia, and it markets our products and provides aftersales services to customers in Russia. We intend to continue our sales to customers in these countries; in particular, we consider Russia to be a promising market for our products and intend to expand our sales network in Russia. Russia (leaving aside the disputed Crimea region) is not a Sanctioned Country, and to our knowledge our customers in Russia are not targeted under any sanctions law. However, in light of various Targeted Sanctions Programs relating to Russia implemented by the U.S. and other countries, the Company has monitored its sales to Russia in order to determine whether any targeted parties were involved.

Our sales activities involving these countries are conducted on normal commercial terms in the ordinary course of business. All of the counterparties involved in these sales activities are Independent Third Parties.

#### **Sanctions Risks**

## United States sanctions

After consulting with our International Sanctions Legal Advisors, Cleary Gottlieb Steen & Hamilton (Hong Kong), and taking into account their views, we believe that there is low risk that our business with countries subject to sanctions during the Track Record Period would expose us to material U.S. sanctions risk under current U.S. sanctions laws for the following reasons: (i) our business activities in Cuba and Iran have not involved U.S. persons, were quantitatively *de minimis*, and had only tangential connections to U.S. jurisdiction; (ii) to our knowledge, our contract counterparties related to sales to Cuba and Iran are not on U.S. sanctions lists; (iii) our sales and business activities involve only basic consumer goods; and (iv) we have implemented risk-based internal controls designed to ensure that we do not engage in any future activity that could put us at risk of triggering a sanctions designation or otherwise resulting in a material violation of such sanctions.

Otherwise, based on the above and after consulting with our International Sanctions Legal Advisors and taking into account their view, our Directors believe that our existing business activities in the countries subject to sanctions would not cause us to be designated for sanctions under current U.S. sanctions. We are not aware of any other business with U.S.-sanctioned persons, including persons subject to Targeted Sanctions Programs or entities sanctioned because of a relationship of ownership, control or agreement with a U.S.-sanctioned person, although we cannot definitely exclude the possibility.

After consulting with our International Sanctions Legal Advisors and taking into account their views, we believe that the Relevant Persons are very unlikely to face U.S. sanctions risk as a result of their transactions involving our Company given the limited nature and low level of revenue of our business activities in the countries and with the persons subject to sanctions, assuming such Relevant Persons do not have the ability to control us and are not involved in any of our business activities related to countries or persons subject to U.S. sanctions.

#### European Union sanctions

Our business activities do not, to our knowledge, involve persons subject to E.U. sanctions. With the exception of four subsidiaries incorporated in France, Germany and Italy, we are not incorporated in the E.U., and only those subsidiaries are likely to act within the E.U.'s jurisdiction. However, it is not possible to entirely rule out the possibility that any of our counterparties may be majority-owned by or acting on behalf of an entity that is designated by the European Union for asset freeze or ban on making resources available.

As described above and after consulting with our International Sanctions Legal Advisors and taking into account their view, we believe that there is little material risk of us being considered as an E.U. Person in relation to any business relating to persons potentially being sanctioned by the E.U., nor is there a material risk of enforcement action by the competent authorities in an E.U. member state on the basis of an alleged contravention of E.U. sanctions. After consulting with our International Sanctions Legal Advisors and taking into account their view, we also believe that the Relevant Persons are unlikely to face E.U. sanctions risk as a result of their transactions involving our Company given the limited nature and low level of revenue of our business activities in the countries and with the persons subject to sanctions, assuming such Relevant Persons do not have the ability to control us and are not involved in any of our business activities related to countries or persons subject to E.U. sanctions.

#### Australian sanctions

We believe that our direct and indirect supply of goods and services to our customers do not involve (i) prohibited industries or sectors (such as petroleum, uranium mining and production and nuclear capability), (ii) persons or entities that are specifically identified in the Consolidated List maintained by the Australian Department of Foreign Affairs and Trade, or (iii) payment arrangements, which are subject to applicable Australian Sanctions Laws. We also believe that our direct and indirect supply of goods and services to parties in Iran, Iraq, Lebanon, Russia, the former Federal Republic of Yugoslavia and Ukraine do not involve Australian persons (individuals or entities) or Australian territory (in that the direct or indirect supply of goods did not occur from or through Australia nor did a result of this supply occur in Australia). As advised by our Australian legal advisors, King & Wood Mallesons, there were no Australian sanctions against Cuba during the Track Record Period and up to the Latest Practicable Date.

After consulting with our legal advisors and taking into account their view, we believe that the Company does not have the necessary geographical link to Australia to have breached any Australian Sanctions Laws in its past activities.

Based on the above and after consulting with our legal advisors and taking into account their view, our Directors believe that: (i) it is unlikely that we could be deemed to have violated Australian Sanctions Laws as a result of our past business activities in Iran, Iraq, Lebanon, Russia, the former

Federal Republic of Yugoslavia and Ukraine; and (ii) it is also unlikely that our existing and ongoing business activities in the abovementioned countries would be subject to Australian sanctions risk under current sanctions law (provided that we continue not to have the relevant geographical link). In light of the above and after consulting with our legal advisors and taking into account their view, we also believe that the Relevant Persons are unlikely to face Australian sanctions risk in connection with the Global Offering or with the Company's past or future activities with Sanctioned Countries. This is on the basis that: (a) the Company will not issue Shares in the Global Offering for the purpose of funding any transactions that would be prohibited under Australian Sanctions Laws; (b) the Company is not itself (and will not become) subject to Australian Sanctions Laws or owned or controlled or acting at the direction of or on behalf of a person subject to Australian Sanctions Laws; (c) the Company will continue not to have the necessary geographical link to Australia in connection with these activities; and (d) investors are not (and will not become) listed on the Consolidated List maintained by the Australian Department of Foreign Affairs and Trade.

#### United Nations sanctions

U.N. sanctions are binding on U.N. member states, the domestic laws of which will determine whether further action, such as domestic legislation, is needed to impose the U.N. requirements on private parties within the member states. Accordingly, the means of implementation, interpretation and enforcement of U.N. sanctions may differ among the member states, and we are not subject to U.N. resolutions but only to the laws of the jurisdictions in which our businesses are conducted.

U.N. resolutions do not govern the actions of private parties, rather, they are instructions to members of U.N. to impose specified sanctions prohibitions that apply to private parties. Therefore, as advised by our International Sanctions Legal Advisors, U.N. resolutions are not directly applicable to us as private parties. Accordingly, to our best knowledge, information and belief, we confirm that U.N. sanctions are not directly applicable to us.

#### Our Directors' Views

On the basis of: (i) the fact that our sales derived from our business operations in the Sanctioned Countries, namely Iran and Cuba, in aggregate only accounted for approximately 0.08%, 0.05%, 0.09% and 0.03% of our total revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively; (ii) the fact that we have discontinued making sales to the Sanctioned Countries, and we have no present intention to undertake any future business or to make any future sales to the Sanctioned Countries; (iii) the fact that we have developed internal control measures designed to prevent prohibited sales to any Sanctioned Country or any violation of the Targeted Sanctions Program; (iv) our consultation with our International Sanctions Legal Advisors, Cleary Gottlieb Steen & Hamilton (Hong Kong), and Australia legal advisors, King & Wood Mallesons, and their views described above; and (v) our undertakings to the Stock Exchange and the internal control measures that we have implemented to ring-fence our exposure to sanctions risk in relation to our future potential business activities, our Directors believe that our Company would be rendered suitable for listing on the Stock Exchange, and the risk of a government that maintains sanction programs taking any material action against us under current law based on our present and anticipated future business is remote and the risk of any action against the Relevant Persons in respect of those sales is very remote.

For more on the sanctions risk, please see "Risk Factors—Risks Relating to Our Business and Industry—We could be adversely affected as a result of our operations in certain countries that are subject to evolving economic sanctions of the United States, E.U., Australia and U.N. and other relevant sanctions authorities."

# **Internal Control Measures**

As we intend to continue to make sales to our customers in countries where persons subject to sanctions operate, and in order to identify and monitor our exposure to risks associated with sanctions laws relating to such sales, we will adopt, before Listing, enhanced internal control measures, including, among others:

- (i) to further enhance our existing internal risk management functions, our Board has established a risk management committee. The risk management committee will be chaired by our chief executive officer and will include our chief financial officer and our general counsel. Our risk management committee is principally responsible for monitoring our exposure to sanctions risks and overseeing our implementation of the related internal control policies;
- (ii) our risk control department will assist our risk management committee in the day-to-day monitoring of our sanctions risks, including reviewing existing and potential customers' information against our control list of Sanctioned Countries and persons and entities designated pursuant to U.S., E.U. and Australian sanctions programs;
- (iii) for new customers from countries subject to Targeted Sanctions Programs, our risk management committee must review and approve these potential customers before we can enter into any agreement with these potential customers;
- (iv) we will maintain a control list of the Sanctioned Countries and persons and entities subject to sanctions to review our existing and potential customers' information, and will update the list from time to time;
- (v) our risk control department may also engage external legal counsel with necessary expertise and experience in sanctions matter to evaluate sanctions-related risks as and when necessary and will adhere to appropriate advice provided by such external legal counsel;
- (vi) compliance and training program for sanctions issues will be provided to our Directors, senior management members, finance staff and other relevant personnel; and
- (vii) our risk management committee will monitor our use of the proceeds from the Global Offering, as well as the performance of our undertaking to the Stock Exchange relating to sanctions matters.

Our Directors are of the view that the above measures will provide a reasonably adequate and effective framework to assist us in identifying and monitoring any material risks relating to sanctions law. The Sole Sponsor is of the view that the internal control measures set out above will provide a reasonably adequate and effective framework to assist our Company in identifying and monitoring any material risk relating to sanctions laws.

# Undertakings to the Stock Exchange

We undertake to the Stock Exchange that:

- (i) we will not use the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, whether directly or indirectly, to finance or facilitate any projects or businesses in the Sanctioned Countries or be provided to any person named on the lists maintained for Targeted Sanctions Programs in any manner that would result in any violation of sanctions by any person. To ensure that this undertaking will be duly observed, we will implement internal control measures directing relevant finance personnel to disburse proceeds only as stated in "Future Plans and Use of Proceeds" or as disclosed by us when we raise other funds through the Stock Exchange and in no event in contravention of laws, including the sanctions laws of Australia, E.U. or the U.S.;
- (ii) the Company will not undertake any transactions that would expose the Company or any Relevant Person, to the risk of being sanctioned under the sanctions laws of Australia, E.U. or the U.S.;
- (iii) we will make disclosure on the Stock Exchange website and our own website if we believe that any of our activities has made ourselves or our Shareholders subject to any material sanctions risk. We would also include such disclosure in our annual and interim reports and would include discussion of business plan for business in any of these Sanctioned Countries; and
- (iv) we will make disclosure in our annual reports and interim reports our efforts/measures on monitoring our business exposure to sanctions risks.

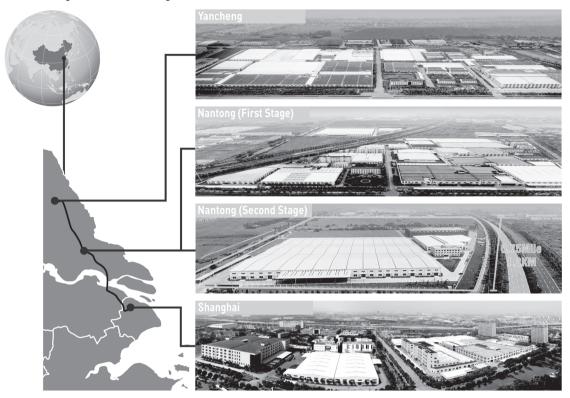
If we breach any of these undertakings to the Stock Exchange after Listing, it is possible that the Stock Exchange may delist our Shares.

#### **PRODUCTION**

# **Our Manufacturing Facilities**

Our manufacturing facilities are located in our sites in Shanghai, and Nantong and Yancheng in Jiangsu province in the inland eastern region of China, in the Yangtze River Delta region and all within driving distance of each other along the same highway for efficiency and logistical purposes. As of the Latest Practicable Date, these three sites cover an aggregate land area of approximately 953,097 square meters and an aggregate gross floor area of 603,016 square meters, which house our manufacturing facilities, materials handling centers, warehouses, office buildings and employees' dormitories. As of the Latest Practicable Date, our manufacturing facilities had an aggregate gross floor area of 369,093 square meters and were staffed with more than 9,000 employees. To support our manufacturing facilities, our materials handling centers store and distribute the raw materials, accessories, packaging materials and work-in-progress within our sites. As of the Latest Practicable Date, our materials handling centers in Shanghai, Nantong and Yancheng had an aggregate gross floor area of 85,800 square meters, held up to 127,100 cubic meters of materials, and were staffed with more than 200 employees.

# China's Yangtze River Delta Region



The table below shows the summary of our manufacturing facilities as of the Latest Practicable Date:

<b>Location</b>	Land area (square meters)		Gross floor area of materials handling centers (square meters)	Time of initial production of the manufacturing facility	Main products
Shanghai	131,671	35,500	32,100	June 2000	Above-ground pools, portable spas
Nantong	493,741	185,092	31,600	October 2008	Polymer films, composite materials, above-ground pools, camping products, sporting goods and recreation products
Yancheng	327,685	148,500	22,100	October 2004	Polymer films, camping products, sporting goods and recreation products
Total:	953,097	369,093	85,800	N/A	N/A

#### **Utilization of our Manufacturing Facilities**

Our headquarters-based sales operations team publishes an annual global sales plan that they compile in mid-December each year for use in the following year, which sets out an estimated monthly sales volumes. We in turn prepare our annual manufacturing plan based on the estimated monthly sales volumes and rolling sales forecasts, which include estimates on the use of equipment, employees and materials. We also prepare our monthly manufacturing plans 60 days in advance of actual production, and our production generally operates fundamentally consistent with our monthly manufacturing plans.

We offer a variety of product categories and approximately 1,100 products to our customers each year. The majority of our products are produced using high frequency welding machines. As a wide range of products can be produced using the same welding machine with different materials and duration, the production volume of the welding machines varies significantly depending on the type, size and design of the products. We are not able to calculate an effective annual designed manufacturing capacities for our welding machines, because the welding machines can be used to produce various products, with varying requirements, during the year. As a result, we are unable to calculate utilization rates using the actual production volume and the designed manufacturing capacity. Instead, we calculate the utilization rates of our manufacturing facilities by dividing the actual production time by the standard production time. We believe this approach presents the potential and actual economic output of our manufacturing facilities for accessing our productivity and operating efficiency.

Our annual manufacturing plan and monthly manufacturing plans allow us to adjust our machine settings, the procurement of materials and our allocation of resources to cater to the production needs, and to adjust our manufacturing capacities in a timely manner. Given the versatility of our high frequency welding machines and the short turnaround time for purchasing new welding machines, we can adjust the relevant equipment settings and purchase new welding machines to satisfy our production needs. As a result, we maintain high utilization rates.

The following table sets out the standard production time, actual production time and utilization rates of our manufacturing facilities during the Track Record Period:

		As of or for the year ended December 31,								As of or for the six months ended June 30,		
	2014				2015		2016			2017		
	Standard	Actual		Standard	Actual		Standard	Actual		Standard	Actual	
	production	production	Utilization	production	production	Utilization	production	production	Utilization	production	production	Utilization
	time <sup>(1)</sup>	time <sup>(2)</sup>	rate <sup>(3)</sup>	time <sup>(1)</sup>	time <sup>(2)</sup>	rate <sup>(3)</sup>	time <sup>(1)</sup>	time <sup>(2)</sup>	rate <sup>(3)</sup>	time <sup>(1)</sup>	time <sup>(2)</sup>	rate <sup>(3)</sup>
	(Days)	(Days)	(%)	(Days)	(Days)	(%)	(Days)	(Days)	(%)	(Days)	(Days)	(%)
End-products	46,692	43,137	92.4%	44,449(4)	41,098 <sup>(4)</sup>	92.5%	54,288	50,343	92.7%	29,119	27,043	92.9

Notes:

(1) The standard production time is the sum of the monthly standard production time calculated based on the following formula: production lines in operation in the relevant month multiplied by the number of statutory working days in the relevant month. The standard production time for our end-products is calculated on a 308-day basis for a year and on a 143-day basis for six-month periods.

- (2) The actual production time is the sum of the monthly actual production time calculated based on the following formula: production lines in operation in the relevant month multiplied by the number of actual working days in the relevant month.
- (3) Utilization rate is calculated by dividing the actual production time by the standard production time for the relevant period.
- (4) The standard production time and actual production time decreased in 2015 primarily due to changes in our product mix. We combined several production lines in 2015 to produce products with more complicated constructions in order to fulfill the increasing demand for portable spas and floating islands.

# Major Production Equipment

We outfit our manufacturing facilities with state-of-the-art equipment, which we believe is essential to ensuring the quality of our products and efficiency of our operations. As of the Latest Practicable Date, our major production equipment included 1,250 high frequency welding machines, 12 laminating machines, 11 calendering machines, 16 automatic cutting machines, 24 industrial printing machines and 141 plastic injection molding machines. During the Track Record Period, we did not experience any material disruption to our business operations as a result of the malfunctioning of our production equipment.

# **Expansion Plans**

We plan to expand our manufacturing facilities in anticipation of expected sales growth in the coming years. In planning our expansion, we have also taken into account synergies among our manufacturing facilities, local market conditions (including labor supply and costs), our expected production needs, estimated development costs, utilization of existing manufacturing facilities and the competitive landscape in order to best leverage our competitive strengths. Our implementation of this plan will include expanding our manufacturing capabilities by building new facilities and increasing our equipment base in our current sites to house the new production lines.

We entered into an investment agreement with the relevant government authority in Nantong in June 2016 (the "Investment Agreement"). Pursuant to the terms of the Investment Agreement, we agreed to acquire parcels of land with a total area of approximately 260,000 square meters to expand our site in Nantong. The land would be granted to us and developed by us at different stages. In June 2017, we obtained the land use right certificate of the parcel of land of 119,241 square meters as prescribed in the Investment Agreement. Pursuant to the Investment Agreement, we expect to obtain an additional parcel of land of approximately 140,000 square meters in 2018. As such, we expect the aggregate land area of our sites in Shanghai, Nantong and Yancheng will reach over one million square meters by the end of 2018. The following table sets forth the details of our plans to expand our manufacturing capabilities as of the Latest Practicable Date. We expect to finance these expansion plans with bank loans, our internal funds and the net proceeds from the Global Offering. Please see "Future Plans and Use of Proceeds" for further details.

	Gross floor area (square meters)	Expected completion time	Estimated development costs (RMB million)	Development costs paid as of the Latest Practicable Date (RMB million)	Remaining development costs as of the Latest Practicable Date
Manufacturing facility in Nantong	91,000	October 2017 <sup>(2)</sup>	140.0	51.0	89.0
Materials handling center in Nantong <sup>(1)</sup>	40,000	September 2019	62.0	_	62.0
Employees' dormitories in Nantong	15,000	Fourth quarter of 2017	22.5	9.0	13.5
Employees' dormitories in Yancheng	12,000	January 2018	17.5	7.8	9.7
Total:	158,000	N/A	242.0	67.8	174.2

#### Notes:

- (1) The materials handling center in Nantong can hold up to 60,000 cubic meters of raw materials, accessories or packaging materials.
- (2) As of the Latest Practicable Date, we had completed the construction of the manufacturing facility in Nantong, and were in the process of obtaining the building ownership certificate.

For the expansion of our existing production lines, we plan to purchase five new calendering machines for the production of polymer film, and expect to increase our manufacturing capacity for the polymer films by 50%. The calendering systems will be set up and put into use gradually from 2017 to 2019. We also plan to purchase and install two industrial printing machines and 40 plastic injection molding machines. The estimated total capital expenditure for these machines is approximately RMB150 million. As of the Latest Practicable Date, the remaining capital expenditure we expect to incur for purchase of these machines is RMB112.5 million. We expect to finance the purchase of these machines with bank loans, our internal funds and the net proceeds from the Global Offering.

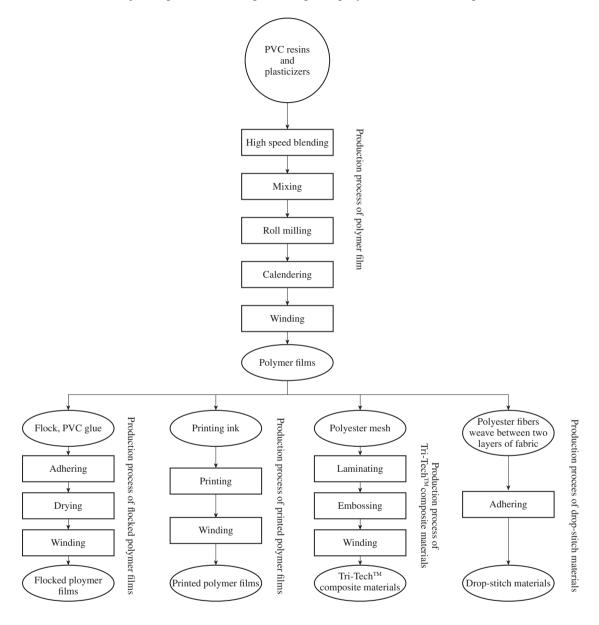
We have completed construction of our new manufacturing facility in Yancheng in July 2017. Based on our expansion plan, the construction of the new manufacturing facility in our current site in Nantong was completed in October 2017. We plan to purchase and install 120 high frequency welding machines, two industrial printing machines and other machines and equipment in these new manufacturing facilities. The estimated total capital expenditure for these machines is approximately RMB40 million. As of the Latest Practicable Date, the remaining capital expenditure we expect to incur for purchase of these machines is RMB30.0 million. We expect to finance the purchase of these machines with bank loans, our internal funds and the net proceeds from the Global Offering. Upon completing the construction, our manufacturing facilities will be expanded by 31.3% in terms of size and have an aggregated gross floor area of 460,093 square meters. The estimated total capital expenditure for constructing our new manufacturing facility in Nantong, materials handling center and employee's dormitories and purchase of relevant machines and equipment is approximately RMB432 million. We also plan to hire sufficient staff and purchase ancillary equipment to support the operations of the new manufacturing facility to achieve its designed productivity. Assuming the new production equipment will achieve the same level of manufacturing efficiency as compared to our existing production equipment, we expect our manufacturing capacities to improve by approximately 30% compared to that as of December 31, 2016 once the new manufacturing facility is in full operation.

#### **Production Process**

During the Track Record Period, we manufactured the vast majority of our products in-house and purchased some non-core, simple and low added-value accessories and packaging materials from our suppliers. We perform our key manufacturing processes at our manufacturing facilities in Shanghai, Nantong and Yancheng. Our key manufacturing processes include the production of (i) vast majority of the polymer films and composite materials that we use in our production of finished products; (ii) parts and plastic injection electronic appliances; and (iii) our products. For details of our manufacturing facilities, please see "—Production—Our Manufacturing Facilities." The production cycle of our products varies depending on the types and design of the product. Our above-ground pools typically require five to seven days to produce, the portable spas typically require seven days to produce, the inflatable stand-up paddle boards typically require 10 days to produce, items of camping gear typically require two to three days to produce, and other inflatable goods require two to three days to produce.

#### Polymer Films and Composite Materials

Polymer films and composite materials are important materials that we use in producing the majority of our products. We produce the vast majority of these materials in-house. The following flow chart illustrates the major steps involved in producing our polymer films and composite materials:



PVC resin is the principal raw material used in producing polymer films and composite materials. We purchase PVC resins primarily in powder form. Our major additives combined with PVC resins are plasticizers, which give PVC flexibility and durability. As the first step in preparing polymer film, high speed blending machines are used to blend and mix the PVC resins with additives to achieve the desired effect based on the material specification provided in the design of the products. The next step is to plasticize the material by roll milling, which results in changes to the thermal and mechanical properties of the polymer such that there is a reduction in its tendency to crystallize and an increase in chain flexibility. Once the polymer film reached the desired state, it is formed and the thickness and width of

the film is adjusted under the calendering process. Calendering is a process in which a series of rollers melt and compound the polymer with heat and pressure to form and smooth the polymer. The last step is to firm up the shape of the polymer film in the winding station that has cutting devices for edge trimming and in-line slitting of rolls.

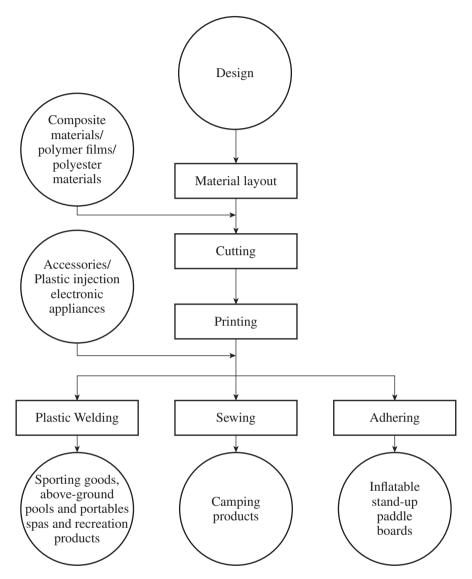
We further develop our polymer films to provide for features that fit different products, including (i) flocked polymer films, (ii) printed polymer films and (iii) Tri-Tech<sup>TM</sup> polymer-based composite materials. Flocked polymer films are mainly used in airbeds, and printed polymer films are used in inflatable products such as recreation products. Our Tri-Tech<sup>TM</sup> polymer-based composite materials, which are produced using a reinforced layering technique, have higher strength and better durability. The Tri-Tech<sup>TM</sup> materials are made of a layer of polyester mesh core encased in two layers of polymer films, which are fused together to form the shape in high temperature by laminating. This process results in a material with greater physical strength and a finer appearance. The required patterns and gloss are added to the composite materials by embossing, and formed into shape after winding. We use Tri-Tech<sup>TM</sup> materials in our above-ground pools and portable spas. We have produced our drop-stitch materials since 2016 using a reinforcement layering structure, in which vertical fibers of uniform length of polyester are used to connect the upper and lower layers of polymer-based composite materials. This material can create inflatable structures with high stiffness and have anti-bending load-bearing capacity. We use drop-stitch materials in our inflatable stand-up paddle boards.

# Parts and plastic injection electronic appliances

We produce and assemble some of the plastic parts and plastic injection electronic appliances into our products, such as built-in pumps in airbeds, filtration pumps in above-ground pools, pumps in portable spas and plastic parts in our sporting goods and recreation products. We purchase electronics such as motors and cables and assemble them into plastic shells to produce the plastic injection electronic appliances used in our products. The plastic shells are made through injection molding. This process involves using engineering plastics like ABS resin, PP resin and LDPE resin, and pigment, which are injected into molds to create the desired shapes of the plastic shells for the plastic injection electronic appliances.

# End-products

The following flow chart illustrates the major steps involved in the production process of our products:



Upon receiving the design of the products from our product development team, our manufacturing facilities input the layout of the product design for arranging the materials. For details of our product development process, please see "—Research and Development—Integrated Product Development Platform." We cut the polymer films, composite materials or polyester materials to prepare for welding, sewing or adhering. Welding involves melting the plastic with high temperature to connect the materials, and permits constructions with high strength and good air-tightness. We manually use glue to adhere and assemble drop-stitch materials, plastic parts and accessories to our inflatable stand-up paddle boards.

#### **Production Management**

Our comprehensive ERP system (incorporating our internally developed information system and our ERP system developed by SAP) supports our efforts in refining our integrated business model. In particular, our MES system plays an important role in managing and improving our production function. We follow the PDCA (plan-do-check-act) principle across lines of business in our integrated business model. We monitor the operations of each function, ensure execution and compatibility among our operations, identify issues and make adjustments accordingly to improve our operating efficiency, which in turn enhances our customers' satisfaction.

We develop full-range manufacturing plans based on our sales forecasts and medium- to long-term development targets, and execute these plans through automated scheduling and materials usage plans. We further enhance our production efficiency under lean production principles. Lean production principles seek to implement efficient manufacturing process that achieve high quality, safety and worker morale, whilst reducing costs and shortening lead times. Our production management consist of the following aspects:

- Manufacturing planning for each production process. We allocate our manufacturing resources (such as the workshop, equipment, employees, logistics supports) for each production process according to our manufacturing plans prepared based on our long- and medium-term development targets and sales forecasts. Our manufacturing plans are flexible and can be adjusted in response to changing market trends. The goal of our manufacturing planning is to optimize and maintain balance among meeting consumer demand, using our manufacturing resources efficiently and achieving our medium- to long-term development targets.
- Rolling sales forecast. We compile monthly sales estimates in off-peak seasons and semi-monthly sales estimates in peak seasons, based on updated market conditions. We also provide real-time updates on sales estimates whenever extraordinary or significant market changes occur. We convert these rolling sales forecasts into operating plans, and deliver these plans to our manufacturing function, who in turn adjust the manufacturing plans and adjust the allocation of our manufacturing resources accordingly.
- Intelligent automated scheduling and resources planning. The algorithm of our MES system automatically plans and schedules our production and allocates the available manufacturing resources accordingly, based on the feature, required machineries and time for production of the relevant products. Our automated scheduling and planning provides detail planning for each production line. While our ERP system also calculates and arranges for the required raw materials and accessories to facilitate our production, which ensures smooth execution and avoids insufficient inventory of materials.
- Continuous improvement in lean production. We analyze our labor and materials costs both by day and by process step over various stages of our manufacturing processes. Using this approach, we can identify inefficient or unnecessary components, integrate and optimize the processes to enhance efficiency. We also introduce automated equipment and improved technologies to our manufacturing process to reduce difficult and complex manual processes and lower the labor-intensity of our production, which in turn enhances production efficiency, product quality and cost efficiency.

In addition, we have completed 46 industrial automation projects during the Track Record Period. We intend to continue to invest and further develop industrial automation to reduce labor-intensity and improve production efficiency in our manufacturing facilities.

# **Inventory Management**

Our inventory primarily consists of finished products, work-in-progress and raw materials. We manage our inventory with distinctive measures based on the use and nature of the inventory.

- Finished Products. Our manufacturing plans are designed and implemented to accommodate our sales and maintain reasonable inventory levels. Our production planning involves setting manufacturing targets evenly over the year based on annual sales estimates and monthly delivery schedules, so that we can fulfil the sales orders in peak season without employing extra resources and utilize our facilities efficiently in off-peak periods to produce more stock.
- Work-in-progress. Work-in-progress are produced in batches to be adaptive to the rolling sales estimates and to match the manufacturing plans for our finished products.
- Raw Materials and Accessories. We monitor our inventory levels and make periodic adjustments to match our procurement plans with our manufacturing plans, based on the integrated information sharing platform under the MES system and ERP system.

As a result, our inventory levels are monitored closely and are maintained at optimal levels to fulfill sales orders and avoid production disruptions. We may purchase additional raw materials from time to time when we believe prices are low. We also periodically review our inventory levels for slow moving inventory, obsolescence or declines in market value. For details regarding inventory provision, please see "Financial Information—Description of Selected Items of the Consolidated Statements of Financial Position—Inventories."

#### **QUALITY CONTROL**

We are committed to providing industry-leading, safe and high-quality products. Our products are well known for delivering the highest standards in product safety and quality, and we believe this reputation is attributable to the combined efforts of our quality assurance team and our effective quality control system. As of September 30, 2017, we had over 350 quality control personnel responsible for quality control at different stages of our operations, such as product development, manufacturing and aftersales stages. Our quality assurance team in Shanghai develops, manages and supervises the implementation of our quality control system, and is responsible for quality control in product development stage and post-manufacturing stage. Quality control teams are set up in each manufacturing facility and individual team is assigned for each product group to ensure the quality of our products during the manufacturing stage. Our quality control personnel in each manufacturing facility are responsible for ensuring the conformity with the quality specifications and parameters set by the product development team for each product. Our manufacturing facilities have obtained a number of international quality management certifications, including ISO9001.

We sell our products worldwide and the products are subject to different safety standards and quality requirements depend on where they are sold. Our central laboratory in our site in Shanghai conducts thorough tests and assessments on our products to ensure that they conform with the relevant

standards. For details of our central laboratory and its qualifications, please see "—Research and Development—Research and Development Capabilities." We also adopt the appropriate quality control system and engage independent product testing and certification organizations to test and certify our products on the relevant standards of each targeted sales region, such as Chinese national standards (the "GB standards"), standards published by ASTM International, regulations published by the European Commission for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC), and EU REACH. During the Track Record Period, our products were tested by our own central laboratory and third-party organizations to assure compliance with the relevant standards and regulations which specify safety and environmental protection requirements for our products.

We have adopted effective quality control measures in product development, manufacturing and aftersales stages, which are summarized below.

#### Stage 1: Product Development Stage

During the product development stage, our quality assurance team is responsible for testing, analyzing and inspecting the products on their structure, materials, durability and expected product-life. For details of the role of the quality assurance team in the product development processes, please see "—Research and Development—Integrated Product Development Platform."

# Stage 2: Product Manufacturing Stage

- Quality Control on Raw Materials, Accessories and Packaging Materials. To ensure the quality of our finished products, we perform the following quality control measures on raw materials, accessories and packaging materials we procure:
  - (i) Before procurement. We procure raw materials, accessories and packaging materials only from suppliers on our qualified suppliers list. For details of selection of our suppliers, please see "—Procurement—Suppliers." These inspections are conducted on samples given to us by our suppliers in advance, allowing us to reject any raw materials, accessories and packaging materials that fail to pass our standards, and ensuring only high-quality raw materials, accessories and packaging materials that pass our standards are included in our procurement system for procurement.
  - (ii) Before they enter our storage facilities. Upon receiving raw materials, accessories and packaging materials, our quality control personnel at the relevant manufacturing site inspect all inbound shipments of raw materials, accessories and packaging materials to ensure the quality and aesthetics are consistent with our production standards such as GB standards and ASTM International standards. We lodge complaints with the suppliers and request refunds for raw materials, accessories and packaging materials that fail to meet our quality standards.

- Quality Control on Manufacturing Process. We uphold strict quality control standards and procedures across each stage of our production, including manufacturing, assembly and packaging. Our quality control personnel perform regular onsite inspections to ensure that our manufacturing process meets our quality standards and the quality control system is functioning reasonably. They also conduct sample inspections on our finished products on their quality and conformity with safety standards before they are transferred to our storage facilities.
- Quality Control on Inventory. We have stringent rules on the handling and storage of our finished products. Our quality control personnel conduct periodic sampling inspections on our finished products in our storage facilities to ensure their quality.

Our manufacturing facilities are subject to periodic inspections and examinations conducted by relevant government authorities including the China Quality Certification Center and Safety Supervision and Environment Protection Bureau. They inspect our manufacturing processes, quality control measures and products to determine compliance status and to identify areas that can be further improved. During the Track Record Period, we did not receive any written notice or sanction for material non-compliance, violation, or recommendation for improvement with respect to our production operations from the government authorities.

# Stage 3: Aftersales Stage

Our quality assurance team gathers and analyzes feedback and complaints from customers through our global aftersales services information system and implement necessary measures to improve our product quality. Please see "—Product Returns, Warranties and Aftersales Services—Warranties and Aftersales Services" for more details.

#### **PROCUREMENT**

# Raw Materials, Accessories and Packaging Materials

We purchase the raw materials, accessories and packaging materials used in our production. The primary raw materials we use to produce our products include PVC resins and plasticizers, we also purchase accessories and packaging materials.

#### Raw Materials

We use PVC resins and additives, including plasticizers, stabilizers, flame retardants, cold-resistant agents, anti-electrostatics agents and colorants, as raw materials in the production of polymer film, the major materials used in most of our products. The major raw materials we use in the production of our products include PVC resins and plasticizers. We purchase PVC resins, our most commonly used polymer, primarily in powder form. By adding different proportions of plasticizers, we can adjust the softness and flexibility, improve the tensile strength, toughness and impact resistance, and bring other effects to create polymer films with our desired characteristics. We also procure other resins such as ABS resin, PP resin and LDPE resin for plastic injection molding machines to produce plastic injection electronic appliances that we assemble into our products, such as filtration pump and water treatment system in our portable spas.

We procure the polyester mesh we use in the production of our Tri-Tech<sup>TM</sup> polymer-based composite materials and use other fabrics in the production of our above-ground pools and portable spas. We purchase nylon, polyester and oxford nylon for producing our camping products, such as tents and backpacks, based on the nature and function of the camping products. We also purchase drop-stitch materials, environmental friendly materials with strong impact resistance, to produce our inflatable stand-up paddle boards.

#### Accessories

We procure parts like pumps, filtration pumps, metal frames and plastic parts from local manufacturers. We produce plastic injection electronic appliances such as filtration pumps and water treatment system for our portable spas. We manufacture the plastic shells of the plastic injection electronic appliances through injection molding, and procure the injection electronic parts, such as motor and cables, from local manufacturer.

#### Packaging Materials

We purchase and use large quantities of packaging materials, including cardboard boxes, adhesive labels, packaging boxes and instructions. Outsourcing the production of packaging materials allow us to adjust our procurement amounts in accordance with the price level and production level to minimize packaging materials cost.

For our procurement of PVC resins and plasticizers, our procurement team sets a target price each year as a benchmark to adjust the quantity of our purchases during the year to avoid purchasing at high price points. The prices of PVC resins and plasticizers generally fluctuate according to market conditions. We did not enter into any hedging arrangements to reduce our exposure to fluctuations in the costs of raw materials. For the average global wholesale prices of our major raw materials from 2011 to 2016, please see "Industry Overview—Raw Materials." We purchase PVC resins primarily in powder form, and long term storage is possible since the material is resistant to oxidation and degradation. This approach to purchasing allows us to purchase larger quantities when the market price is lower than the targeted price, with consideration of our consumption requirements and inventory levels. Furthermore, we have established stable purchasing relationship with multiple suppliers. We usually receive periodic market price quotation updates that allow us to better determine our procurement schedule in response to changing market prices.

# **Suppliers**

Our suppliers are mainly located in China, Japan, Taiwan, South Korea and the United States. During the Track Record Period, we had more than 660 suppliers. We generally do not enter into long-term agreements with our suppliers, to provide more flexibility in our procurement schedule without committing to minimum orders and allow for room to order from other suppliers for products with better quality or specifications. Purchase volumes are determined by the purchase orders that we send to our suppliers.

Our relationships with our suppliers have enabled us to diversify our product mix and offer new products at competitive prices. We typically work with large reputable international suppliers to purchase our raw materials. Our raw materials are generally available from a number of suppliers, and we normally have various sources of supply for each type of raw materials so that we do not depend on a single supplier. Although we do not enter into any long-term purchase agreements with our suppliers, we do not foresee any difficulties in arranging replacement of suppliers if necessary, as the items we purchase are usually readily available from alternative suppliers in the market. During the Track Record Period, we did not experience any shortages in supply of raw materials, accessories and packaging materials or quality issues with our purchases that materially affected our operations.

We have maintained long-term and stable relationships with most of our suppliers. Our suppliers grant us payment terms that vary depending on a number of factors including our relationships with the suppliers and the size of the transactions. Our suppliers typically provide us with credit terms within 30 to 180 days after our suppliers' delivery of the products to us, and we usually settle our trade payables by bank transfers or by way of letters of credit. For our five largest suppliers, during the Track Record Period, we had business relationships with these suppliers on average of approximately five to ten years. All of our five largest suppliers are Independent Third Parties. For the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, purchases from our five largest suppliers accounted for 36.7%, 45.6%, 43.0% and 43.1% of our total purchases, respectively, and purchases from our largest supplier accounted for 11.1%, 13.9%, 14.6% and 14.9% of our total purchases, respectively. None of our Directors, their associates or any Shareholder who, to the knowledge of our Directors, owned 5% or more of our issued Shares as of the Latest Practicable Date had any interest in any of our five largest suppliers during the Track Record Period.

# Management of our suppliers

We work closely with our suppliers and maintain regular communications with them. We provide demand estimates to them based on our annual manufacturing plan, materials requirements, inventory levels and logistical arrangements, which are assessable under our integrated business model. This practice allows our suppliers to efficiently schedule their production plans to fulfill our orders and allow us to react to changing market conditions by adjusting our manufacturing plans and procurement plans. With efficient planning, this arrangement has helped ensure the quality and on-time delivery of our orders. We also developed a comprehensive and sophisticated supplier management system with the following features:

- (i) Stringent supplier selection criteria. Our procurement personnel have a thorough understanding of our products and specification requirements, and they successfully identify suppliers who offer quality materials and reliable services. The criteria we have adopted in selecting and engaging our suppliers includes:
  - product quality;
  - research and development capabilities;
  - willingness to cooperate;
  - sophistication of quality control systems;

- internal control systems;
- commitment to timely delivery and reliability;
- location; and
- qualifications, licenses and permits.
- (ii) Ongoing monitoring and evaluation. We conduct performance evaluations of our suppliers periodically with reference to product quality, price competitiveness, credit terms, delivery lead-time and supports they provide. We communicate with our suppliers for possible remedial actions or control measures if we identify delays or product quality issues, and monitor the progress of these measures and actions until these types of issues are resolved.
- (iii) Quality control over raw materials, accessories and packaging materials. To ensure the stability and consistency of our product quality, we conduct batch tests on all raw materials, accessories and packaging materials that we receive. This practice allows us to identify and eliminate any materials that do not meet our quality specifications before they enter our storage facilities and manufacturing process. For more details on how we detect quality defects in our raw materials, please see "—Quality Control."

During the Track Record Period, we did not have any material disputes with our suppliers.

#### LOGISTICS AND TRANSPORTATION

We designed our logistics network to ensure the timely and orderly delivery of our products. We distribute products from our warehouses to customers all over the world. We have outsourced our domestic and international product transportation to independent third-party logistics service providers. Our products are usually delivered by road to our customers in China and Hong Kong or by sea to our overseas customers. We have long-term relationships with our logistic service providers, including reputable shipping companies. We assess our logistics service providers based on frequency of on-time delivery, transportation capability and overall service quality. Our logistics facilities support the dispatch of up to 500 twenty foot equivalent units of containers each day. During the Track Record Period, we had not experienced any significant delay or poor handling of goods that materially and adversely affected our business operations.

#### **Expansion Plans**

As of the Latest Practicable Date, our existing warehouses located in Shanghai, Nantong and Yancheng had an aggregate gross floor area of 133,791 square meters, held up to approximately 175,000 cubic meters of products. As of September 30, 2017, our warehouse facilities were staffed with over 500 employees. We plan to expand and modernize these facilities, including by constructing two automated warehouses with an aggregated gross floor area of 43,000 square meters, height of 24 meters and aggregate storage capacity of 170,000 cubic meters, in our site in Nantong. Upon completion of our expansion plans as stated below, we expect to increase our storage capacity by 219,000 cubic meters. These new warehouses will be equipped with an automated storage and retrieval system that is expected to enhance our inventory management efficiency and reduce our operating costs. For example, a

conventional warehouse with a storage capacity of 170,000 cubic meters requires an aggregate gross floor area of 120,000 square meters and staff of over 250 to operate, while the automated warehouse of comparable size is expected to require only 30 employees.

The following table sets forth the details of our expansion plans for our warehouses as of the Latest Practicable Date. We expect to finance these expansion projects with bank loans, our internal funds and the net proceeds from the Global Offering. Please see "Future Plans and Use of Proceeds" for further details.

	Gross Floor Area	Estimated Storage Capacity	Expected Completion Time	Estimated Development Costs	Development  Costs paid  as of  the Latest  Practicable  Date	Remaining development costs as of the Latest Practicable Date
		(cubic meters)		(RMB million)	(RMB million)	(RMB million)
Automated warehouse in Nantong	23,000 square meters with height of 24 meters	90,000	July 2018	130.0	3.0	127.0
Automated warehouse in Nantong	20,000 square meters with height of 24 meters	80,000	September 2019	120.0	_	120.0
Conventional warehouse in Yancheng	15,000 square meters with height of 10 meters	23,000	January 2018	25.0	9.6	15.4
Conventional warehouse in Yancheng	17,000 square meters with height of 10 meters	26,000	September 2018	27.0	0.1	26.9
Total:	75,000 square meters	219,000	N/A	302.0(1)	12.7	289.3(2)

# Notes:

- (1) Among the estimated development cost of RMB302.0 million, we expect to use RMB181.7 million in constructing the warehouse facilities and RMB120.3 million in purchasing the machines and equipment.
- (2) As of the Latest Practicable Date, the estimated remaining development costs for construction of our warehouse facilities are RMB169.0 million and we expect to incur capital expenditure of RMB120.3 million for the purchase of machines and equipment.

# **OUR CUSTOMERS**

Our customers primarily include retailers and importers. In line with customary industry practice, we generally do not enter into long term sales agreements with our customers. Purchases are typically made on an order-by-order basis, and we do not enter into distribution or franchise agreements with our customers. Our customers generally place purchase orders with us directly to effect a specific transaction, and we confirm these orders by issuing sales confirmations. The purchase orders and sales confirmations generally stipulate the price, quantity, payment and delivery terms and simple terms concerning areas such as termination, insurance and quality/quantity discrepancy. Our products are typically transported to the ports designated by our customers by sea and the majority of our products are delivered on FOB terms. Revenue from the sale of products to our customers is recognized when significant risks and rewards and ownership of the products are transferred to the customers which is, under FOB terms, when goods are delivered on board a vessel nominated by the buyer at a named port of shipment. We also sell our products to end-consumers through our self-operated online sales profile on third-party e-commerce platforms.

The following table sets forth a breakdown of our revenue by customer type for the periods indicated:

		For the	year ende	d Decemb	per 31,		For the months of June 3	ended
Customers	201	4	201	5	201	6	2017	
	US\$	%	US\$	%	US\$	%	US\$	%
			(in millio	on, except	for percen	tages)		
Retailers	364.6	77.9	402.0	78.3	482.3	82.5	360.3	85.5
Importers	95.9	20.5	104.7	20.4	93.4	16.0	52.5	12.5
E-commerce consumers and								
others <sup>(1)</sup>	7.4	1.6	6.8	1.3	8.8	1.5	8.8	2.0
Total:	467.9	100	513.5	100	584.5	100	421.6	100

Note:

(1) Mainly includes sales to end-consumers through our self-operated online sales profile on third-party e-commerce platforms and sales to wholesalers in China.

For the years ended December 31, 2014, 2015 and 2016 and six months ended June 30, 2017, the aggregate sales to our five largest customers amounted to US\$60.3 million, US\$81.5 million, US\$84.4 million and US\$86.6 million, respectively, representing approximately 12.9%, 15.9%, 14.4% and 20.5% of our total revenue in the respective periods. All of our five largest customers during the Track Record Period were Independent Third Parties. None of our Directors, their respective associates or any of our Shareholders who, to the knowledge of our Directors, owned 5% or more of our issued Shares as of the Latest Practicable Date had any interest in any of our five largest customers during the Track Record Period.

The following table sets forth the numbers of our retailer and importer customers to whom we sold our products during the periods indicated:

	For the year	s ended Decemb	er 31,	months ended June 30,
	2014	2015	2016	2017 <sup>(1)</sup>
Retailers	526	532	552	429
Importers	433	431	432	290

For the six

Note:

(1) Including customers to which we sold our products in the six months ended June 30, 2017, mainly located in the northern hemisphere. As a result of seasonality in our business, we typically begin delivering most purchases from customers in the southern hemisphere in the second six months of the year.

#### Retailers

We divide our retailer customers into three broad types: (i) mass market retailers, such as supermarkets, mass merchandisers and warehouse chains, (ii) specialty retail stores, such as home improvement suppliers, discount stores, DIY hardware chain stores, pool retailers and sporting goods retailers, and (iii) overseas online retail platforms. In 2014, 2015, 2016 and the six months ended June 30, 2017, we sold our products to 526, 532, 552 and 429 retailer customers, respectively, and sales to retailer customers accounted for 77.9%, 78.3%, 82.5% and 85.5% of our total revenue in these respective periods.

Our retailer customers generally place purchase orders with us using, which typically contain terms including price, quantity, quality, packaging, delivery, guarantees, insurance and termination. We do not impose minimum purchase requirements on them. We offer certain advance-purchase discounts and sales volume discounts to our retailer customers. Please see "—Our Sales Network and Marketing—Pricing Policy" for more details regarding advance-purchase discounts and sales volume discounts that we grant to our customers.

In addition, some of our major retailer customers host promotional or advertising activities in their retail outlets on an occasional basis, such as setting up product displays, conducting promotional campaigns (such as special markdowns) and distributing flyers. We reimburse these major retailer customers for the expenses they incur for these promotional and advertising activities that we agree to participate in. According to the applicable accounting policies, these expenses will be either deducted from our revenue or recognized as selling and distribution expenses based on the underlying nature. Most of our retailers customers make full payment to us on delivery of products. We also grant credit terms to some of the retailer customers of up to 90 days from the date of product delivery. Our retailer customers are generally allowed to return defective products.

Some of our mass market retailers customers entered into supply agreements (the "Supply Agreements") with us setting forth the framework for our ongoing relationship. The Supply Agreements do not include specific purchase requirements. Under the Supply Agreements, these mass market retailers place purchase orders with us stipulating the price, quantity and delivery timeline of each order, and we confirm the order by sending a sales confirmation. The Supply Agreements typically set out terms on production commitments, quality standards, delivery protocols, inspection and acceptance of products, return policies, payment terms, protection of trademarks and other intellectual property rights, confidentiality obligations, representations and warranties, security obligations, insurance and termination. The Supply Agreements continue to be in force until they are terminated by either party.

We have established long term business relationships with our retailer customers by offering a diversified product portfolio and reliable support. Of the 50 largest retailers globally, according to the Frost & Sullivan Report, we have had long term business relationships with at least 20 of them.

We understand the needs and preferences of our retailer customers from past purchase records and their retail sales trends and records, which allow us to offer customized sales proposals with a product mix that fits their targeted consumer population and market positioning. Our overseas sales teams and third-party regional relationship managers also actively assist our retailer customers in selecting the appropriate product mix with reference to their competitive landscape and sales trends. We have 41 customer service centers on six continents and some of these centers cover several countries. These customer service centers provide efficient technical support and reliable aftersales service to our customers and to end-consumers of BESTWAY products, which eases the burden of aftersales support on our retailer customers.

# **Importers**

Almost all of our importer customers are trading companies that import goods, including our products, and on-sell them to other third parties in their respective sales regions. We have conducted business with importer customers since our inception. In 2014, 2015 and 2016 and the six months ended June 30, 2017, we sold our products to 433, 431, 432 and 289 importer customers, respectively, who were located in over 90 countries. Sales to these customers accounted for 21.1%, 20.3%, 16.1% and 12.5% of our total revenue in these respective periods. In each of 2014, 2015 and 2016 and the six months ended June 30, 2017, all our top five importer customers were located in different countries across the world, and our total sales to such top five importer customers accounted for approximately 4.1%, 5.9%, 2.9% and 3.8% of our total revenue in these respective periods.

According to the Frost & Sullivan Report, importers generally have strong local market knowledge and understanding of consumer needs, and typically specialize by region and/or products. Leveraging these capabilities, importer customers can purchase goods from the international markets that they believe have strong local demand and subsequently sell these goods in their respective regional markets, which is a common practice in the international trade businesses. We do not enter into long term agreements with our importer customers, and our sales to importer customers are made on an order-by-order basis. In a typical sales arrangement with our retailer customers, we use purchase orders and sales confirmations rather than distribution agreements. The terms and conditions of our sales arrangements with our importer customers are in substance identical to our sales arrangements with our retailer customers. Our importer customers place orders with us based solely on their requirements, and there are no minimum purchase requirements applicable to them. We do not retain any ownership interest over the

products we sell to our importer customers, and the title and all risks and rewards associated with these products are transferred to them upon delivery on FOB terms in the vast majority of cases. The importer customers are generally responsible for import logistics and procedures at the port of destination. We do not monitor and have no control over their inventory levels, on-sale practices, prices and sales areas. To the best of our Directors' knowledge, our importer customers usually on-sell the products to retailers, wholesalers and smaller scale chain stores in their respective regional markets.

The key terms of our sales arrangements with our importer customers are set out in the individual sales confirmations. These documents generally set out a description of the products, quantity, price, shipment terms, payment terms, insurance, return policy and policy for resolving quality/quantity discrepancies. The prices for these orders are determined on the same basis as our retailer customers, subject to any applicable advance-purchase discounts and volume discounts. For more details, please see "—Our Sales Network and Marketing—Pricing Policy." Most of our importer customers pay us using confirmed irrevocable letters of credit or make payments of a 30% deposit and make full payment before receiving the goods at their designated location. No goods return, refund or repurchase arrangements are available to our importer customers other than for defective products. In the event of any quality discrepancy, our importer customers are required to make the claims within 60 days after receiving our products. During the Track Record Period, we did not provide financing to any of our importer customers, other than customary credit terms that we granted for product purchases. To the best knowledge of our Directors, all of our importer customers were Independent Third Parties and none of them was wholly-owned or majority controlled by our current or ex-employees during the Track Record Period.

#### E-commerce and Others

We began our e-commerce business in 2011, and we maintain a robust online presence through a mix of online retail platforms (including the two consumer-focused platforms http://www.bestwayswimmingpools.co.uk/ and http://www.lay-z-spa.co.uk/ operated by the local third-party regional relationship managers in the United Kingdom) and our self-operated online sales profile through third-party e-commerce platforms to cater to the evolving needs and preferences of online shoppers. We plan to set up online retail platforms in markets where we do not have significant presence. We also plan to develop a global online sales platform to sell product accessories to end-customers directly.

In China, we operate and maintain our online sales profile through third-party e-commerce platforms including Tmall, Taobao and JD.com. Leveraging the popularity of the brands we offer and our broad customer base, our e-commerce business has grown rapidly and substantially since its inception. For the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, sales through these third-party e-commerce platforms in China amounted to US\$0.2 million, US\$0.6 million, US\$0.7 million and US\$0.3 million, respectively. We intend to market more products through these platforms to cater to Chinese consumers' consumption habits.

Besides our e-commerce business in China, we also sell our products to a number of wholesalers in China's traditional wholesale markets to widen our presence in China. We do not monitor and have no control over the operations and on-sale practices of our products by the wholesalers, including their resale prices and sales areas. Wholesalers in China normally make full payment to us before delivery.

# CERTAIN SETTLEMENT ARRANGEMENTS THROUGH THIRD-PARTY PAYORS ("THIRD-PARTY PAYMENT(S)")

Certain of our customers (the "Relevant Customer(s)") settled some or all of their payments due to us through third parties (the "Third-Party Payor(s)"). During the Track Record Period, there were 103 Relevant Customers that settled at least a portion of their payments to us through Third-Party Payors; none of the Relevant Customers was among our top ten major customers during the Track Record Period. Our aggregate sales to the Relevant Customers that were settled through Third-Party Payors were approximately US\$17.5 million, US\$14.1 million, US\$18.1 million and US\$8.9 million for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively, representing 3.7%, 2.7%, 3.1% and 2.1% of our revenue in the corresponding periods.

#### **Transaction Flow**

In general, our customers place purchase orders and make payments to our subsidiaries in Hong Kong to settle outstanding payables to us. Upon receiving a purchase order, we issue a sales confirmation to confirm the order and issue a commercial invoice prior to shipping the respective order to the customer. The commercial invoice typically contains the amount due to us for the purchase order and the relevant order reference number. All commercial invoices sent to our customers for payments represent genuine sales transactions of products between us and our customers. Normally, we also enclose a separate letter with the relevant wire instructions for payment to us. Once the payment is made, the customers typically provides us with a notice and/or a copy of the relevant payment confirmation for verifying and tracking the funds and to allow us to reconcile the amount we receive in our bank accounts from our customers. Although we typically require our customers to make payments to us directly, they may settle part of their payments due to us through Third-Party Payors. Whenever a Relevant Customer informs us that we should be expecting a specific sum to be paid into our bank account by a Third-Party Payor for the settlement of a specific sales invoice, we check and reconcile the payment with the Relevant Customer to ensure our accounts with them have been properly recorded. We generally require our customers to provide us with copies of bank-in advices or confirmations of payment instructions, and we have not experienced any difficulty in reconciling the payments we have received. We have not been involved in any arrangement between the Relevant Customers and their respective Third-Party Payors pursuant to which the payments were made, nor have we been involved in any payment process or settlement procedure between them.

# **Reasons for Utilizing Third-Party Payors**

According to the Frost & Sullivan Report, Third-Party Payment arrangement is a common commercial practice to facilitate payments in international trade, including in our industry. According to the Frost & Sullivan Report, and based on our experience with Third-Party Payment transactions, international trade customers may settle their payments through Third-Party Payors for reasons including the following:

- customers located in countries that are subject to strict foreign exchange regulations and restrictions may face difficulties making payments abroad and Third-Party Payment arrangements may resolve these difficulties;
- some customers may have pre-determined arrangements with Third-Party Payors;

- some customers leverage payments through Third-Party Payors to manage their cash flow needs from time to time; and
- for some customers, Third-Party Payment arrangements are less costly than payment through formal financial institutions due to lower processing fees and the availability of more favourable foreign exchange rates.

To the best of our Directors' knowledge, there were in principle two types of relationships between the Relevant Customers and the Third-Party Payors:

- Import services providers. A Relevant Customer may engage a third-party import services provider, which may also facilitate payment arrangements, to settle outstanding payables owed to us if it is less costly or more convenient than making payments through formal financial institutions. This may be as a result of lower processing fees or the availability of more favorable foreign exchange rates.
- Business partners. A Relevant Customer may request a third party that has business dealings with it to settle payments to us; for example, a Relevant Customer may use a local company to make payments to the seller of the goods.

During the Track Record Period, a majority of our Third-Party Payments were related to customers in Argentina, Indonesia, Russia and Ukraine, which in aggregate accounted for 65.0%, 61.7%, 51.5% and 59.0% of our total sales to the Relevant Customers for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively. As advised by our legal advisors on the laws of Argentina, Indonesia and Russia, no license or permit is required for the Relevant Customers and Third-Party Payors to use Third-Party Payment arrangements. As advised by our legal advisors on Ukrainian laws, pursuant to the general rules and practice of Ukrainian currency control regulations, a Ukrainian resident is permitted to make a payment abroad only after having obtained an individual license for such payment from the National Bank of Ukraine unless such payment falls within a list of statutory permitted payments. If the payment is not within those statutorily permitted and no such license has been obtained for making a Third-Party Payment, the Relevant Customer and the Third-Party Payor may be subject to penalty or restrictive measures set forth by Ukrainian laws, but this does not render the Third-Party Payment invalid. As advised by our legal advisors on Ukrainian laws, we, as a payee, would not be subject to a risk of penalty or restrictive measures for an unlicensed Third-Party Payment.

To the best knowledge of our Directors, all of these Third-Party Payors were Independent Third Parties to us during the Track Record Period and up to the Latest Practicable Date. To the best knowledge of our Directors, no outstanding payables owed to us had been assigned by the Relevant Customers to other parties during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, we had not provided any discount or benefit to the Third-Party Payors, we had not experienced any dispute as to the amounts settled through Third-Party Payment arrangements and no claim from any Third-Party Payors or Relevant Customers regarding the return or refund of funds we received to settle the payments had been made against us. Furthermore, we were not aware of any suspicious transactions in connection with any Third-Party Payment.

#### **Cessation of Settlements Through Third-Party Payors**

We ceased allowing our customers to settle amounts due to us through Third-Party Payors in July 2017, and all sales transactions entered into thereafter are settled by direct payments. In general, we issue a sales confirmation to our customers upon receiving a purchase order, to ascertain the sales terms and details of the order. We adopted a new form of sales confirmation in July 2017 to incorporate a provision that customers must settle their payments directly with us. Any payment or transfer of funds from third parties will be rejected. We have notified the Relevant Customers in respect of the cessation of allowing Third-Party Payments. In addition, to prevent the occurrence of Third-Party Payments, we updated our internal control policies in July 2017 in connection with remittances made to our accounts. For more details on the internal control policies, please see "—Certain Settlement Arrangements Through Third-Party Payor—Internal Control Measures."

Since the revenue contribution by Third-Party Payments during the Track Record Period was not material to our business, we believe that our cessation of allowing Third-Party Payments will not have any material adverse impact on us going forward. As of the Latest Practicable Date, there had been no material impact to our financial and operational position as a result of our cessation of Third-Party Payments arrangements. To minimize the relevant potential impact on our business profitability and results of operations, we have pursued a proactive role in communicating with the Relevant Customers, to ensure a smooth transition of switching to direct payments. Many Relevant Customers have established direct payment arrangements to expedite their future orders with us.

# Potential Risks relating to Third-Party Payments

As advised by our legal advisors on laws of Argentina, Indonesia, Hong Kong, Russia and Ukraine, we were not in breach of the applicable laws in any material respect by accepting the Third-Party Payments to settle the Relevant Customers' outstanding payables to us. The Third-Party Payments may, however, subject us to various uncertainties and risks including money laundering risk; and possible claims from Third-Party Payors for return of funds as they were not contractually indebted to us, as well as possible claims from liquidators of the Third-Party Payors. To the best of our knowledge, the Third-Party Payors were aware that the respective payments were used to discharge the Relevant Customers' outstanding payables owed to us. Based on the advice of our legal advisors on laws of Argentina, Indonesia, Russia and Ukraine, we consider these risks to be remote as further elaborated below. In addition, since the revenue settled by Third-Party Payments during the Track Record Period was not substantial, we believe any potential claims against these payments would not have any material adverse impact on us. Based on the advice from our legal advisors on laws of Argentina, Indonesia, Hong Kong, Russia and Ukraine, our Directors are of the view that the Third-Party Payments settled during the Track Record Period and up to the Latest Practicable Date have not created a significant risk to our business, results of operations or financial position.

# Money laundering risks

In general, our Third-Party Payments are settled with our subsidiaries in Hong Kong. As advised by Wilkinson & Grist, our legal advisors on anti-money laundering laws and other laws of Hong Kong in respect of Third-Party Payments arrangements, we may be subject to money laundering risk if we had knowledge of, had reasonable grounds to believe or suspected that the settlement arrangement involved or represented proceeds of an indictable offence under the Organized and Serious Crimes Ordinance (Chapter 455 of the Laws of Hong Kong) ("OSCO"), proceeds of drug trafficking under

the Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong) ("DTRPO"), or terrorist property under the United Nations (Anti-Terrorism Measures) Ordinance ("UNATMO"). If such knowledge, reasonable grounds to believe or suspicion arose, we would be obliged not to deal with the funds received under such settlement arrangement and to make the relevant disclosure to a Hong Kong police officer or member of the Hong Kong Customs and Excise Department or the Immigration Department or an officer of the Independent Commission Against Corruption. These obligations are imposed on us by the OSCO, DTRPO and UNATMO. However, unlike the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Chapter 615 of the Laws of Hong Kong) ("ALCFFIO"), which is applicable only to certain specified financial institutions, the OSCO, DTRPO and UNATMO do not impose any statutory customer due diligence or record-keeping obligations. Wilkinson & Grist further advised that we are not, and would not be, in contravention of the anti-money laundering laws in Hong Kong, nor would we commit money laundering or terrorist financing under OSCO, DTRPO, UNATMO and ALCFFIO by the mere existence or use of the Third-Party Payment alone (and without anything more). As further advised by Wilkinson & Grist, unlike financial institutions (such as licensed banks, brokers and insurance companies), which are required to comply with statutory requirements relating to customer due diligence and recordkeeping, we are not subject to these obligations as we are not a financial institution as defined in the ALCFFIO.

Our Directors (whose views are concurred by Wilkinson & Grist, our legal advisors on anti-money laundering laws and other laws of Hong Kong in respect of Third-Party Payments arrangements) consider that the money laundering risk under relevant Hong Kong law involved in accepting the Third-Party Payments is remote and does not pose any substantial risk to our business due to the following reasons:

- (i) the relevant payments were made in respect of genuine transactions;
- (ii) as all the Third-Party Payments were remitted or deposited to our accounts with licensed banks in Hong Kong that are subject to requirements to put in place reasonable measures to ensure that proper safeguards exist to mitigate money laundering risk and to impose requirements relating to customer due diligence and record-keeping;
- (iii) in the context of money laundering risks for Third-Party Payment arrangements, the Relevant Customers or the Third-Party Payors would have to pay the money into our bank account and we would have to subsequently channel the money back to the Relevant Customer's bank accounts or depositories (a so-called "U-turn transaction" in money laundering terminology). We have never made any repayment of proceeds we received from a Relevant Customer or Third-Party Payor in a way that facilitate a U-turn transaction;
- (iv) to the best information and knowledge of our Directors, there have been no suspicious transactions in respect of any Third-Party Payment identified during the Track Record Period and up to the Latest Practicable Date. We have established internal control policies covering client identification, maintaining transaction records and records of client identity and reporting on large-sum and suspicious transactions. We monitor and identify unusual fluctuations that may indicate suspicious activities through our regular analysis of transactional, financial and operating data. The Directors believe that these internal control

policies are adequate and effective to identify any suspicious transactions that may give rise to money laundering risk during the Track Record Period and up to the Latest Practicable Date;

- (v) there is no evidence that has come to our knowledge to suggest or to give rise to any suspicion that the Third-Party Payments, in whole or in part, directly or indirectly, represent the proceeds of an indictable offence or proceeds of drug trafficking or are terrorist property. Accordingly, we neither knew, suspected, nor had reasonable grounds to believe that the Third-Party Payments, in whole or in part, directly or indirectly, represent the proceeds of an indictable offence or proceeds of drug trafficking or are terrorist property;
- (vi) it is unlikely that a court will infer from the mere existence of the Third-Party Payments alone and without anything more, that we "knew," had "reasonable grounds to believe" or "suspected" (i.e. *mens rea* of the relevant money laundering offences) that the Third-Party Payments represented proceeds of an indictable offence or proceeds of drug trafficking or were terrorist property; and
- (vii) after conducting a name search on the List of Terrorists published pursuant to UNATMO in the Hong Kong Government Gazette G.N. 3058 dated May 12, 2017, there is no reasonable ground to believe and/or no evidence to suggest or give rise to a suspicion that any of the Third-Party Payors is a terrorist or its associate or the Third-Party Payments were terrorist property and/or represented proceeds used to commit terrorist acts.

# Possible claims from Third-Party Payors or their liquidators

Based on the opinions of our legal advisors on Russian, Ukrainian, Argentine and Indonesian laws as described below, our Directors consider the risk of possible claims from Third-Party Payors or their liquidators to be remote. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had not received any claims from any Third-Party Payor or the liquidators of any Third-Party Payor.

# Russia

As advised by our Russian legal advisors, despite the absence of a contractual relationship between the Third-Party Payors and us, the Third-Party Payors may not have a claim against us for the return of the respective Third-Party Payments, unless the payment made to us was in excess of the outstanding payables owed to us. Pursuant to the consistent practice of the Russian courts, we are not obliged under Russian law to ensure the relationship between a Relevant Customer and the respective Third-Party Payor or to confirm whether a Relevant Customer has duly instructed the Third-Party Payor to make payments to us. Furthermore, to the best knowledge and information of our Directors, the Third-Party Payments were made to discharge payables owed to us by the Relevant Customers and the Relevant Customers have settled or will settle their transactions with the respective Third-Party Payors.

We could be subject to possible claims from court-appointed receivers/creditors if a Third-Party Payor were to become insolvent. These parties could make a claim to recover from us the funds that the Third-Party Payors had paid to us. Russian courts may declare the payments we had received to be invalid if, *inter alia* (i) such payments were made one month before or after a Third-Party Payor is placed into bankruptcy and (ii) such payments entail termination of any obligations Third-Party Payors

may owe to the Relevant Customers. According to our legal advisors on Russian laws, Third-Party Payments may be qualified as preferential transactions under Russian bankruptcy law and subject to claims from the court-appointed receiver/creditors regardless of whether we were aware of the insolvency or insufficiency of assets.

As advised by our legal councel as to matters of Russian bankruptcy laws, we believe that the risk of any challenge against payments made to us beyond the one-month period described in the preceding paragraph is remote, because (i) such payments may not be challenged as a "transaction made with unequal consideration" as all transactions are made on the arm's length basis; (ii) we, as a market player in good faith, were not and could not be aware of the Third-Party Payor's insolvency or insufficiency of the assets; and (iii) pursuant to the applicable law governing the underlying contracts, Third-Party Payors may make a claim to recover the money they paid to us from the Relevant Customers. In addition, if a Russian court were to declare any Third-Party Payment invalid, we would be entitled to claim the outstanding payables owed to us from the Relevant Customers under the relevant purchase orders and sales confirmations.

#### Ukraine

Given there is no contractual relationship between the Third-Party Payors and us, a Third-Party Payor could make a claim against us for the return of its respective Third-Party Payments as assets acquired by us without sufficient legal ground. Level of materiality of such risk, however, depends on the contractual relations between the Relevant Customer and the Third-Party Payor, no details of which we are aware.

We could be subject to possible claims from liquidators of a Third-Party Payor if a bankruptcy proceeding is initiated against the Third-Party Payor. Ukrainian bankruptcy regulations provide for a claw back period of one year before initiation of a bankruptcy proceeding. For payment made during such claw back period, certain transactions such as, inter alia, (i) disposal by the Third-Party Payor of assets or undertakings of obligations without corresponding undertakings of the receiving end, or (ii) disposal or acquisition of assets at higher (or lower) prices, comparing to fair market value, may be challenged and declared invalid.

# Argentina

Given there is no contractual relationship between the Third-Party Payors and us, a Third-Party Payors could make a claim against us for the return of its respective Third-Party Payments. Our Directors and our Argentine legal advisors consider such risk to be remote because (i) we have never demanded payment from any Third-Party Payors, and the linkage between payments made by them and the underlying sales were arranged by the Relevant Customers; and (ii) if a Third-Party Payor remits and deposits funds to us by mistake and wanted us to refund the relevant Third-Party Payment, it would have most likely notified the bank or us shortly after the remittance or deposit was made. During the Track Record Period and up to the Latest Practicable Date, we had not received any such notification from any Third-Party Payor.

We could be subject to possible claims from liquidators of a Third-Party Payor if the Third-Party Payor were to become insolvent and declared bankrupt or filed for reorganization proceedings, as applicable. Argentine bankruptcy regulations provide for a claw-back period commencing on the date on which the insolvent party was declared bankrupt or filed for reorganization proceedings, as applicable,

going back to the date on which it first became insolvent, provided that such term shall not exceed two years from the bankruptcy or reorganization date. For payments made during such claw-back period, certain transactions such as payment of undue debts, acts performed by the insolvent party for no consideration and creation of collateral on existing undue indebtedness not originally secured, may be challenged or automatically declared void.

As of the Latest Practicable Date, we were not aware of any of the relevant Third-Party Payors in Argentina having been subject to any insolvency proceedings and, should they become subject to any such proceedings in the future, to the extent such payments were made for no consideration, they could potentially be challenged by liquidators or third party creditors or subject to voidance in an insolvency scenario. Nevertheless, the claims are subject to the 2-year claw-back period disclosed above.

#### Indonesia

Given there is no contractual relationship between the Third-Party Payors and us, the Third-Party Payors could make a claim against us for the return of the respective Third-Party Payments. Our Directors and our Indonesian legal advisors consider such risk to be remote because we assume no obligations nor liabilities to the Third-Party Payors in the Third-Party Payment arrangements.

Nevertheless, assuming the Third-Party Payors are not acting on behalf of the Relevant Customers, i.e. there is a contract between a Relevant Customer and a Third-Party Payor resulting in an obligation of the Third-Party Payor to make payment to the Company, then upon the bankruptcy of a Third-Party Payor, there may be a potential risk whereby the potential payment from such Third-Party Payor to the Company may be nullified on the basis of fraudulent conveyance, known as *actio pauliana* in the Indonesian Civil Code ("ICC"). Under the ICC, any action taken by a debtor may be nullified on the basis of *actio pauliana* if (a) such action was not required by law or pursuant to the terms of a bona fide agreement ("action"); (b) the action prejudiced the interest of (other) creditors; and (c) the debtor and the party that benefited from the action (or the "counterparty") knew or should have known that such action would prejudice the creditors.

In the context of bankruptcy, there is a presumption of such knowledge (that the debtor and the counterparty were aware that the action would prejudice other creditors) if the action was performed within a period of one year prior to the bankruptcy declaration; and (i) such action constitutes an agreement under which the obligations of the debtor were more onerous than the obligations of the counterparty; (ii) such action constitutes the payment of or granting of security for debts which were not due and payable; or (iii) was performed with an affiliated party.

Therefore, payment of a due and payable debt by a Third-Party Payor or the Relevant Customer may also be nullified if it can be proven that: (i) it is evident that we were aware that a petition for a bankruptcy declaration had been filed against the Third-Party Payor or the Relevant Customer; or (ii) the payment was made pursuant to deliberations (or collaboration) between the Third-Party Payor or the Relevant Customer and us, with the intention of settling our payment ahead of other creditors.

#### **Internal Control Measures**

To enhance our internal control measures and to safeguard our interest against risks associated with Third-Party Payments, we ceased allowing our customers to settle amounts due to us through Third-Party Payors in July 2017. To prevent the occurrence of Third-Party Payments going forward, we updated our internal control policies in July 2017 in connection with the remittance made to our bank accounts. Following these updates, our relevant internal control policies now include the following:

- all sales confirmations, in any format, sent to the customers to confirm the purchase orders
  they place shall indicate, as a term of the sales transaction, that all payments must be settled
  by the party placing the relevant purchase order directly with us and payment or transfer of
  funds from third parties will be rejected;
- our finance team is required to verify every remittance made to our bank accounts and to ensure that the payment is made by the same party placing the purchase order; and
- our sales operations team must assist the finance team in gathering the relevant information from the customers, such as bank-in advices or confirmations of payment instructions.

#### PRODUCT RETURNS, WARRANTIES AND AFTERSALES SERVICES

#### **Product Returns and Recalls**

In general, we do not permit product returns or provide refunds to our customers, except for defective products. Total product returns from our customers amounted to zero, 0.01%, 0.04% and zero of our total revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively. Any revenue derived from returned products is reversed from our total revenue under the relevant accounting policies. Given the quantities involved, we believe these returned products do not have a material adverse impact on our financial condition or results of operations.

During the Track Record Period, we experienced five incidents of product recalls, and they were, in aggregate, immaterial to our business, financial condition or results of operations. Revenue attributable to products subject to product recalls is reversed from our total revenue for the relevant period under the relevant accounting policies.

On November 17, 2014, the Australian Competition & Consumer Commission published a notification in relation to a recall of a specific model of our inflatable ring pools sold to end-consumers in South Australia from November 7, 2014 to November 8, 2014 because these products did not feature a permanent warning message on the retail packaging of the products ("Packaging Recall"). We sold 5,001 pieces of these inflatable ring pools to one of our customers in Australia in May 2014, with permanent warning labels affixed to the products but not on the retail packaging. These products were available on the shelf for one day before our customer withdrew the products to replace their packaging labels. After relabeling, the products were put back on the shelf. To the best of our knowledge, the customer resumed sales of these products and has not claimed any refund or returned these products as of the Latest Practicable Date. The revenue attributable to sales of products subject to Packaging Recall was US\$55,011.0.

On September 28, 2015, the Shanghai Division of the AQSIQ Defective Product Administrative Center (國家缺陷產品管理技術中心上海分中心) issued a notice in respect of a potential quality issue found in one of our inflatable swim vest models. We investigated the matter, and on October 20, 2015 initiated a recall of all 216 pieces of the swim vests that were in question due to inadequate warnings on the packaging (the "Swim Vest Recall"). The relevant product standards require products with detachable parts smaller than a certain size to include relevant warnings to avoid mishandling of small parts by users. This model of inflatable swim vests was designed and manufactured for export sales, and our compliance team did not conduct a comprehensive examination of the products against the relevant product standards in China. As a result, the products did not comply with the relevant Chinese product standards. The recall program ended in January 2016 and no product has been returned to us. We sold 216 pieces of inflatable swim vests in China in April 2015 for a total amount of RMB1,803.6 (equivalent to US\$265.6) and had not sold any pieces of this model thereafter. We reassessed the design of this model of swim vests and changed the detachable part into a non-detachable part. As of the Latest Practicable Date, none of our customers had made any refund claims, lodged any complaint or returned any of these products.

On April 11, 2016, the Australian Competition & Consumer Commission published a notice in relation to a recall of a specific model of our small-sized pools sold to end-consumers in South Australia from August 2010 to February 2016 due to inadequate safety information on the warning labels ("Label Recall"). We sold 1,200 of such small-sized pools to one of our customers in Australia in December 2007, who on-sold these products in South Australia market. The discrepancy between the warning labels on these pools and the label specification required under the relevant laws was due to new specifications being introduced through an upgraded product safety measure in March 2014, which was after the manufacture of these products. We stopped selling this model of small-sized pools from January 2010 onwards. The total sales of the products subject to the Label Recall was US\$5,520.0. As of the Latest Practicable Date, our customer had not made any refund claims or returned any of these products.

On August 19, 2016, we implemented a voluntary product recall in Finland of a specific batch of swimming arm bands produced in 2014 due to weak welding which lead to air leaks after multiple uses or prolonged periods of use ("Arm Bands Recall"). As a result, the products did not comply with the safety standards in E.U. We sold 13,680 pieces of these swimming arm bands to one of our customers in Finland in February 2015. The revenue attributable to sales of products subject to the Arm Bands Recall was US\$2,599.2. As of the Latest Practicable Date, 7,061 pieces of such swimming arm bands had been recalled by our customer and were stored in our customer's warehouse in Finland. As of the Latest Practicable Date, our customer had not claimed any refund or return of these products.

In addition, we implemented an additional voluntary product recall, which was due to a new substance being added to the list of prohibited substance through an upgraded product safety measure in the E.U. (the "**DEHP Recall**"). We sold 7,200 beach balls continuing DEHP in 2005 to one of our customers in Germany and implemented a product recall for these beach balls in Germany on December 23, 2016. DEHP is restricted for use in PVC and other plasticized materials used in the production of childcare articles under an amendment to the REACH published on March 2, 2015. As these beach balls had been put on the market more than 10 years ago, only 504 beach balls were returned to and destroyed by our customer in Germany. The total sales of these products subject to DEHP Recall was US\$3,240.0 As of the Latest Practicable Date, our customers had not made any claim related to these products.

These product recall incidents, neither individually nor in aggregate, have had or would have any material adverse impact on our financial condition or results of operations. We have notified our customers and took actions to recall all products in question. To prevent incidents similar to these product recalls, we have implemented the following quality control measures:

- to prevent product quality issues similar to the Arm Bands Recall, we have improved the
  parameters of the welding process, particularly the welding current and voltage to ensure
  product quality;
- to prevent inadvertent oversight on packaging and labeling requirements similar to the Packaging Recall and the Swim Vest Recall, our product development and manufacturing department receives regular updates of the relevant laws and regulations on areas such as packaging, labels and chemical substances, to ensure compliance at the research and development and manufacturing stages;
- we have included quality assurance checkpoints throughout the manufacturing process; and
- we establish and maintain communications with our customers, customer service centers, regulators and end-consumers to obtain regulatory updates and feedback on the specifications and the usage of our products.

During the Track Record Period and up to the Latest Practicable Date, (i) we had not experienced any product returns from our customers or been subject to any product recalls; (ii) we did not fail to comply with any applicable mandatory standards on product quality and we were not subject to any administrative actions, fines or penalties from any government authorities regarding product quality or safety; and (iii) we did not receive notice of or otherwise have knowledge of any product quality complaint from customers, product liability exposure or other claim in connection with our product quality that, in the case of (i), (ii) or (iii) has, or if determined adversely against us, would have, materially adversely affected our business and results of operations.

#### Warranties and Aftersales Services

We typically provide warranties of six months to two years on our products, with some products of higher value carrying extendable warranties. For example, we provide one-year warranties on pool liners and two-year warranties on walls and frames for our above-ground metal wall pools, while we provide six-month warranties for our metal frame pools. We offer free replacement or repair for products with valid warranties. We recorded warranty expenses of US\$0.9 million, US\$1.4 million, US\$2.6 million and US\$1.1 million for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively.

As part of our commitment to providing an excellent consumers' experience, we place strong emphasis on the aftersales services we provide to end-consumers. As of the Latest Practicable Date, we had 41 customer service centers globally to provide aftersales services and process consumer feedbacks, 11 of which were operated by third-party professional organizations. We also selectively engage third-party regional relationship managers to operate some of our customer service centers. Our headquarters-based customer service department oversees our global aftersales service functions. In terms of the daily operations and management of customer service centers, our overseas subsidiaries are responsible for handling the daily operations of the customer service centers in their respective regions and nearby

areas. For locations such as Poland, Norway, Sweden, Denmark and Belgium, we engage third-party professional organizations to provide aftersales services to end-consumers. We engage the appropriate regional relationship managers or professional organization based on the estimated costs and regions they would cover as well as the efficiency of their services. Our goal in these practices is to provide satisfying aftersales services while controlling the operating expenses of the customer services centers.

To facilitate the efficient provision of aftersales services in the customer service centers, we provide products for exchange and parts for repair. To avoid maintaining excessive inventory in our customer service centers while we provide satisfying service quality, we maintain a system to monitor the services, products and parts available in the customer service centers. For example, when a filtration pump is used to replace a defective pump in a portable spa, the system's record will show the complaint and the issue with the defective product. As a result, we can exercise effective inventory control, control the rental expenses and operating expenses of the warehouses and also better understand our users' experiences. We collect product information from the relevant consumers and trace the source of the defect, and use this information to adjust and enhance our production and quality control processes to avoid similar quality issues from recurring. This information relating to our product quality or users experiences is sent to the quality assurance team, which in turn identifies the issues and sends this information to the research and development team and/or the responsible product group engineers. This information assists our product group engineers and our research and development team in formulating preventive measures or new designs to prevent similar problems.

We work closely with our regional relationship managers and retailer customers on product returns and consumer feedback. Feedbacks from end-consumers are processed by our customer service centers while complaints from our customers are processed by our headquarters-based sales operations team. We take complaints seriously and investigates the underlying causes for each complaint. If we identify any product defect that we are responsible for, we will offer to replace the product with a new one or repair the product free of charge and carry out remedial measures as necessary. Even if we conclude that we are not at fault, we give an explanation to the consumer to seek mutual understanding, and assist with alternative solutions. In addition, we maintain a 24-hour consumer service hotline to ensure that consumer complaints are handled promptly. According to a survey conducted over the phone or on our aftersales services webpage, the satisfaction level of consumers after they received our aftersales services in 2016 was above 88% among around 1,000 end-consumers in the United States and Canada, and was above 80% among around 1,100 end-consumers in Europe.

#### **SEASONALITY**

We operate our business with an operating cycle from the beginning of May to the end of April of the subsequent year. In general, we receive purchase orders from our customers in the northern hemisphere from May onwards. We deliver most of these purchases from November to April of the subsequent year. Our customers in the southern hemisphere place orders with us from December onwards, and we deliver most of these purchases from May of the subsequent year to October. In 2014, 2015, 2016 and the six months ended June 30, 2017, 73.7%, 76.1%, 82.2% and 87.7% of our revenue was attributable to sales to customers in the northern hemisphere, respectively. We typically realize approximately 60% of our sales in the first six months of the year. Seasonality is in part offset by our sales to customers in the southern hemisphere and our sales of products that are suitable for all seasons. For more details relating to seasonality of our production and sales of products, please see "Risk Factors—Risks Relating to Our Business and Industry—Our performance may be affected by seasonality and unexpected and abnormal changes in climate."

#### COMPETITION

The global outdoor leisure products and water leisure products industries are highly fragmented. According to the Frost & Sullivan Report, the top five companies in the global outdoor leisure products and water leisure products industry had combined global market shares of only 13.8% and 11.4%, respectively, in 2016 in terms of retail sales value. We are the third largest player in the global water leisure products market, with a market share of 2.3% in terms of retail sales in 2016 and was the fastest growing among the top five players. Due to the diversity of outdoor water leisure activities and respective products available in the market, competition among industry players with different product focus within this category is relatively limited.

In contrast to the overall outdoor leisure products industry, the inflatables category is highly concentrated and dominated by two players. Other competitors include various international sports brands and other smaller inflatables focused companies. According to the Frost & Sullivan Report, we are the second largest inflatable outdoor leisure products company globally with 31.0% market share in terms of retail sales in 2016. For more information, please see "Industry Overview—Competitive Landscape."

Moreover, according to the Frost & Sullivan Report, there are a number of barriers to entry that restrict potential new market entrants from being able to quickly establish a foothold in the market and become a competitive threat, including reputation and brand image, research, design and development capabilities, industry expertise and knowledge and existing sales network. For more information, please see "Industry Overview—Key Growth Drivers, Industry Trends and Barriers to Entry."

#### **EMPLOYEES**

As of September 30, 2017, we had 11,529 employees, a majority of whom were based in China. As of September 30, 2017, our overseas subsidiaries had 104 employees, who work in our sales and marketing team and research and development team. A breakdown of our employees by function as of September 30, 2017 is set forth below:

	Number of	
Function	employees	% of total
Manufacturing	9,642	83.6
Logistics	504	4.3
Quality control	372	3.2
Research and development	331	2.9
Sales and marketing	255	2.2
Support staff	294	2.6
Administrative	52	0.5
Procurement	47	0.4
Finance and accounting	32	0.3
Total	11,529	100

Our employees are important strategic resources for our development. The remuneration packages for our employees include salary, bonuses and allowances. As required by Chinese regulations, we participate in social insurance plans operated by the relevant Chinese government authorities and maintain pension contribution plans, medical insurance, work-related injury insurance, unemployment insurance, housing provident fund and maternity insurance for our employees in China. Several of our subsidiaries in China provide post-retirement benefits to certain retirees, conditional upon the years of services, position in the Group and completion of minimum service period. We provide the majority of our employees in our overseas operations with pension benefits and insurance coverage.

We aim to foster an amicable and motivating environment to enhance our employees' incentives and loyalty to us, therefore the recruitment and training of our employees is an important aspect of our business. Our human resources department recruits our employees through advertisements and online recruitment platforms. They set out a recruitment plan at the beginning of each year based on our manufacturing need for the year. We provide continuing education and training programs to our employees to improve their skills and develop their potential, as well as improving their awareness of work safety. We also use evaluation programs through which our employees can receive feedback on their performance. We foster strong employee relations by offering various staff benefits and personal development support. Our subsidiaries in China have established labor unions in accordance with the applicable Chinese law. We are not subject to any collective bargaining agreements.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material labor disputes or claims.

## **INSURANCE**

We maintain a range of insurance coverage in relation to our business, including property damage insurance, product liability insurance, carriage of goods insurance, short term export credit insurance and automobile insurance. Our product liability insurance covers personal injury, death and property damage arising from the use of our products exported out of China. For our products sold in China, we also maintain adequate product liability insurance coverage in accordance with the commercial practices in our industry. Due to the export nature of our business, we also maintain short term export credit insurance, which covers export sales on short term credits. It provides up to 90% of default on payment due to the political and/or commercial reasons for our products delivered overseas.

We have provided social insurance for our employees in China, including employee pension insurance, workplace injury insurance, maternity insurance, unemployment insurance, health insurance and housing provident funds, as stipulated under the statutory requirements of local government authorities. Our insurance policies do not cover certain risks, for example, any indirect loss (such as loss of profits) caused by any suspension or termination of business. For more information about such risks, please see "Risk Factors—Risks Relating Our Business and Industry—Our insurance coverage may not be adequate to cover all the risks." We believe that our insurance coverage is adequate and consistent with the common industry practice.

#### OCCUPATIONAL HEALTH AND SAFETY

Our operations are subject to a number of Chinese laws and regulations with respect to occupational health and safety. For details of these laws and regulations, please see "Regulatory Overview—PRC Law and Regulations—Laws and Regulations relating to Production Safety." Based on these regulations, we have implemented safety guidelines in relation to safety control procedures and standards (the "Safety Guidelines") primarily including the following:

- (i) Officers accountability system. We have set out clear guidance in the Safety Guidelines in relation to the responsibilities of personnel at all levels in each of our operating departments and manufacturing facilities.
- (ii) Well-established work safety system. Our work safety system standardizes our operations such that our employees can easily adhere to the Safety Guidelines to follow the appropriate work practices.
- (iii) Safety education and training. We engage third-party professionals to provide training and education to our safety personnel, who in turn provide safety training and education to new joiners and existing employees. In addition, we have adopted emergency plans for our manufacturing facilities that designate the responsible personnel and response procedures in the event of occupational health and safety emergencies. We also require operators of our production equipment to attend training sessions on the required safety standards prior to operation.
- (iv) Regular inspections. We carry out regular safety checks on our production equipment at our manufacturing facilities to ensure that the equipment is thoroughly tested and safe for use on a daily or weekly basis.
- (v) Accident investigation and corrective measures. We maintain a system of recording, handling, investigating and reporting accidents on a timely basis in order to develop measures to avoid similar accidents.

During the Track Record Period, we had not experienced any material production safety accidents or been penalized for any material non-compliance relating to work safety laws and regulations. Our PRC Legal Advisors have confirmed that, based on the certificates of compliance issued by the relevant authorities of production safety in Shanghai, Nantong and Yancheng, during the Track Record Period and up to the Latest Practicable Date, we had complied in all material aspects with all applicable Chinese laws and regulations in relation to employee health and safety.

# **ENVIRONMENTAL MATTERS**

Our business is subject to Chinese environmental laws and regulations with respect to a broad range of environmental matters including air pollution, water pollution, waste and water discharge and noise pollution. We are also subject to annual inspections by the relevant Chinese regulatory authorities. For details of these laws and regulations, please see "Regulatory Overview—PRC Law and Regulations—Laws and Regulations relating to Environmental Protection." We have implemented operational measures to ensure compliance with all applicable requirements under the Chinese laws and regulations. We believe our manufacturing process does not generate hazards that have any significant

adverse effect on the environment and that our environmental protection measures are adequate to comply with all applicable laws and regulations. During the Track Record Period and up to the Latest Practicable date, as advised by our PRC Legal Advisors, based on the certificates of compliance issued by the relevant environmental protection bureau in Nantong and Yancheng, and interview with the deputy head of the town government of Jiangqiao, Jiading, we complied with Chinese environmental laws and regulations in all material respects.

We focus on developing materials-recycling and energy use measures to decrease our environmental impact. In 2016, we participated in a public disclosure program organized by Carbon Disclosure Project ("CDP") by reporting our sustainability efforts along with over 5,600 manufacturers globally, including information on energy use, emissions and wastes. CDP is a not-for-profit organization that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. We were ranked as one of the top seven Chinese Suppliers and awarded the "Best Climate Change Performance among Chinese Suppliers in 2016" among the approximately 400 Chinese manufacturers that participated in the program.

We seek to recycle returned products and process scraps to reduce the waste we send to landfill or to incineration facilities. We also sell our factory wastes to local materials-recycling facilities, among which part of these wastes are sent to our suppliers for recycling. During the manufacturing process, we create process scraps that are leftover polymer films. In our manufacturing facilities, we sort, grind, wash and separate the returned products or process scraps into smaller parts based on their resin type and size, and convert these small plastics parts into pellets to allow for easier distribution, compounding and remanufacturing. To further reduce our factory waste, we task our research and development officers with developing and advancing our mechanical recycling machines and the procedures to recycle reinforced polymer film, such as polymer-based textile composite materials, Tri-Tech<sup>TM</sup> materials and flocked materials. We refine and reprocess recycled materials to produce polymer films that we can use in our production, and we mainly use these recycled materials to manufacture pool covers. In addition, we cooperate with one of our leading global retailer customers under a scrap recycling program in collecting returned goods from their distribution center for recycling purposes. We arrange for the shipping of these returned goods to our manufacturing facilities in China and utilize them for recycling.

We installed 23,000 square meters of solar panels in the rooftop of our manufacturing facility in Nantong, which generated 5.4 million kilowatt-hour of energy during the Track Record Period, that is equivalent to approximately 9% of the annual energy consumption of our Nantong manufacturing facility. We use oil-fired boilers in our operations, and the heat generated by these boilers produce steam and hot water, which we use to provide hot water and heating services to our manufacturing workshops and employees dormitory during winter. We estimate that our co-generation recycling system was able to generate approximately 16,400 tonnes of steam and resulted in energy cost savings of approximately RMB3.6 million during the Track Record Period. We spent US\$0.8 million, US\$1.5 million, US\$1.2 million and US\$0.7 million for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively, as cost of compliance with the applicable environmental laws and regulations.

#### INTELLECTUAL PROPERTY

We rely primarily on a combination of patents, trademarks and other intellectual property laws, as well as employee and third-party confidentiality agreements to protect our intellectual property. We establish and implement stringent policies relating to the creation, management, implementation and protection of our intellectual property, and undertake a pro-active approach to manage our intellectual property portfolio. In addition to seeking and maintaining proper registration of our trademarks and patents, we closely monitor and collect information on counterfeit products from various sources, including our customers and suppliers. We take legal and administrative action where necessary and closely cooperate with local authorities to protect and enforce our intellectual property rights.

We engage external intellectual property legal advisors to conduct reviews of third-party patents to ensure that our products and production processes should not be found to infringe the intellectual property rights of others.

We enter into confidentiality agreements with our employees who have access to our confidential information including formulae, data and know-how. In particular, all of our research and development personnel and independent third parties we engage to develop our products have entered into confidentiality and proprietary information agreements with us. These agreements address intellectual property protection issues and require our employees and relevant third parties to assign to us all of the inventions, designs and technologies they develop during their employment with or engagement by us.

As of the Latest Practicable Date, our intellectual property rights included 229 registered trademarks, 84 registered patents and 12 major internet domain names. We are in the process of applying for the registration of 69 trademarks and 107 patents. For details of our intellectual property that is material to our business, please see "Appendix IV—Statutory and General Information—B. Further Information About Our Business—2. Intellectual Property Rights of Our Group."

# **Patent Disputes**

Some of our subsidiaries were involved in patent-related legal proceedings or claims during the Track Record Period. Other than the claims discussed below that were outstanding as of the Latest Practicable Date, all claims and legal proceedings related to intellectual property rights have been resolved, and those legal proceedings individually or in aggregate have not had and would not have, any material financial or operational adverse impact on our Group.

# Airbed Patent Claim

On May 19, 2016, Intex Recreation Corp. ("Intex") filed a patent infringement claim (the "Airbed Patent Claim") against us, before the United States District Court for the Central District of California. In the Airbed Patent Claim, Intex is seeking to enjoin us from making, using, selling, offering to sell, or importing into the United States particular models of airbeds that it alleges infringe their U.S. Patent No. 6,568,011 (the "Airbed Patent") related to the design of an air chamber construction design used in airbeds. Intex is seeking a declaration that the Airbed Patent is valid and enforceable, an award of damages adequate to compensate for the alleged infringement, an award of treble damages for allegedly willful infringement, and an award of its attorney's fees for an exceptional case. In this litigation, we have answered that we do not infringe the asserted claims and that the asserted claims are invalid. We and McDermott Will & Emery, our external U.S. patent legal advisors,

believe that we have strong defenses against the Airbed Patent Claim, including our contention that the asserted claims are not infringed and/or are invalid. We filed a petition with the PTAB on February 6, 2017 requesting an *inter partes* review of the patentability of the Airbed Patent (the "011 IPR") in view of the known prior art. In this petition, we contend that all claims of the Airbed Patent are unpatentable due to (i) lack of novelty in view of the prior art, as each and every element of the Airbed Patent was found in the art known before Intex filed the relevant patent application, or alternatively, (ii) that the claims would have been obvious in view of the prior art. In March 2017, the court granted a stay of the legal proceedings related to the Airbed Patent Claim in view of the ongoing review by the PTAB. The 011 IPR petition was not instituted by the PTAB, and more invalidity defenses will be presented in the Airbed Patent Claim. On September 13, 2017, the court ordered that the stay of the legal proceedings related to the Airbed Patent Claim shall remain, and the parties to the Airbed Patent Claim must file a status report by October 11, 2017 advising the court if the parties have resolved the suit or whether the stay should be lifted. The parties to the Airbed Patent Claim filed a joint status report to request for an extension of the stay on October 11, 2017 and the court granted the extension on October 12, 2017. McDermott Will & Emery believes that there is a strong possibility of our succeeding in the defense against the Airbed Patent Claim on the grounds that the products in question do not infringe the asserted claims of the Airbed Patent and/or the alleged invention (i) lacks novelty and (ii) would have been obvious to a skilled person in the industry in view of prior art.

We started selling the airbed models in question since September 2015. The particular models of airbeds that were alleged to have infringed the Airbed Patent are only a portion of the many airbeds that we sell in the United States, and we sell other models that do not share the accused features described in the Airbed Patent. We have stopped selling the airbeds that are specifically accused in the Airbed Patent Claim in the United States since January 2017. Sales of the airbeds that are specifically accused in the claim documents in relation to the Airbed Patent Claim were US\$15,572.3 for the years ended December 31, 2016. We believe that any requirement for us to stop selling the airbed models in question would not have a material adverse impact on our business or results of operations. We believe that the existing models of airbeds we sell do not infringe any patents of Intex.

#### Spa Patent Claims

On June 6, 2016, Intex filed a patent infringement claim (the "Sidewall Patent Claim") against us relating to a construction design used in sidewalls of our portable spas before the United States District Court for the Central District of California. On February 14, 2017, Intex filed another patent infringement claim (the "Drain Patent Claim," together with Sidewall Patent Claim, the "Spa Patent Claims") against us relating to the design of the drain in our portable spas before the United States District Court for the Central District of California. In the Spa Patent Claims, Intex is seeking to enjoin us from making, using, selling, offering to sell, or importing into the United States particular models of portable spas, of which Intex alleges that some of these portable spas models infringe both of their U.S. Patent No. 9,254,240 (the "Sidewall Patent") and U.S. Patent No. 9,567,762 (the "Drain Patent"). The Sidewall Patent is related to a construction design used in the sidewalls of spas and the Drain Patent is related to a design to improve the drain for inflatable pools. Intex is seeking declarations that the Spa Patents are valid and enforceable, an award of damages adequate to compensate for the alleged infringement, an award of treble damages for allegedly willful infringement, and an award of its attorney's fees for an exceptional case. In response to the Spa Patent Claims, we have answered that we do not infringe the asserted claims and that the asserted claims are invalid. We and McDermott Will & Emery believe that we have strong defenses against the Spa Patent Claims, including our contention that

the asserted claims are invalid. We filed petitions with the PTAB on November 8, 2016 and June 2, 2017 requesting post-grant reviews of the patentability of the Sidewall Patent and the Drain Patent, respectively. In addition, we filed petition with PTAB on June 27, 2017 requesting inter partes review of the patentability of the remaining asserted claims of the Sidewall Patent. In these petitions, we contend that all claims of the Sidewall Patent and the Drain Patent are unpatentable because the claims would have been obvious in view of the prior art. On May 11, 2017, the PTAB has instituted a postgrant review on the patentability of some claims of the Sidewall Patent. In March 2017, the court has granted a stay of the legal proceedings related to the Sidewall Patent Claim in view of the ongoing petitions with the PTAB. On August 28, 2017, the court granted a stay of the legal proceedings related to the Drain Patent in view of the ongoing petition with the PTAB. We and McDermott Will & Emery believe that we have strong possibility of succeeding in these petitions with the PTAB to review the patents render the claims unpatentable. If the PTAB renders the Sidewall Patent and Drain Patent unpatentable, Intex's patent rights will be canceled, and Intex must withdraw its patent infringement cases against us. McDermott Will & Emery believes that there is a strong possibility of our succeeding in the defense against the Spa Patent Claims and to invalidate the Sidewall Patent and Drain Patent on the grounds that the alleged inventions (i) lack novelty and (ii) would have been obvious to a skilled person in the industry in view of prior art.

We started selling the spa models in question since 2014. The particular models of portable spas that were alleged to have infringed both of the Sidewall Patent and Drain Patent are only a portion of the many portable spas that we sell in the United States, and we sell other models that do not share the accused features described in the Spa Patent and the Drain Patent. We have stopped manufacturing spas with the drain features that are subject to the Drain Patent Claim in the United States since May 2017. Sales of the portable spas that are indicated in the claim documents in relation to the Spa Patent Claims were US\$7,090,495.3, US\$3,420,813.6 and US\$930,457.3 for the years ended December 31, 2014, 2015 and 2016, respectively, and accounted for approximately 1.5%, 0.7% and 0.2% of our revenue for the corresponding years. We believe that any requirement for us to stop selling the portable spas in question would not have a material effect on us or our financial condition. As to future sales, if Intex were to succeed on the Sidewall Patent Claims, we may have to use an alternative construction method in manufacturing the spa models in question. We can manufacture the relevant models of spas using an alternative construction method that we have been using in other models, and we do not believe we would be required to purchase new equipment or materials. As a result, we believe that a conversion to an alternative construction method would not have a material adverse impact on our business or results of operations. We believe that the models using the alternative construction method do not infringe any patents of Intex.

# Potential Impact of the Patent Claims

If Intex were to succeed on the Spa Patent Claims and Airbed Patent Claim (collectively, the "Patent Claims") in the United States, we could be ordered to pay damages to compensate for the alleged infringements, pay their legal fees and costs, treble damages and/or discontinue sales of the particular models of portable spas or airbeds with the accused features in the United States. Although Intex does not specify an amount of damages requested in its Patent Claims, if we were to be found liable for any infringements (including willful infringement), we could potentially face maximum liability not in excess of the reasonable royalty or Intex's lost profits for the use of the alleged inventions (the damages could be trebled), plus potential legal fees and costs, and interest, as advised by McDermott Will & Emery, our legal advisors in the Patent Claims.

As advised by McDermott Will & Emery, U.S. patents are effective only within the United States in excluding other parties from making, using, offering for sale, selling or importing the alleged invention. As a result, any judgment against any member of the Group arising from the alleged infringements cannot be directly enforced in other jurisdictions. However, any facts or admissions against us in the United States may be used to support the filling of additional infringement claims against us in other jurisdictions. Notwithstanding estimations of impact by us and our legal advisor, legal proceedings inherently involve uncertainties, and we cannot provide assurance as to the final outcome of any legal proceedings including those relating to remedies of injunction or damages, or legal fees and costs reimbursements awarded by the court (including estimates of the amounts) if any.

#### Patent Reviews

We take legal and administrative actions from time to time to protect and safeguard our products, technologies and research and development efforts. We filed two petitions with PTAB on May 12, 2017 requesting *inter partes* reviews of the patentability of two patents owned by Intex Marketing Ltd. ("Intex Marketing"), U.S. Patent No. 8,562,773 and U.S. Patent No. 9,156,203 (the "Challenged Patents"). In these petitions, we contend that the claimed inventions in the Challenged Patents are unpatentable due to lack of novelty in view of the prior art, or alternatively, that the alleged inventions in the Challenged Patents would have been obvious in view of the prior art. As of the Latest Practicable Date, the PTAB has not issued any decision on these two *inter partes* reviews. According to McDermott Will & Emery, our external U.S. patent legal advisors, if the patents are found to be unpatentable, the owner of the Challenged Patents will no longer have the right to exclude other parties to use these features in their products in the United States. If the PTAB finds the patents to be patentable, the owner of the Challenged Patents can continue to enforce its exclusive rights to use such features in the United States. Our products currently in the market do not share the same features with the claimed inventions of these patents. As such, any unfavourable outcome in relation to these *inter partes* reviews will not have a material adverse impact on our business, results of operations or financial performance.

# LEGAL PROCEEDINGS AND COMPLIANCE

We have detailed compliance procedures to identify and control the legal risks in our operations. Our legal and compliance department and its experienced professional team strictly follow these policies to track the validity of our certificates, licenses and permits and supervise the lawful execution of our contracts. According to our PRC Legal Advisors, other than as disclosed in this prospectus, we had complied in all material aspects with all applicable PRC laws and regulations during the Track Record Period.

# **Legal Proceedings**

We were from time to time involved in legal proceedings arising from the ordinary course of our business during the Track Record Period, but other than as disclosed in this prospectus, none of them is material to us. Other than as disclosed in this prospectus, as of the Latest Practicable Date, none of our Company, subsidiaries or Directors was a party to any pending or threatened litigation, arbitration or administrative proceeding that could have a material adverse effect on our business, financial position or results of operations.

## **Non-compliance Matters**

During the Track Record Period, there were certain non-compliance incidents, none of which our Directors consider to have a material impact on our business, results of operations or financial position. Set out below are descriptions of some of these immaterial non-compliance incidents.

Non-compliance with foreign exchange registration requirements

Two of our subsidiaries, Bestway Jiangsu and Bestway Shanghai, failed to comply with the SAFE registration requirements and were subject to penalties in the amount of RMB370,000 and RMB360,000, respectively, during the Track Record Period. For more details on the relevant laws and regulations, please see "Regulations-PRC Law and Regulations-Laws and Regulations Relating to Foreign Exchange." Under the relevant SAFE regulations, SAFE registrations must be completed with local SAFE branches in connection with a domestic resident's direct or indirect offshore investments in an overseas special purpose vehicle. Our subsidiary, Bestway Enterprise, an indirect overseas shareholder of both Bestway Jiangsu and Bestway Shanghai, was established on April 3, 2003. SAFE issued a new regulation on October 21, 2005, which is subsequently repealed by another regulation issued on July 4, 2014 by the SAFE. We failed to comply with the SAFE registration requirements when the relevant regulations became effective due to inadvertent oversight and insufficient knowledge of the updated regulations. The relevant SAFE requirement became effective from November 1, 2005, subsequent to the establishment of Bestway Enterprise. Investments were made to Bestway Jiangsu and Bestway Shanghai by Bestway Enterprise and dividend distribution was made to overseas shareholders of Bestway Shanghai, without completing the relevant SAFE registration. As of December 31, 2016, the relevant SAFE regulations had been completed, and Bestway Jiangsu and Bestway Shanghai had fully settled the penalties.

As we have fully settled the penalties and completed the necessary registration procedures with SAFE, and based on the certificates of compliance issued by the relevant authorities of the SAFE branches, our PRC Legal Advisors confirmed that we will not be subject to further administrative penalty for these non-compliance incidents. In view of our PRC Legal Advisor's advice, our Directors consider that such non-compliance would not have a material operational or financial impact on us. Accordingly, no provision was made in our financial statements.

To improve our internal control system we have engaged external professional consultants to provide legal training and legal services to us from time to time. In addition, we have established internal policy on the establishment of new subsidiaries, and our legal department shall ensure compliance in respect of the applicable foreign exchange laws and regulations.

Historical non-compliance incident relating to the facility under construction

Bestway Enterprise entered into an investment agreement ("Investment Agreement") with the relevant government authority in Nantong in June 2016 to acquire two parcels of land of approximately 120,000 square meters and approximately 140,000 square meters. The land will be granted to us and developed by us in different stages. Under the Investment Agreement, the relevant government authority will assist Bestway Enterprise in obtaining the requisite certificate, permits and approvals, and will vacate the land to facilitate construction works. The land will be acquired by us through public tender, auction and listing-for-sale. Following the delay of the relevant government authority's actions in dismantling the then-existing properties on the land and relocating the residents, the land was not in

conditions ready for public tender, auction and listing-for-sale. As a result, we could not obtain the land use right certificate (國有土地使用證) before construction. Under a local policy of the Rugao municipal committee and municipal government to promote and accelerate the progress of construction projects, the relevant government authority may approve the commencement of construction projects before the issuance of land use right certificates. The Company communicated with the relevant government authority and obtained a preliminary approval for the commencement of construction (the "Preliminary Approval"), and thereafter commenced the construction of the manufacturing facility in Nantong in December 2016. Without obtaining the land use right certificate for the land in Nantong with land area of approximately 120,000 square meters, we were not eligible to apply for the construction land planning permit (建設用地規劃許可證), construction works planning permit (建設工程規劃許可證) and construction works commencement permit (建築工程施工許可證) for the facility to be constructed on such land ("Facility Under Construction") before Bestway Nantong commenced the construction.

We obtained the land use right certificate, construction land planning permit, construction works planning permit and construction works commencement permit for the Facility Under Construction in June 2017.

We have obtained confirmation letters from the Land and Resources Bureau of Rugao (如皋市國土資源局), the Administrative Approval Bureau of Rugao (如皋市行政審批局) and the City Urban Administrative and Law Enforcement Bureau of Rugao (如皋市城市管理行政執法局) on May 3, 2017, January 24, 2017 and May 8, 2017, respectively (the "Rugao Confirmations"). Pursuant to the Rugao Confirmations, the relevant authorities confirmed that no administrative penalty will be imposed on us for not obtaining the requisite certificates and permits. As further advised by our PRC Legal Advisors, the risk that the relevant authorities will impose administrative penalties on Bestway Nantong for the commencement of construction prior to obtaining all the requisite certificate and permits is remote.

Our Directors are of the view that, based on the Rugao Confirmations, the Preliminary Approval and the advice of our PRC Legal Advisors, such historical non-compliance incidents will not materially and adversely affect our business operations or financial conditions. As of the Latest Practicable Date, Bestway Nantong had not received any orders for demolition, forfeiture or payment of penalty for the above non-compliance and we are not aware of any safety issues that would materially affect the safety conditions of these structures.

We have taken the following measures to improve our internal control system in respect of our expansion plans and construction projects:

- the Board shall establish a team ("Construction Team") for each expansion plan or construction project to oversee the project and to ensure all necessary permit and/or certificate has been obtained before signing contract with a contractor;
- if the permit and/or certificate has not been obtained or any non-compliance issue has been observed, the Construction Team shall report to the board immediately; and
- we have established relevant policies and procedural guidelines to manage and execute our construction projects.

As of the Latest Practicable Date, there were also potential non-compliance incidents as described below, which our Directors consider to be immaterial on our business, results of operations and financial position.

Potential non-compliance incidents relating to customs filings

As of the Latest Practicable Date, two of our subsidiaries, Bestway Nantong and Bestway Jiangsu, were under investigations by the relevant customs authority due to inaccurate customs filings in relation to raw materials. Bestway Nantong and Bestway Jiangsu purchase raw materials from China ("Local Materials") and abroad ("Imported Materials") and, after further processing them in China, export the vast majority of the finished products outside of China.

# (i) Bestway Nantong

Bestway Nantong produces products for export from a combination of both Imported Materials and Local Materials. Pursuant to the applicable Chinese law, the Imported Materials and Local Materials are subject to different customs treatments as they are involved in cross-border trades of two different natures, being "processing trade" (進料加工) and "general trade" (一般貿易), respectively. For more details on the two different natures of the relevant customs supervisory methods (海關監管方式), please see "Regulatory Overview—PRC Law and Regulations—Laws and Regulations relating to Import and Export of Goods."

During a regular examination of Bestway Nantong conducted by the Rugao Customs Authority (如 皋海關) from August 2015 to June 2016, the Rugao Customs Authority found that (i) several customs filings made by Bestway Nantong contained inaccurate information with respect to products produced with Imported Materials and/or Local Materials during the period from August 2012 to July 2015; (ii) in these customs filings, Bestway Nantong mistakenly reported a portion of products produced with Imported Materials or a combination of Imported Materials and Local Materials as "general trade" ("Miscategorized Filings"). Local Materials are entitled for a refund of VAT and products reported under "general trade" enjoy higher rate of refund compared to "processing trade"; and (iii) as a result, the refund amounts that Bestway Nantong received were greater than the amounts it was entitled to. As of the Latest Practicable Date, the relevant customs authority was reviewing the preliminary findings and had not yet issued any official notice or decision, or imposed administrative penalty on Bestway Nantong. As advised by W&H Law Firm, our legal advisors on the relevant customs laws, (i) Bestway Nantong might be ordered to pay the extra VAT refunds it received, which we estimate to be approximately RMB770,000 and fines of approximately RMB400,000; (ii) the relevant authority will not impose further punishment or penalties against Bestway Nantong so long as it has settled the administrative penalty and made the required amendments on the Miscategorized Filings; and (iii) criminal liability does not arise from administrative investigations, and no criminal liability will be imposed on Bestway Nantong or any of its management or employees because (A) Bestway Nantong did not intentionally commit the breach, nor did Bestway Nantong take any actions to deceive or conceal any information from the customs authority by making false filings, and (B) according to Article 15 of the Regulation of the PRC on the Implementation of Customs Administrative Punishment (中華人民共和 國海關行政處罰實施條例), the customs authority will only impose a fine for violation of the relevant rules and will not impose criminal liability on Bestway Nantong or its management or employee.

## (ii) Bestway Jiangsu

Under the applicable Chinese law, Imported Materials are bonded materials, which are subject to customs supervision. If the finished products produced with Imported Materials are subsequently exported, these raw materials can be imported tax-free and exempted from import duty. On the other hand, if these raw materials are used to produce finished products for domestic sales, the importer must pay the relevant import duty at the time of sale. For details, please see "Regulatory Overview—PRC Law and Regulations—Laws and Regulations relating to Import and Export of Goods."

Bestway Jiangsu sells a small portion of its products in China. It is responsible for filing customs declarations with the relevant customs authority when the finished products are sold domestically, including the country of origin of the raw materials, and pay the corresponding import duty for the Imported Materials. In 2016, during the regular examination of Bestway Jiangsu conducted by the Yancheng Customs Authority (鹽城海關), the Yancheng Customs Authority found that (i) some of Bestway Jiangsu's customs filings in connection with payment of import duties for products it sold domestically during the period from August 29, 2013 to August 28, 2016 contained inaccurate information with respect to the country of origin of the PVC resins it purchased from abroad; and (ii) Bestway Jiangsu is subject to different rates of antidumping duties for the import of PVC resins from different countries. Based on the country of origin, the rates range from 10% to 83%. Bestway Jiangsu reported inaccurate country of origin for the PVC resins and as a result, paid a smaller amount of import duties ("Underpayment of Duties"). As of the Latest Practicable Date, the investigation process was on-going and the relevant customs authority had not yet imposed any penalties on Bestway Jiangsu or issued any official notice or decision on the investigations and potential administrative penalty. According to the Regulations of the People's Republic of China on Implementing Customs Administrative Penalty (海關行政處罰實施條例), the potential penalty for the misreporting country of origin is an administrative penalty of 30% to 200% of the underpaid duty and a late fee. For details, please see "Regulatory Overview-PRC Law and Regulations-Laws and Regulations Relating to Import and Export of Goods." As advised by W&H Law Firm, our legal advisors in relation to Chinese customs laws, (i) Bestway Jiangsu could be ordered to pay the underpaid duties that we estimate to be approximately RMB280,000, a fine that ranges from RMB220,000 to RMB280,000, and a late fee of RMB50,000; (ii) the relevant authority will not impose further punishment or penalties against Bestway Jiangsu so long as it has settled the requisite payments; and (iii) criminal liability does not arise from administrative investigations, and no criminal liability will be imposed on Bestway Jiangsu or any of its management or employees because (A) Bestway Jiangsu did not intentionally commit the breach, nor did Bestway Jiangsu take any actions to deceive or conceal any information from the customs authority by making false filings, and (B) according to Article 15 of the Regulation of the PRC on the Implementation of Customs Administrative Punishment (中華人民共和國海關行政處罰實施條例), the customs authority will only impose a fine for violation of the relevant rules and will not impose criminal liability on Bestway Jiangsu or its management or employee.

The Miscategorized Filings and the Underpayment of Duties were unintended and due to (i) insufficient knowledge and misunderstanding of the relevant filing requirements of the officer who was responsible for preparing the customs filings, (ii) complexity and uncertainty of the regulatory requirements and (iii) the inherent limitations of our ERP systems at the time. In general, the General Administration of Customs of China sets forth the customs regulations and rules that are applicable across the country while local customs authorities can adopt appropriate policies, interpretations and procedures in implementing the customs laws, regulations and rules in their locations. The local customs authorities in Shanghai, Nantong and Yancheng had different policies and practices in relation to specific customs filing requirements and administrative procedures. The officer who was responsible for preparing our customs filings for our operations in Shanghai, Nantong and Yancheng, Mr. He Fumin, being the then-manager of the imports and exports department ("Mr. He"), did not correctly understand the differences in the filing requirements in relation to raw materials among these three different customs authorities. In addition, our ERP systems were not designed to identify the country of origin of raw materials used in manufacturing of products.

Mr. He, the officer who was responsible for the Miscategorised Fillings and the Underpayment of Duties was not a Director or member of the senior management of our Company. On April 26, 2016, we assigned a more experienced officer to replace Mr. He. Our ERP systems have been upgraded and implemented since September 1, 2016. We can now trace the country of origin of raw materials using the batch ID on the transaction records, thereby allowing us to submit the customs filings accordingly. To enhance our internal controls to avoid these non-compliance incidents, our imports and exports department provides regular training on customs-related regulations to our relevant employees.

Except as disclosed above, as of the Latest Practicable Date, there was no other customs investigations ongoing, and no other administrative penalties had been imposed or was foreseeable to be imposed against us relating to customs laws. Based on the legal advices rendered by W&H Law Firm and confirmation from the Rugao Customs Authority and Yancheng Customs Authority, other than disclosed in the prospectus, there are no customs-related non-compliance incidents.

# MAJOR AWARDS AND RECOGNITIONS

We have received awards and recognitions in respect of the quality of our products, brand recognition and our social contributions, including the key awards and recognitions set forth in the table below:

Awards and Recognitions	Year	Issuing Authority
Well-known Chinese Trademark (中國馳名商標)	February 2014	Trademark Review and Adjudication Board of the State Administration for Industry and Commerce (國家工商行政管理總局商標評審委員會)
Top 100 Enterprise of China Light Industry (中國輕工業百強企業)	June 2015	China Light Industry Association (中國輕工業聯合會)
Top 10 Enterprises of Sports Goods Industry in China Light Industries (中國輕工業體育用品行業十強企業)	June 2016	China Light Industry Association (中國輕工業聯合會) and China Educational, Cultural and Sports Good Association under the China National Light Industry Council (中國輕工業聯合會下的中國文教體育用品協會)
Advanced Enterprise of National Light Industry High Performance Excellence (全國輕工業卓越績效先進企業)	May 2016	China Light Industry Association (中國輕工業聯合會)
High Technology Enterprises (高新技術企業)	November 2016	Science and Technology Commission of Shanghai (上海市科技技術委員會), Shanghai Finance Bureau (上海市財政局), Shanghai Municipal Office (上海市國家稅務局) and Shanghai Municipal Bureau of Local Taxation (上海市地方稅務局)
Shanghai Famous Brand (上海名牌)	December 2015	Shanghai City Famous Brand Recommendation Committee (上海市名牌推薦委員會)
Shanghai Enterprise Technology Center (上海市認定企業技術中心)	August 2015	Shanghai Municipal Economic Commission, Shanghai State Tax Bureau, Shanghai Finance Bureau, Shanghai Local Taxation Bureau and Shanghai Customs (上海市經濟 委員會,上海市國家稅務局,上海市財政 局,上海市地方稅務局及上海海關)

Awards and Recognitions	Year	Issuing Authority
Shanghai Municipal Industrial Design Center (上海市市級工業設計中心)	July 2015	Shanghai Municipal Commission of Economy and Informatization (上海市經濟和信息化委員會)
National Outstanding Foreign Enterprise (全國優秀外商企業)	1999 to 2012	Shanghai Foreign Investment Commission (上海市外國投資工作委員會) and Shanghai Municipal Commission of Commerce (上海市商務委員會)
Bestway Shanghai elected as the vice chairman unit for the Chinese Sports Association of Culture and Education (中國文教體育用品協會)	Since May 2013	Chinese Sports Association of Culture and Education (中國文教體育用品協會)
Bestway Shanghai elected as the president unit for the Outdoor Sports Equipment Professional Committee (戶外運動器材專業委員會) under the Chinese Sports Association of Culture and Education (中國文教體育用品協會)	March 2017	Chinese Sports Association of Culture and Education (中國文教體育用品協會)
Best Climate Change Performance among Chinese Suppliers in 2016	March 2017	Carbon Disclosure Project (CDP) Global Environmental Information Research Center

# LICENSES, PERMITS AND CERTIFICATES

Our PRC Legal Advisors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, save as disclosed in this prospectus, we had obtained all material requisite licenses, approvals and permits from relevant PRC authorities for our operations in China. Our requisite licenses, approvals and permits were valid as of the Latest Practicable Date. The table below sets forth the key licenses and approvals for our operations.

Type of permit/use	Holding entity	Issuing authority	Valid period and renewal terms
The Chinese customs and clearance registration	Bestway Nantong	Rugao Customs of PRC (中華 人民共和國如皋海關)	Issued on April 7, 2016 with no expiry date
certificate (海關報關單位 註冊登記證書)	Bestway Jiangsu	Yancheng Customs of PRC (中華人民共和國鹽城海關)	Issued on May 20, 2015 with no expiry date
	Bestway Shanghai	Jiading Customs of PRC (中華人民共和國嘉定海關)	Issued on September 20, 2016 with no expiry date
Safety production standardization certificate (安全生產標準化證書)	Bestway Nantong	Safety Production Supervision and Administration Bureau of Rugao (如皋市安全生產 監督管理局)	Issued on October 10, 2016 and valid until October 2019
	Bestway Jiangsu	Safety Production Supervision and Administration Bureau of Jiangsu (江蘇省安全生 產監督管理局)	Issued on December 28, 2015 and valid until December 2018
	Bestway Shanghai	Shanghai Safety Production Association (上海市安全生產協會)	Issued on November 2017 and valid until November 2020
Pollutants emission permit of the Jiangsu province (江蘇 省排放污染物許可證)	Bestway Jiangsu	Environmental Protection Bureau of Funing (阜寧縣 環境保護局)	Issued on July 26, 2017 and valid until July 25, 2020
	Bestway Nantong	Administrative Approval Bureau of Rugao (如皋市 行政審批局)	Issued on January 22, 2016 and valid until January 21, 2019

Our legal and compliance department is responsible for monitoring the validity of our permits and licenses and making timely applications for renewal of them. We currently do not expect any material impediment in timely renewing our material permits and licenses as they expire, if applicable.

# **OUR PROPERTIES**

We occupy certain properties in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include premises for our manufacturing facilities, warehouses, office building and employees' dormitories.

As of June 30, 2017, no single property interest of our Group that formed part of non-property activities had a carrying amount of 15% or more of our Group's total assets. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which require a valuation report with respect to all of our Group's interests in land or buildings.

Following below are summaries of information regarding properties material to our operations and business. These summaries do not include information about all of our properties owned, held or occupied by us.

# **Owned Properties**

Our major operations take place on three parcels of land of approximately 131,671 square meters, 493,741 square meters and 327,685 square meters in Shanghai, Nantong, Jiangsu province and Yancheng, Jiangsu province, respectively. Our Shanghai site serves as our headquarters. The complexes in our sites in Shanghai, Nantong and Yancheng house our manufacturing facilities, warehouses, office building and employees' dormitories that has an aggregate gross floor area of approximately 603,016 square meters. As of the Latest Practicable Date, we owned a property with an aggregate of approximately 1,308 square meters in Milan as our office premises, research and development center and showroom. We also owned a property of approximately 3,228 square meters in Phoenix as our research and development center, office premises, showroom and warehouse.

Our subsidiary, Bestway Shanghai owned a parcel of land with an aggregate area of approximately 87,457 square meters (the "Land"), which accounted for approximately 10% of the total land area of the land use rights we owned as of the Latest Practicable Date. The Land houses an office building, a manufacturing plant and ancillary facilities in our Shanghai Site. The production capacity of our manufacturing plant on our Shanghai Site amounted to approximately 8.7%, 6.9% and 6.4% of our total production capacity for the years ended December 31, 2014, 2015 and 2016, respectively. On June 30, 2010, we obtained the certificate of property and land (上海市房地產權證) from Shanghai Housing Security and Housing Administration (上海市住房保障和房屋管理局) and Shanghai Municipal Planning and Land Resources Administration (上海市規劃和國土資源管理局). On April 27, 2017, we obtained the updated property ownership certificate (不動產權證書) from the Shanghai Real Estate Registration Bureau (上海市不動產登記局) (the "Property Ownership Certificate"). As advised by our PRC Legal Advisors, according to article 139 of the Property Law of the People's Republic of China (中華人民共和 國物權法), land use right shall be established at the time of registration and land use right certificate shall be issued to the holder of land use right. Pursuant to the Property Ownership Certificate, Bestway Shanghai owns the land use right of the Land and the ownership of all buildings upon the Land. Under the Property Ownership Certificate, the nature of the land use right is collectively-owned and the permitted usage is for industrial purpose.

As advised by our PRC Legal Advisors, according to the relevant regulations of Shanghai, collectively-owned land can be used for industrial purpose. However, according to the Land Administration Law of the People's Republic of China (中華人民共和國土地管理法), collectively-owned land cannot be used for purposes other than agriculture. As advised by our PRC Legal Advisors, there are inconsistencies among the relevant laws and regulations; as a result, there is uncertainty as to the legal implication of such conflict of regulations. Please see "Risk Factors—Uncertainties in the Chinese legal system may adversely affect our business and limit the legal protection available to you" regarding the relevant risk.

As of the Latest Practicable Date, we had not received any challenge to our rights to occupy and use the Land and properties upon it. No administrative actions or punishments have been initiated or imposed on Bestway Shanghai. Our PRC Legal Advisors are of the view that the likelihood that we are subject to any administrative action or punishment is remote because (i) we have obtained the Property Ownership Certificate and own the land use right and property ownership; (ii) according to the relevant regulations issued by the State Council, collectively-owned land use right is allowed to be transferred; (iii) according to an interview with the relevant officer of the Land Bureau of Jiangqiao town of Jiading District in Shanghai (上海市嘉定區江橋鎮土地所), the transfer of land has complied with all relevant land administration laws and regulations and Bestway Shanghai has completed all legal procedures for such transfer; and (iv) according to the interview with the relevant officers of the Planning and Land Administration Bureau of Legal Affairs of Jiading District in Shanghai (上海市嘉定區規劃和土地管理 局法制科), since 1999, no administrative punishment has been imposed upon Bestway Shanghai due to violation of any land administration laws and regulations, and no investigation has been be conducted against Bestway Shanghai in respect of the relevant land administration laws and regulations. In addition, as advised by the PRC Legal Advisors, there is no material adverse impact on the business and operations of Bestway Shanghai due to this incident. Accordingly, we do not expect this incident would result in any material adverse impact on our business.

#### **Leased Properties**

# Leased Properties in China

As of the Latest Practicable Date, we leased seven properties with an aggregate gross floor area of approximately 53,081 square meters, from third parties to support our business activities and operations. These leased properties are mainly used as warehouses and an office premise.

## Overseas Leased Properties

As of the Latest Practicable Date, we leased six properties with an aggregate floor area of 12,581 square meters, from third parties to support our business activities and operations in Hong Kong; Hamburg, Germany; Sydney, Australia; Santiago, Chile; Nice, France; and Saint Petersburg, Russia. These leased properties are mainly used as warehouses, testing area, showrooms and office premises.

## Title Defect Related to Leased Properties

As of the Latest Practicable Date, the lessor of one of our leased properties, with an aggregate gross floor area of 18,219 square meters, had not provided us with valid title certificate or other ownership documents. This property is mainly used as our warehouse. Our PRC Legal Advisors has advised us that, with respect to this property, we will not be penalized for the lessor's failure to provide the title certificate or other ownership document. However, if the lessor does not have the lawful rights to the property, the relevant lease agreement may not be legally binding and enforceable under Chinese laws, and consequently we may not be able to continue to occupy and use this property. We may be required to cease occupation and use of the leased property if a valid claim for this property arises. We are communicating with our lessor to provide relevant certificate and documentary evidence, but the timing for us to obtain these certificate is beyond our control. As of the Latest Practicable Date, we were not aware of any challenge being made by any third party to our current occupation and use of this property, and our business operations had not been disrupted due to our lessor's inability to provide the relevant title certificate or other ownership document in relation to the relevant lease agreement. According to the confirmation letter obtained from the Rugao Administrative Approval Bureau (如皋市 行政審批局) on March 16, 2017, the bureau is processing the application of the title certificate and there is no legal impediments to obtain the relevant title certificate.

# Lack of Registration of Leased Properties

As of the Latest Practicable Date, seven leased properties in China, with an aggregate gross floor area of 53,081 square meters, had not been registered with the relevant government authorities as required by the Chinese laws. The unregistered properties are used as our warehouses and an office premise. Registration of lease agreements requires the landlord's cooperation, including submission of their identity documentations and relevant title certificates to relevant authorities, which may be out of our control.

Our PRC Legal Advisors has advised us that according to the Administrative Measures for the Leasing of Commodity Housing (《商品房屋租賃管理辦法》), if a company fails to register the leases within 30 days after it enters into the lease agreements, the relevant local authority is entitled to order the company to do so within a prescribed time limit. If the company fails to do so within such prescribed time limit, a maximum fine of RMB10,000 will be imposed on each non-registration.

During the Track Record Period and up to the Latest Practicable Date, we had not been ordered by any authority to register any of the unregistered lease agreements; nor had we received any challenge to our right to lease any property under our lease agreements. Our PRC Legal Advisors has advised us that the lack of registration of a lease does not affect the legality, validity or enforceability of these lease agreements. We believe the maximum potential fines are immaterial to us. As such, we have not made any provision in relation to these non-compliance incidents. As a result of the foregoing, we plan to continue our operations in these properties under the unregistered lease agreements during their terms, and upon the expiration of such terms or if we need to relocate from such properties, we will strive to relocate to our own new properties or properties owned by landlords who can cooperate to register the relevant lease agreements. Our Directors are of the view that, if the non-registration of the lease agreements prevents us from continuing the leases so that we are required to move to another location, we can relocate to our own properties or other comparable alternative premises in the relevant regions without any material adverse effect on our business and financial condition.

We have adopted the following enhanced internal control policies to prevent the recurrence of similar title defect and lack of registration issues in relation to our renewal of existing and future leased properties:

- For the existing property with title defect, we have assigned our legal department to coordinate with relevant administrative departments to follow up with the relevant party to retrieve the title certificate or other ownership document of the property.
- Our legal department and relevant administrative departments regularly assess the risks
  arising from the title defect of the leased property. For defective property that we assess as
  having high risks which could affect our occupation and usage of the property or our
  operations at this property, we will implement relocation plans for the relevant operations in
  a timely manner accordingly when necessary.
- Our legal department and relevant administrative departments conduct due diligence and reviews when we lease additional properties, particularly on the nature, designated usage and title certificates for such properties.
- We request the incorporation of warranty and indemnity provisions in our lease agreements to require our lessors to provide valid title certificates and indemnify us against any losses and damages arising from defective title.
- Going forward, all lease or tenancy agreements will be reviewed by our administration department head to ensure, among others, that so far as practicable all our lease and tenancy agreements be registered in compliance with the relevant PRC laws and regulations, and where necessary, external legal advisors will be engaged to provide professional advice.

# RISK MANAGEMENT AND INTERNAL CONTROL

### Risk Management

We face a number of potential risks in our business and operations, including strategic risks relating to our global exposure, market risks, operational risks, exchange rates risk, financial risks, technological development risk, economic risks, sanctions risks, and legal risks. For more information, please see "Risk Factors." In terms of corporate governance and the management of our operations, we have devoted ourselves to establishing and maintaining policies, procedures and risk management measures to identify, analyze, categorize, mitigate and monitor various risks identified in our business operations, and we are dedicated to continuously improving these systems. Our Board identifies material risks and assigns each risk to a specific department, of which is responsible for monitoring and assessing the risk during the course of operations. We also maintain and regularly update our management manual, which set out the framework for assessing and reporting any risks identified during the course of our operations at different level within the Group.

Our sales transactions are primarily conducted in U.S. dollars, while the majority of our purchases and operating costs are settled in Renminbi. To mitigate foreign exchange risk, we entered into certain derivative financial instruments during the Track Record Period. We have implemented internal policies and procedures to monitor these instruments and the investment risk. For details, please see "Financial Information—Description of Selected Items of the Consolidated Statements of Financial Position—Derivative Financial Instruments."

We have established an Risk Management Committee to, among others, (i) consider the overall objectives and policies of our comprehensive risk management and internal control systems; (ii) conduct periodic assessments of our risk profile and risk management capabilities, and making recommendations to the Board on improving the risk management and internal control systems; (iii) consider findings of significant investigations on risk management matters as delegated by the Board or on its own initiative and management's responses to these findings; (iv) monitor our exposure to material risks, including market risks, exchange rate risk and sanctions risks; and (v) consider any other matters in relation to risk management responsibilities to be performed by board committee under the Listing Rules.

The Risk Management Committee consists of three members, Mr. Zhu Qiang, Mr. Tan Guozheng and Mr. Zhang Zhu. Mr. Zhang Zhu is our general counsel and he has 13 years of experience with our Group. Mr. Zhang mainly assists our Company to minimize our legal risks by giving advice on any major compliance, legal, regulatory and litigation issues. For details of the Risk Management Committee, please see "Directors and Senior Management."

#### **Internal Controls**

It is the responsibility of our Directors to ensure that our Company maintains sound and effective internal controls to safeguard our Shareholders' interest and the Group's assets at all times. We have adopted, or expect to adopt before Listing, a series of internal control policies, procedures and programs designed to provide reasonable assurance for achieving objectives including effective, efficient and safe operations, reliable financial reporting and compliance with applicable laws and regulations.

# Fire Safety

Certain materials we use in manufacturing our products are highly flammable and we are therefore subject to risks relating to explosion and fire. We have put in place a comprehensive fire safety system to mitigate fire safety concerns, including (i) daily inspection and spot-check programs in the manufacturing facilities and warehouses, (ii) training provided to our factory workers hosted by our fire safety administrators on a regular basis, and (iii) installing fire safety equipment as required by the relevant laws and regulations. In addition, we have adopted a manual for handling highly flammable materials to provide guidance to our employees on usage, storage and transport of highly flammable materials.

# Information Technology

To address risks associated with information technology, we have adopted software management policies and implemented various internal control measures to manage the information technology function in our operations. These measures cover the reliability of the computer systems, access to and backup of programs and data, proper maintenance of the programs and our network and security. We have employed a software management process to restrict unauthorized installation of software into our computers by our employees. We have provided training to our employees about the risks and consequences and on how to avoid unauthorized software on our network. According to our software management policies, we will penalize users of unauthorized software and the respective department supervisor in order to prevent any unauthorized software usage.

# **BOARD OF DIRECTORS**

The Board currently consists of seven Directors, comprising four executive Directors and three independent non-executive Directors. The functions and duties of the Board include convening shareholders' meetings, reporting on the Board's work at these meetings, implementing resolutions passed in these meetings, determining business and investment plans, formulating our annual budget and final accounts, and formulating our proposals for profit distributions as well as the increase or reduction of registered capital. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Articles.

The following table sets out certain information concerning each of the Directors of the Group:

Name	Age	Position/Title	Roles and Responsibility	Date of Appointment	Time of Joining the Group
Executive Directors Mr. Zhu Qiang	49	Chairman, executive Director and chief executive officer of the Company	Formulating overall development planning and strategic management, overseeing global management of the BESTWAY brand, making major business decisions and formulating overall operation management of the Group	June 25, 2012	1994
			Chairman of the Risk Management Committee, and member of the Nomination Committee and the Remuneration Committee		
Mr. Liu Feng	48	Executive Director and executive vice president of the Company	Managing government relationships, supervising human resources and general administration of the Group	June 25, 2012	2002
Mr. Tan Guozheng	49	Executive Director and vice president of the Company	Overseeing and managing overall finance and internal control of the Group	March 31, 2014	2004
			Member of the Risk Management Committee		
Mr. Duan Kaifeng	43	Executive Director and chief financial officer of the Company	Responsible for accounting, budgeting and overall financial management of the Group	May 10, 2017	2007
Independent non-exec	utive Di	rectors			
Mr. Dai Guoqiang	65	Independent non-executive Director of the Company	Supervising and providing independent judgment to our Board	October 18, 2017	2017
			Chairman of the Nomination Committee and member of the Audit Committee		

Name	Age	Position/Title	Roles and Responsibility	Date of Appointment	Time of Joining the Group
Mr. Lam Yiu Kin	62	Independent non-executive Director of the Company	Supervising and providing independent judgment to our Board	October 18, 2017	2017
			Chairman of the Audit Committee and member of the Remuneration Committee		
Mr. Yao Zhixian	67	Independent non-executive Director of the Company	Supervising and providing independent judgment to our Board	October 18, 2017	2017
			Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee		

#### **Executive Directors**

Mr. Zhu Qiang (朱強), aged 49, is the founder of the Group, our Controlling Shareholder, Chairman, executive Director and chief executive officer of the Company and was appointed as a Director on June 25, 2012. Mr. Zhu is responsible for formulating overall development planning and strategic management, overseeing global management of the BESTWAY brand, making major business decisions and formulating overall operation management of the Group. With 23 years of experience with the Group, Mr. Zhu was the general manager when Shanghai Bestway Plastic was established in April 1994, and has become the Chairman and the chief executive officer of the Group since January 2001.

Prior to establishing the Group in 1994, Mr. Zhu worked at Shanghai Municipal Foreign Economic Relations and Trade Commission (上海市對外經濟貿易委員會)) (currently known as Shanghai Municipal Commission of Commerce (上海市商務委員會)) from July 1990 to June 1993 and was responsible for import and export business such as overseas sales and marketing, sourcing and procurement.

Mr. Zhu graduated from the mechanical faculty of Shanghai Institute of Mechanical Engineering and Technology (上海機械專科學校) (currently known as University of Shanghai for Science and Technology (上海理工大學)) majoring in Mechanical Manufacturing Technology and Equipment in June 1990 and graduated from Fudan University (復旦大學) with an Executive Master of Business Administration ("EMBA") degree in January 2008.

Over the years, Mr. Zhu has received many awards and accolades acknowledging his contributions to both the industry and the society, such as receiving the Excellent Entrepreneur in Shanghai Light Industry (上海市輕工行業優秀企業家) from the Shanghai Light Industry Association (上海市輕工業協會) in 2010, and the Excellent Entrepreneurship Award (優秀企業家獎) from China Stationery & Sporting Goods Association (中國文教體育用品協會) in 2017.

Mr. Liu Feng (劉峰), aged 48, is the executive Director and executive vice president of the Company and was appointed as a Director on June 25, 2012. Mr. Liu is responsible for managing government relationships, supervising human resources and general administration of the Group. Mr. Liu joined the Group in May 2002 and has 15 years of experience in management with the Group. Prior to joining the Group, Mr. Liu was the deputy general manager in Shanghai City Real Estate Information Technology Co., Ltd (上海城市房地產信息技術有限公司) from January 1999 to April 2002.

Mr. Liu graduated from Shanghai University of Technology (上海工業大學) (currently known as Shanghai University (上海大學)) with a major in Computer Software in July 1991. Mr. Liu also graduated from Fudan University (復旦大學) with an EMBA degree in June 2010. Furthermore, Mr. Liu obtained the title of intermediate level engineer from Shanghai Engineering Series Light Industry Profession (Electronics) (上海市工程系列輕工專業中級專業技術職務任職資格評審委員會) in December 2015.

Mr. Liu has been a representative of the People's Congress in Jiading District of Shanghai since November 2016.

Mr. Tan Guozheng (譚國政), aged 49, is the executive Director and vice president of the Company and was appointed as a Director on March 31, 2014. Mr. Tan is responsible for overseeing and managing finance and internal control of the Group. Mr. Tan joined the Group in November 2004 and has 13 years of experience in financial control with the Group.

Mr. Tan received tertiary education at Hunan Institute of Building Material Industry (湖南建材工業專科學校) (currently known as Hunan Institute of Technology (湖南工學院)) and graduated in July 1991. Mr. Tan also attended the National Economics Program for master postgraduate students (國民經濟學碩士研究生課程進修班) at the University of Shanghai for Science and Technology (上海理工大學) from April 2005 to June 2007.

Mr. Tan obtained the qualification of certified public accountant (non-practicing) from the Shanghai Institute of Certified Public Accountants (上海市註冊會計師協會) in November 2004 and the qualification of Senior Accountant from the Shanghai Municipal Human Resources and Social Security Bureau (上海市人力資源和社會保障局) in December 2013. Furthermore, Mr. Tan obtained the qualification of certified public valuer (non-practicing) from Shanghai Municipal Bureau (上海市人事局) in November 2006.

Mr. Duan Kaifeng (段開峰), aged 43, is the executive Director and chief financial officer of the Company and was appointed as a Director on May 10, 2017. Mr. Duan is responsible for accounting, budgeting and overall financial management of the Group. Mr. Duan joined the Group in 2007 and has 10 years of experience in financial management with the Group. Prior to joining the Group, Mr. Duan worked at the finance department of Shanghai Novel Colour Picture Tube Inc., (上海永新彩色顯像管股份有限公司) (previously known as Shanghai Novel CPT Co., Ltd (上海永新彩色顯像管有限公司)) from April 2000 to August 2006 and served as the accounting manager at the time of departure.

Mr. Duan graduated from Dongbei University of Finance and Economics (東北財經大學) with a master's degree in Accounting in March 2000.

Mr. Duan obtained the qualification of certified public accountant (non-practicing) from the Shanghai Institute of Certified Public Accountants (上海市註冊會計師協會) in March 2004 and the qualification of Senior Accountant from the Shanghai Municipal Human Resources and Social Security Bureau (上海市人力資源和社會保障局) in December 2014.

## **Independent Non-executive Directors**

Mr. Dai Guoqiang (戴國強), aged 65, is the independent non-executive Director of the Company and was appointed as a Director on October 18, 2017.

Mr. Dai graduated from Shanghai School of Finance and Economics (上海財經學院) (currently known as Shanghai University of Finance and Economics (上海財經大學)), with a bachelor's and a master's degree in January 1983 and July 1987 respectively. Following which, Mr. Dai obtained a Ph.D. in Economics from Fudan University (復旦大學) in July 1994. He was the Dean of the School of Finance of Shanghai University of Finance and Economics (上海財經大學) from March 1999 to April 2006. He was the Party Secretary (黨委書記) of the School of Finance of Shanghai University of Finance and Economics (上海財經大學) from April 2006 to July 2007. He served as the Dean and Party branch Secretary of the Master of Business Administration School of Shanghai University of Finance and Economics (上海財經大學) from July 2007 to April 2011. Mr. Dai served as the Party branch Secretary and associate Dean (黨支部書記兼副院長) of the College of Business of Shanghai University of Finance and Economics (上海財經大學) from April 2011 to March 2016. Mr. Dai has served as a professor of finance of the School of Finance of Shanghai University of Finance and Economics (上海財經大學) since June 1995.

Mr. Dai was the independent non-executive director of Bank of Shanghai Co., Ltd (上海銀行股份有限公司) from February 2004 to June 2009 and has acted as its external supervisor since June 2009. He was an independent non-executive director of Shanghai Fudan Forward Science and Technology Co., Ltd. (上海復旦複華科技股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600624) from March 2008 to October 2014. Mr. Dai has served as an arbitrator on the panel of China International Economic and Trade Arbitration Commission since May 2014. He also serves as a member of Master of Finance Teaching Guidance Committee under the Ministry of Education of the PRC (中華人民共和國教育部金融專業學位研究生教學指導委員會委員) since January 2011.

Mr. Dai was awarded with the Shanghai Teaching Model Nomination Award (上海市教書育人楷模提名獎) in September 2012, the 3rd Universities Distinguished Teacher Award (第三屆高等學校教學名師獎) from Ministry of Education of the PRC in September 2007, the Shanghai Universities Distinguished Teacher Award (上海高校教學名師獎) in August 2006, and the Citigroup Financial Information Technology Education Fund Project Excellence Award (花旗集團金融信息科技教育基金項目優秀獎教金) from Citigroup Software and Technology Services (Shanghai) Limited (花旗軟件技術服務(上海)有限公司) in December 2005.

Mr. Dai is currently an independent non-executive director of China Greenland Broad Greenstate Group Company Limited (stock code: 1253).

Mr. Lam Yiu Kin (林耀堅), aged 62, is the independent non-executive Director of the Company and was appointed as a Director on October 18, 2017.

Mr. Lam is a fellow of the Association of Chartered Certified Accountants, a member of the Institute of Chartered Accountants in England & Wales, a member of the Chartered Accountants Australia and New Zealand, and Hong Kong Institute of Certified Public Accountants ("HKICPA"). He graduated from Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) with a higher diploma in Accountancy in October 1975. He was conferred University Fellow of The Hong Kong Polytechnic University in November 2002. Mr. Lam was a partner of PricewaterhouseCoopers from 1993 to 2013. Mr. Lam was an independent non-executive director of Royal Century Resources Holdings Limited (formerly known as Kate China Holdings Limited) (stock code: 8125), a company listed on the Growth Enterprise Market of the Stock Exchange, from June 2014 to September 2015, and Mason Financial Holdings Limited (stock code: 0273), a company listed on the Main Board of the Stock Exchange, from August 2015 to May 2017. Mr. Lam is currently an independent non-executive director of each of Global Digital Creations Holdings Limited (stock code: 8271); Spring Real Estate Investment Trust (stock code: 1426); Vital Mobile Holdings Limited (stock code: 6133); Shanghai Fudan-Zhangjiang BioPharmaceutical Co., Ltd. (stock code: 1349); Shougang Concord Century Holdings Limited (stock code: 0103); COSCO Shipping Ports Limited (stock code: 1199); Nine Dragons Paper (Holdings) Limited (stock code: 2689); WWPKG Holdings Company Limited (stock code: 8069); and CITIC Telecom International Holdings Limited (stock code: 1883).

Mr. Yao Zhixian (姚志賢), aged 67, is the independent executive Director of the Company and was appointed as a Director on October 18, 2017.

Mr. Yao studied in the Department of Union of China Union Academy (中國工運學院) (currently known as China Institute of Industrial Relations (中國勞動關係學院)) from September 1983 to December 1985, and studied at Correspondence College of the Central School of the Communist Party of China (中共中央黨校函授學院) from August 1995 to December 1997 with a bachelor degree majoring in Economics and Management. From July 2001 to February 2003, he studied and graduated from the postgraduate program of Laws at China University of Political Science and Law (中國政法大學).

Mr. Yao worked as a section chief and vice-chairman of Shanghai Light Industry Union (上海市輕工業工會) from December 1981 to March 1999. Mr. Yao was employed by Shanghai Forever Co., Ltd. (上海永久股份有限公司) (currently known as Zhonglu Co., Ltd. (中路股份有限公司)) as the party secretary (黨委書記) and chairman of the Board from April 1999 to April 2002. Mr. Yao was the vice chairman of both Shanghai Light Industry Union (上海市輕工業工會) and Shanghai Light Industry Federation of Trade Union (上海輕工業工會聯合會) from May 2002 to August 2015.

Mr. Yao has been the general secretary of Shanghai Light Industry Association (上海市輕工業協會), since September 2015, and the vice president of Shanghai Federation of Industrial Economics (上海市工業經濟聯合會) and Shanghai Federation of Economic Organizations (上海市經濟團體聯合會), and a member of Shanghai Consumer Council (上海市消費者權益保護委員會) since December 2015.

Mr. Yao was awarded National Outstanding Labor Union Worker in the Light Industry (全國輕工行業系統優秀工會工作者) in October 1994 by China National Committee of Light Industry Trade Unions (中國輕工業工會全國委員會), National Outstanding Worker of the Labor Union (全國優秀工會工作者) in April 2008 by All-China Federation of Trade Unions (中華全國總工會) and National Outstanding Worker of the Labor Union in the Light Textile Trading Industry (全國財貿輕紡煙草行業

優秀工會工作者) in November 2011 by National Committee of the Trade Union of Financial and Commercial Workers, Light Industry and Textile Workers, Tobacco Industry Workers (中國財貿輕紡煙草工會全國委員會), respectively.

Save as disclosed above, each of our Directors has confirmed that:

- (i) he or she does not and has not held any other directorships in listed companies during the three years immediately prior to the date of this prospectus;
- (ii) there is no other information in respect of such Director to be disclosed pursuant to Rule 13.51(2) of the Listing Rules; and
- (iii) there is no other matter that needs to be brought to the attention of our Shareholders.

None of the Directors has any interests in a business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the Group's business and would require disclosure under Rule 8.10 of the Listing Rules.

#### SENIOR MANAGEMENT

The following table sets out certain information concerning each of the senior management members of the Group:

Name	Age	Position/Title	Roles and Responsibility	Date of Appointment	Time of Joining the Group
Mr. Patrizio Fumagalli	44	Chief strategic officer of the Group	Responsible for strategic management of global market development, product portfolio management, supervision of research and development design and operations, and implementation of overall marketing strategy	January 2017	1998
Mr. Huang Shuiyong	46	Vice president of research and development and manufacturing department of the Group	Responsible for technology management, production management, product quality management, factory technology improvement and procurement supervision	April 2012	2003
Mr. Simone Zesi	36	General manager of Bestway Europe	Responsible for marketing management, sales channels, customer service and finance, product compliance and testing, e-commerce operations in Europe, and supervising the Group's branch offices in Italy, France and Germany	July 2012	2004

Name	Age	Position/Title	Roles and Responsibility	Date of Appointment	Time of Joining the Group
Mr. Yan Yu	42	General manager of global sales division of the Group	Responsible for the overall management of the global sales division of the Group	July 2014	2000
Mr. Huang Yaoguang	35	General manager of technology centre of the Group	Responsible for new product development, research and development project management, product safety certification, intellectual property rights, quality assurance, and global aftersales service management of the Group	July 2015	2010
Mr. Scott Schellhase	49	General manager of Bestway USA	Responsible for marketing and sales channel management in the United States and general management of Bestway USA	January 2017	2007
Mr. Zhang Yong	43	Deputy general manager of finished goods production of the Group	Responsible for technology management, factory production management and quality management in the finished goods production department of the Group	February 2009	1999
Mr. Cristobal Achurra Staplefield	41	General manager of Bestway Central & South America	Responsible for promotion and sales channel management and general management of sales and aftersales services in Latin America		2002

Mr. Patrizio Fumagalli, aged 44, is the chief strategic officer of the Group. Mr. Fumagalli is based in Phoenix, United States. Mr. Fumagalli is responsible for strategic management of global market development, product portfolio management, supervision of research and development, design and operations, and implementation of overall marketing strategy. Mr. Fumagalli joined the Group in 1998 and has 19 years of experience in management with the Group. Prior to the current position, Mr. Fumagalli had been the general manager of Bestway USA from 2013 to 2016 and of Bestway Europe from 1998 to 2012, respectively, responsible for general management, setup and continuous improvement of sales network, marketing for the North American market and the European market, product development and management of the product design team.

Mr. Huang Shuiyong (黃水勇), aged 46, is the vice president of research and development and manufacturing department (研發與製造副總裁) of the Group. Mr. Huang is responsible for technology management, production management, product quality management, factory technology improvement and procurement supervision. Mr. Huang joined the Group in December 2003 and has 14 years of experience with the Group. Prior to the current position, Mr. Huang was the manager of research and development department and the general manager of the tertiary processing department of the Group. Prior to joining the Group, Mr. Huang was a technician at Xiamen Tongan Silver City United Brewery (廈門同安銀城聯合啤酒廠) from October 1992 to December 1993. Mr. Huang received secondary education majoring in Light Industrial Machinery at Shanghai Light Industry School (上海市輕工業學校) and graduated in July 1992.

Mr. Simone Zesi, aged 36, is the general manager of Bestway Europe. Mr. Zesi is based in Milan, Italy. Mr. Zesi is responsible for marketing management, sales channels, customer service and finance, product compliance and testing, e-commerce operations in Europe, and supervising the Group's branch offices in Italy, France and Germany. Mr. Zesi joined the Group in 2004 and has 13 years of experience with the Group. Prior to the current position, he worked for Bestway Europe, responsible for e-commerce, aftersales service and business development with various international retail chain stores including OBI GmbH & Co., Lidl Stiftung & Co. KG, ALDI Einkauf GmbH & Co and METRO AG. Mr. Zesi graduated with honors from Universita Cattolica Del Sacro Cuore with a doctor's degree, a major in Foreign Languages and Literatures and a minor in Computer Science and Technology, in July 2004. Mr. Zesi also graduated from the University of Bologna Alma Graduate School with a master's degree in General Management in February 2014.

Mr. Yan Yu (閆宇), aged 42, is the general manager of global sales division (全球銷售中心總經理) of the Group. Mr. Yan is responsible for the overall management of the global sales division of our Group. Mr. Yan joined the Group in 2000 and has 17 years of experience with the Group. Prior to the current position, Mr. Yan was the sales manager, regional sales vice president and senior sales director of the Group. Mr. Yan graduated from Shanghai University of International Business and Economics (上海對外貿易學院) with a bachelor's degree in Economics majoring in International Trade in July 2000.

Mr. Huang Yaoguang (黃耀光), aged 35, is the general manager of technology centre (技術中心總經理) of the Group. Mr. Huang is responsible for new product development, research and development project management, product safety certification, intellectual property rights, quality assurance, and global aftersales service management of the Group. Mr. Huang joined the Group in 2010 and has 7 years of experience with the Group. Prior to the current position, Mr. Huang was the sales manager and regional sales vice president of the Group. Prior to joining the Group, Mr. Huang worked at Home Retail Group Procurement Consultancy (Shanghai) Limited (家悦採購諮詢(上海)有限公司) from January 2007 to February 2009 and was responsible for product procurement, and was the purchasing engineer at Shanghai Sportin Trading Co., Ltd. (上海斯博汀貿易有限公司) from February 2009 to February 2010 and was responsible for product development and supplier management. Mr. Huang graduated from Shanghai Tongji University (上海同濟大學) with a bachelor's degree in International Economics and Trade in July 2004.

Mr. Scott Schellhase, aged 49, is the general manager of Bestway USA. Mr. Schellhase is based in Phoenix, United States. Mr. Schellhase is responsible for marketing and sales channel management and general management of Bestway USA. Mr. Schellhase joined the Group in 2007 and has 10 years of experience with the Group. Prior to the current position, Mr. Schellhase worked in the Group's sales department. Prior to joining the Company, Mr. Schellhase had worked at Funrise Toy Corporation from 1996 to 2007 and served as the executive vice president at the time of his departure. Mr. Schellhase graduated from North Tama High School in May 1986.

Mr. Zhang Yong (張勇), aged 43, is the deputy general manager of finished goods production department (三次加工事業部常務副總經理) of the Group. Mr. Zhang is responsible for manufacturing and technology management, factory production management, quality management in the finished goods production department of the Group. Mr. Zhang joined the Group in 1999 and has 18 years of experience with the Group. Prior to the current position, Mr. Zhang was the workshop manager, the assistant to the head of factory and the head of factory of the subsidiaries of the Group. Mr. Zhang received tertiary education majoring in Silkworms Studies at Anhui Agricultural University (安徽農業大學) and graduated in July 1996.

Mr. Cristobal Achurra Staplefield, aged 41, is the general manager of Bestway Central & South America. Mr. Achurra is based in Santiago, Chile. Mr. Achurra is responsible for promotion and sales channel management and general management of sales and aftersales services in Latin America. Mr. Achurra joined the Group in 2002 and has 15 years of experience with the Group. Prior to the current position, Mr. Achurra was a sales manager and a commercial manager of Bestway Central & South America Ltd from 2002 to 2014. Mr. Achurra graduated from Escuela de Administracion Agricola de Paine, with a bachelor's degree of Superior Level of Techics of Agricultural Administration in November 2000.

None of our senior management has been a director of any listed company in the past three years.

## JOINT COMPANY SECRETARIES

Mr. Zhao Wei (趙煒) was appointed as a joint company secretary of the Company on May 15, 2017.

Mr. Zhao, aged 48, is the general manager of Bestway Hong Kong. Mr. Zhao is responsible for overall operational management, financial management and sales support of Bestway Hong Kong. Mr. Zhao joined the Company in 1999 and has 18 years of experience with the Group. Prior to joining the Company, Mr. Zhao was the export manager at Hong Kong Unisia Products Company Ltd. from December 1996 to October 1999 and was responsible for sales. Mr. Zhao graduated from East China Normal University (華東師範大學) with a bachelor's degree in International Finance in July 1991.

Ms. Choy Yee Man (蔡綺文) was appointed as a joint company secretary of the Company on May 15, 2017. She has been a director of corporate services division of Tricor Services Limited since January 1, 2013, where she leads a team of professional staff to provide a full range of company secretary services. She has over 20 years of experience in the corporate services industry.

Ms. Choy is currently the assistant company secretary/joint company secretary of two listed companies on the Stock Exchange, namely, KAZ Minerals PLC (stock code: 847) and Fast Retailing Co., Ltd. (stock code: 6288). Ms. Choy received a bachelor of arts degree in accountancy from City

Polytechnic of Hong Kong (now known as City University of Hong Kong) in November 1992. Ms. Choy has been a fellow member of the Hong Kong Institute of Chartered Secretaries since October 2012 and the Institute of Chartered Secretaries and Administrators in the United Kingdom since October 2012.

#### **BOARD COMMITTEE**

We have established the following committees under our Board of Directors: Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. The committees operate in accordance with their respective terms of reference established by our Board of Directors.

#### **Audit Committee**

We have established the Audit Committee with written terms of reference in compliance with the Code on Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules. The audit committee consists of three independent non-executive Directors, namely Mr. Dai Guoqiang, Mr. Lam Yiu Kin and Mr. Yao Zhixian. The chairman of the Audit Committee is Mr. Lam Yiu Kin. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

#### **Remuneration Committee**

We have established the Remuneration Committee with written terms of reference in compliance with the Code on Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of three members: two independent non-executive Directors, namely Mr. Lam Yiu Kin and Mr. Yao Zhixian, and one executive Director, namely Mr. Zhu Qiang. The chairman of the Remuneration Committee is Mr. Yao Zhixian. The primary duties of the Remuneration Committee are to evaluate and make recommendations to the Board on the remuneration policy covering the Directors and senior management of the Group.

### **Nomination Committee**

We have established the Nomination Committee with written terms of reference in compliance with the Code on Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of three members: two independent non-executive Directors namely Mr. Dai Guoqiang and Mr. Yao Zhixian, and one executive Director, namely Mr. Zhu Qiang. The chairman of the Nomination Committee is Mr. Dai Guoqiang. The primary duties of the Nomination Committee are to identify, screen and recommend to the Board appropriate candidates to serve as directors of the Company and to oversee the process for evaluating the performance of the Board.

# **Risk Management Committee**

We have established the Risk Management Committee with written terms of reference adopted by the Board. The Risk Management Committee consists of three members: two executive Directors, namely Mr. Zhu Qiang and Mr. Tan Guozhen, and our general counsel, Mr. Zhang Zhu. The chairman of the Risk Management Committee is Mr. Zhu Qiang. The primary duties of the Risk Management Committee are to oversee and monitor the overall objectives and policies of our comprehensive risk management and internal control systems. For details, please see "Business—Risk Management and Internal Control."

#### COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation in the form of salaries, bonuses, contributions to pension schemes, long-term incentives (including share-based compensation), housing and other allowances and benefits in kind subject to applicable laws, rules and regulations. The aggregate amount of compensation (including fees, salaries, bonuses, stock, stock options, contributions to pension schemes, long-term incentives, housing and other allowances) and benefits in kind paid to the Directors for the three years ended December 31, 2014, 2015, 2016 and the six months ended June 30, 2017, was approximately US\$0.2 million, US\$0.3 million, US\$0.3 million and US\$0.2 million, respectively. The aggregate amount of compensation and benefits in kind paid to the five highest paid individual employees of the Group for the three years ended December 31, 2014, 2015, 2016 and the six months ended June 30, 2017, was approximately US\$1.1 million, US\$4.7 million, US\$2.0 million and US\$1.2 million, respectively. The aggregate amount of compensation and benefits in kind paid to the five highest paid individual employees of the Group increased from US\$1.1 million in 2014 to US\$4.7 million in 2015, primarily because we incurred share-based payments of US\$3.0 million in 2015 in recognition of Mr. Patrizio Fumagalli's contribution to our Group. Without such share-based payments, the aggregate amount would have been US\$1.1 million, US\$1.7 million, US\$2 million and US\$1.2 million, respectively, for the three years ended December 31, 2014, 2015, 2016 and the six months ended June 30, 2017, which is in line with our business growth. For details of the share-based payments, please see Note 28 to "Appendix I-Accountant's Report."

Under the arrangements currently in force, we estimate the aggregate of the remuneration and benefits in kind payable to the Directors for the year ending December 31, 2017 to be US\$0.37 million. The executive Directors receive compensation in the form of salaries, bonuses, contributions to pension schemes, long-term incentives, housing and other allowances and benefits in kind subject to applicable laws, rules and regulations. For details of the executive Directors' compensation, please see "Appendix IV—Statutory and General Information—C. Further Information About Our Directors and Substantial Shareholders—2. Particulars of Service Contracts."

The independent non-executive Directors receive fees from the Company. All Directors receive reimbursements from the Company for expenses which are necessary and reasonably incurred for providing services to the Company or executing matters in relation to the operations of the Company and are paid out of the funds of the Company by way of fees for their services as directors such sums (if any) as the Directors may from time to time determine (not exceeding in aggregate an annual sum excluding other amounts payable (e.g. expenses as remuneration for employment) or such larger amount as the Company may by ordinary resolution determine. Save as disclosed above, the Directors are not entitled to receive any other special benefits from the Company. The compensation of the Directors is determined by the Board which, following Listing, will receive recommendations from the Remuneration Committee which will take into account applicable laws, rules and regulations.

### PRE-IPO SHARE INCENTIVE SCHEME

In order to reward the past contribution of, and to incentivize the employees of the Group, Mr. Zhu Qiang set up Outland Enterprise on November 27, 2013 to implement the Pre-IPO Share Incentive Scheme, pursuant to which Outland Enterprise would allot and issue or Mr. Zhu Qiang would transfer shares in Outland Enterprise to the employees of the Group.

As at the Latest Practicable Date, Outland Enterprise has issued 20,240 shares, among which 2,237.5 shares and 18,002.5 shares were held by Mr. Zhu Qiang and the Scheme Participants, respectively, representing approximately 11.0% and 89.0% of the issued share capital of Outland Enterprise, respectively. For details of the Pre-IPO Share Incentive Scheme, please see "History, Development and Reorganization—Pre-IPO Share Incentive Scheme."

#### SHARE OPTION SCHEME

We have adopted the Share Option Scheme. For details of the Share Option Scheme, please see "Appendix IV—Statutory and General Information—E. Share Option Scheme."

#### COMPLIANCE ADVISOR

We have appointed Guotai Junan Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance advisor will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose 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
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full fiscal year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has appointed Mr. Zhu Qiang as both the Chairman and the chief executive officer of the Company. The Board believes that vesting the roles of the Chairman and chief executive officer in the same individual would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation of the Board, comprising the executive Directors and independent non-executive Directors.

Save as disclosed herein above, as at the Latest Practicable Date, the Directors consider that the Company has fully complied with the applicable code provisions as set out in the Code of Corporate Governance Practices as contained in Appendix 14 to the Listing Rules from the Listing Date.

You should read the following discussion and analysis in conjunction with our consolidated financial information included in "Appendix I—Accountant's Report" and "Appendix II—Unaudited Pro Forma Financial Information," in each case together with the accompanying notes. The Accountant's Report has been prepared by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong.

This discussion contains forward-looking statements that reflect our current view with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors that we believe are appropriate under the circumstances. However, our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.

# **OVERVIEW**

We are a leading and one of the most well-established branded companies in the global water leisure products market, with a reputation for excellent product design, quality, functionality and value. According to the Frost & Sullivan Report, we are the third largest player in the global water leisure products market, with a market share of 2.3% in terms of retail sales in 2016. Water leisure products form a key component of the broader US\$180.7 billion global outdoor leisure products market in terms of retail sales value in 2016, of which we are also an important player, particularly in the inflatables and related products category, our traditional strength and key focus area. According to the Frost & Sullivan Report, we are the second largest player in the global inflatable outdoor leisure products market, with a market share of over 30% in terms of retail sales in 2016. Founded in 1994 in Shanghai, China, our vision is to create fun, lasting experiences for everyone in the world through the products and services we provide. Since our humble beginnings, we have devoted our efforts to strengthening our research, design, development and manufacturing capacities, while continuously expanding our product and brand portfolio. Our products can now be found in over 110 countries across six continents worldwide.

We predominantly design, develop, manufacture and sell an extensive range of high quality and innovative outdoor leisure products primarily under our own BESTWAY brand umbrella, in conjunction with a portfolio of sub-brands to market specific product series. Strategically, to complement our own-brand products business, we also design, develop and manufacture private label products for some of our customers on a selective basis, and also selectively design, develop and manufacture co-branded products with well-known international co-brand partners. We believe these arrangements allow us to most effectively increase our sales, enhance our customer relationships and further grow our market share. We currently offer approximately 1,100 products across our four core product groups, including a comprehensive selection of above-ground pools and portable spas, recreation products, sporting goods, and camping products, designed to cater to a wide range of consumer groups and geographic markets. We have a proven track record of successfully pioneering new product categories. For example, our innovative POWER STEEL above-ground pools, LAY-Z-SPA portable spas, H<sub>2</sub>O GO! water slides, as well as COOLERZ outdoor water sports products and HYDRO FORCE inflatable stand-up paddle

boards, have become some of our bestselling and fastest growing products in recent years and are also some of the leading, most recognized and fastest growing brands on the market in their respective product categories, according to the Frost & Sullivan Report.

Our products are sold through an extensive international sales network to more than 110 countries across six continents worldwide, one of the broadest networks within the global outdoor leisure products market according to the Frost & Sullivan Report, providing us a presence in every key geographic market. Our sales model leverages the regional market knowledge, resources and expertise of the local sales forces to sell our products directly to a diverse customer base comprised predominantly of retailers such as hypermarkets, department stores and other retailers, eliminating the need for layers of distributors, saving costs and providing us closer interaction with our customer base and end-consumers.

Our operations are vertically integrated, spanning across product research, design, development, manufacturing, sales and marketing as well as aftersales services. According to Frost & Sullivan, a globally integrated business model is rare in the outdoor leisure products industry, which provides us with distinct and important competitive advantages. We are able to effectively leverage our international research, design and development capabilities, together with our in-house manufacturing scale and technical capabilities in China and our extensive worldwide sales network to maximize growth, profitability and operational efficiency.

We enjoyed strong and stable revenue growth over the Track Record Period, with significant improvements in profitability as we firmly established ourselves in key target growth markets such as the U.S. Our revenue increased from US\$467.9 million for the year ended December 31, 2014 to US\$584.5 million for the year ended December 31, 2016, representing a CAGR of approximately 11.8%, outpacing overall industry growth. Our revenue increased by 19.3% from US\$353.4 million in the six months ended June 30, 2016 to US\$421.6 million in the same period of 2017. Our profit for the year ended December 31, 2014 to US\$43.0 million for the year ended December 31, 2014 to US\$43.0 million for the year ended December 31, 2016, representing a CAGR of approximately 125.9%. Our profit for the period increased by 14.3% from US\$30.3 million in the six months ended June 30, 2016 to US\$34.6 million in the same period of 2017, while our profit for the period (excluding listing expenses for the Global Offering) increased by 23.0% from US\$30.3 million to US\$37.2 million in these same respective periods. During the Track Record Period, by the start of each year, we were typically able to procure purchase orders for our products that accounted for approximately 40% to 50% of the revenue for the relevant year, which provides us with a high degree of visibility over our sales for the year and allows us to implement a robust strategic budgeting and planning process.

## **BASIS OF PRESENTATION**

Pursuant to our Reorganization and as more fully explained in "History, Development and Reorganization" of this prospectus, our Company became the holding company of the companies now comprising our Group on February 8, 2013. These companies were under the common control of the Controlling Shareholders before and after the Reorganization. Accordingly, the financial information of our Group in "Appendix I—Accountant's Report" to this prospectus has been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Track Record Period.

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 December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017 include the results and cash flows of all companies now comprising our Group, from the earliest date presented or, where it is a shorter period, since the date when the subsidiaries first came under the common control of the Controlling Shareholders. The consolidated statements of financial position of our Group as of December 31, 2014, 2015 and 2016 and June 30, 2017 have been prepared to present the assets and liabilities of the subsidiaries using the existing book values from the Controlling Shareholders' perspective. No adjustments have been made to reflect fair values or to recognize any new assets or liabilities as a result of the Reorganization.

All intra-group transactions and balances have been eliminated on consolidation.

#### SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

#### **Economic and Climate Conditions in Key Markets**

We derive a significant portion of our revenue from overseas markets, in particular the European markets (including Russia) and North American (especially the United States) markets. For the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, our sales in Europe accounted for 55.5%, 50.5%, 53.1% and 51.7% of our revenue, and our sales in the North American market accounted for 16.5%, 24.2%, 27.6% and 33.6% of our revenue in the same respective periods. As such, our revenue and growth are substantially influenced by the general economic environment and consumer purchase patterns in these geographic markets, among others. Economic prosperity and growth in these markets drives the level of disposable income for the population and overall consumer sentiment, which in turn drives consumer spending. Outdoor leisure products, including water leisure products, and related products are generally viewed as discretionary purchases. Accordingly, consumer demand for our products is sensitive to changes in prevailing macroeconomic conditions, with consumers generally more willing to make these discretionary purchases when economic conditions are favorable, as they are feeling confident and prosperous and have more time for leisure activities. Therefore, any slowdown or decline in global, regional or national economies in our key target markets is likely to have an adverse effect our business and results of operations.

We also expect China to be one of our key growth markets going forward. Driven by rising disposable income, increased spending and an emphasis on leisure and entertainment, together with greater consumer awareness of such products, China's outdoor leisure products industry is expected to grow to US\$5.2 billion by 2021 at a CAGR of 9.2% from 2017, and the inflatables category is expected to grow to US\$91.4 million at a CAGR of 22.1% from 2017, according to the Frost & Sullivan Report. In addition, we design, develop and manufacture almost all of our products at our facilities in China. As such, our results of operations are, to a significant degree, subject to the economic, political, social, climatic and legal developments in China.

Our business and results of operations are also subject to fluctuations in the weather. Outdoor leisure products, and in particular water leisure products, are mostly used during warmer, sunny weather conditions, which are more suitable for outdoor and water-based leisure activities. Accordingly, sales of our products depend in part on the seasonal weather conditions in our key geographic markets, and any sustained periods of unseasonably cold or rainy weather could have a material adverse effect on our business and results of operations.

# **Pricing and Competition**

Our ability to continue to price our products at levels we prefer is an integral part of our strategy and business model. In determining our product prices, we usually take into account various factors such as production costs (including raw materials prices), customer relationships, production cycle, transportation costs, product types and specification, market prices, exchange rates and general economic conditions. We also consider our gross profit margin and overall market strategy. We believe that our strong brand recognition, research and development capabilities, customer relationships and proven ability to continuously launch new and innovative products have also allowed us to price our products at levels that we prefer.

Nevertheless, we face increasing competition in the global outdoor leisure products and water leisure products markets. An increase in competition, or as we face competition in new geographic or product markets, could require us to increase our promotion and advertising expenses and research and development costs, which may place pressure on our margins and affect our profitability. Additionally, competition may result in price reductions, reduced margins and loss of market shares, any of which could have an adverse impact on our business and results of operations.

## Effectiveness of our Sales and Marketing Team

Our global sales network includes our headquarters in Shanghai, which supervises our worldwide operations, and our nine overseas subsidiaries, strategically located across the world. Our regional sales and marketing teams are responsible for developing and implementing our marketing and sales strategies, streamlining our marketing, sales and customer relationship building and the improvement of the operations and cost effectiveness of our sales and marketing in their specific responsible regions. As of September 30, 2017, our global sales and marketing network included approximately 100 overseas employees who are responsible for sales and marketing and 51 third-party regional relationship managers. Our team is led and managed by chief strategic officer, Mr. Patrizio Fumagalli, who has personally been instrumental in driving our growth in the United States in recent years by bringing in new customers and strengthening relationships with existing customers. For details of Mr. Fumagalli's background, please see "Directors and Senior Management—Senior Management."

Given the global nature of our business, our regional sales and marketing teams play a crucial role in our business and results of operations. Our performance and growth are in large part driven by the effectiveness of our sales and marketing team in establishing and maintaining strong strategic relationships with major overseas customers, from whom we derive a material percentage of our revenue. Accordingly, the growth of our business has in large part been as a result of our ability to motivate and incentivize our sales and marketing team, including third-party regional relationship managers. Any adverse impact on the effectiveness of our sales and marketing team, including any loss of any key sales personnel, will likely have an adverse impact on our business and results of operations.

## **New Products Launches**

Our ability to continuously introduce new and innovative products that are well-received by consumers is an important contributor to our sustainable growth and profitability. Increasing our gross profit margins also depends in part on our ability to develop and successfully bring to market higher margin products. We introduced 248, 228 and 227 New Products in 2014, 2015 and 2016, respectively, representing, in aggregate, approximately 20% of our product portfolio of approximately 1,100 products.

As of the Latest Practicable Date, in 2017 we had introduced 206 New Products. We expect to see strong growth from new products that we launched in 2016, such as the FORTECH airbeds and new categories of snow tubes and swim trainers. We plan to continue introducing more products with new features, structures and appearances, targeting different demographic groups to meet changing trends in the market and evolving consumer preferences in order to continue to drive our future growth.

We have a track record of launching successful new products and product categories with high margin and high growth that help drive our business growth. For example:

- Portable spas: Sales of our portable spas increased to US\$57.1 million in 2016 from US\$16.6 million in 2014, representing a CAGR of 85.6%, and increased by 90.1% from US\$30.1 million in the six months ended June 30, 2016 to US\$57.2 million in the same period of 2017. Sales of our portable spas contributed 3.5%, 5.9%, 9.8% and 13.6% of our total revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively.
- Water Slides: Sales of our H<sub>2</sub>O Go! water slides increased to US\$10.5 million in 2016 from US\$2.3 million in 2014, representing a CAGR of 111.8%, and increased by 69.3% from US\$7.3 million in the six months ended June 30, 2016 to US\$12.4 million in the same period of 2017. Sales of our water slides contributed 0.5%, 0.9%, 1.8% and 2.9% of our total revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively.
- Rafting Tubes and Floating Islands: Sales of our COOLERZ-branded rafting tubes and floating islands increased to US\$21.8 million in 2016 from US\$1.4 million in 2014, representing a CAGR of 301.7%, and increased by 34.5% from US\$16.4 million in the six months ended June 30, 2016 to US\$22.1 million in the same period of 2017. Sales of our rafting tubes and floating islands contributed 0.3%, 1.3%, 3.7% and 5.2% of our total revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively.
- Inflatable Stand-up Paddle Boards: Sales of inflatable stand-up paddle boards increased to US\$8.1 million in 2016 from US\$2.9 million in 2014, representing a CAGR of 68.2%, and increased by 38.4% from US\$5.8 million in the six months ended June 30, 2016 to US\$8.0 million in the same period of 2017. Sales of our inflatable stand-up paddle boards contributed 0.6%, 0.7%, 1.4% and 1.9% of our total revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively.

For the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, our sales of the new products and product categories listed above in aggregate amounted to US\$23.1 million, US\$45.4 million, US\$97.5 million and US\$99.7 million, representing 4.9%, 8.8%, 16.7% and 23.6% of our total revenue for the corresponding periods. These new products and product categories have played a key role in driving our business growth, while expanding and complementing the composition of our product portfolio.

In addition, we introduced two new product categories, namely snow tubes and swim trainers, under the core product group of sporting goods at the end of 2016, and we are currently developing and expecting to introduce a new product category, constant-air inflatable play devices, under the core

product group of recreation products in 2018. Constant-air inflatable play devices are structures that rely on a continuous supply of air pressure to maintain their shape. For details of the track record of our product development, please see "Business—Our Competitive Strengths—Broad portfolio of fun, functional and innovative products with proven design and development track record" and "Business—Our Products."

#### **Raw Materials Costs**

The major raw materials we use in the production of our products include PVC resins and plasticizers. Our total costs of raw materials and consumables used accounted for 62.8%, 61.4%, 55.2% and 55.3% of our total revenue, and 79.2%, 78.6%, 76.9% and 76.6% of our total cost of sales, in 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively.

The prices of our PVC resins and plasticizers generally fluctuate as a result of various factors, including supply and demand, our bargaining power with the suppliers, logistics and processing costs, and government regulations and policies. In particular, PVC resin is a commodity, the price of which changes according to the market conditions. We have not entered into any hedging activities in relation to these primary raw materials. However, we have sought to mitigate the impact of our raw materials' price fluctuations by making purchases when we believe prices are low. For details of the sensitivity analysis of the impact of hypothetical fluctuations in our average unit purchase prices for PVC resins, please see "—Description of Selected Items of the Consolidated Statements of Profit or Loss—Cost of Sales". Furthermore, as our business scale increases, our bargaining power has also increased, which contributed in part to decreases in our purchase prices for certain raw materials. Although raw material prices, including the price of PVC resin and plasticizers, have generally been on a declining trend in recent years, there is no guarantee that this trend will continue. Accordingly, any fluctuations in the costs of raw materials and our ability to pass on any increase in raw material costs to our customers will have an effect our business and results of operations.

## **Exchange Rate Fluctuation**

Our sales are primarily settled in U.S. dollars while the majority of our purchases and operating costs of our production plants and offices are settled in Renminbi; this relationship exposes us to foreign exchange risk. Signification fluctuations in exchange rates will result in increases or decreases in our reported costs and earnings, and also affect the carrying value of our Renminbi and U.S. dollar denominated-assets, liabilities, and our equity. To mitigate the risks associated with the volatility of foreign exchange markets, in particular the fluctuation in the foreign exchange rate between the U.S. dollar and the Renminbi, we entered into certain derivative financial instruments to mitigate our foreign exchange risk during the Track Record Period.

We recognize both unrealized and realized gains and losses in respect of our derivative financial instruments, which are forward foreign exchange contracts and foreign exchange-related options. These obligations resulted in unrealized losses of US\$1.6 million, US\$6.5 million, US1.3 million and US\$0.5 million in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively; and realized losses of US\$1.7 million and US\$1.1 million and realized gains of US1.7 million and US\$1.4 million in the same respective periods. In addition to these gains and losses on derivative financial instruments, we had net foreign exchange gains of US\$1.1 million, US\$8.2 million and US\$5.0 million in 2014, 2015 and 2016, respectively, primarily due to depreciation of the Renminbi since August 2015. For the six months ended June 30, 2017, we had net foreign exchange losses of US\$2.7 million as the Renminbi appreciated

against the U.S. dollar during this period. As most of our operating expenses are denominated in Renminbi, a continued depreciation of the Renminbi against the U.S. dollar will generally result in cost savings for us. For the three years ended December 31, 2016, we also had foreign exchange losses of US\$0.1 million, US\$2.6 million and US\$1.1 million, respectively, on U.S. dollar-denominated bank borrowings as a result of the depreciation of the Renminbi against the U.S. dollar in the same respective period, while for the six months ended June 30, 2017, we had net foreign exchange gains of US\$0.2 million on U.S. dollar-denominated bank borrowings as a result of the appreciation of the Renminbi against the U.S. dollar during this period. For details, please see "—Description of Selected Items of the Consolidated Statements of Financial Position—Derivative Financial Instruments."

Our financial statements are presented in U.S. dollars. In connection with the preparation of our consolidated financial statements, the results of operations of our subsidiaries, which are initially prepared in their respective local functional currencies, are translated into U.S. dollars, using average monthly exchange rates over the relevant period. Fluctuations in these exchange rates from one year to the next impact our consolidated results of operations and, depending on the magnitude of these fluctuations, could obscure underlying trends that would have been apparent if consolidated financial statements had been prepared on a constant currency basis.

## **Seasonality**

We operate our business with an operating cycle from the beginning of May to the end of April of the subsequent year. In general, we receive purchase orders from our customers in the northern hemisphere from May onwards. We deliver most of these purchases from November to the following April. Our customers in the southern hemisphere typically place orders with us from December onwards, and we deliver most of these purchases from May of the subsequent year to October. During the Track Record Period, 73.7%, 76.1%, 82.2% and 87.7% of our revenue was attributable to sales to customers in the northern hemisphere. We typically realize approximately 60% of our sales in the first six months of the year. The seasonality of our northern hemisphere sales are offset in part by our sales to customers in the southern hemisphere and our sales of products that are suitable for all seasons. For details of the seasonality of our production and sales of products, please see "Risk Factors—Risks Relating to our Business and Industry—Our performance may be affected by seasonality and unexpected and abnormal changes in climate." Accordingly, our interim financial results may not be indicative of our annual financial results.

# SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES AND JUDGMENTS

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Our significant accounting policies and critical estimates and judgments, which are important for you to understand our financial condition and results of operations, are set forth in detail in Notes 2 and 4 to "Appendix I—Accountant's Report" to this prospectus. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgments and other uncertainties affecting the application of these policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those of our accounting policies that we believe involve the most significant estimates and judgments used in preparing our financial statements.

#### **Impairment of Non-financial Assets**

We review assets that are subject to amortisation for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). We review non-financial assets other than goodwill that suffered an impairment for possible reversal of the impairment at each reporting date.

## **Impairment of Financial Assets**

#### Assets carried at amortised cost

At the end of each reporting period we assess whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the relevant contract. As a practical expedient, we may measure impairment on the basis of an instrument's fair value using an observable market price. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss.

## Assets classified as available for sale

At the end of each reporting period we assess whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss—is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

# **Share-based Payments**

Equity-settled share-based payments

Our Controlling Shareholder, Great Access transferred some of its interests in the immediate shareholder of our Company to one of the senior management of our Group and to Outland Enterprise, a company established to implement the Pre-IPO Share Incentive Scheme through issuing shares in Outland Enterprise to the employees of our Group in return for their services to our Group. In terms of shares awarded to employees, the total amount to be expensed is determined by reference to the fair value of the shares granted minus the consideration received.

# DESCRIPTION OF SELECTED ITEMS OF THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

The following table sets forth a summary of our consolidated statements of profit or loss for the years indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	For the yea	ar ended Dec	ember 31,	For the sign ended J	
	2014	2015	2016	2016	2017
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000) (unaudited)	US\$ ('000)
Revenue	467,914	513,532	584,529	353,415	421,625
Cost of sales	(371,066)	(401,487)	(419,993)	(253,651)	(304,202)
Gross profit	96,848	112,045	164,537	99,764	117,423
Selling and distribution expenses	(44,384)	(48,003)	(60,704)	(36,530)	(43,327)
Administrative expenses	(35,135)	(41,800)	(48,625)	(23,724)	(27,703)
Other income	1,838	5,428	2,101	431	2,444
Other (losses)/gains—net	(4,431)	920	4,667	3,113	(2,720)
Finance income	660	1,345	492	233	50
Finance expenses	(3,528)	(8,081)	(5,427)	(2,673)	(1,900)
Profit before income tax	11,868	21,854	57,042	40,614	44,267
Income tax expense	(3,438)	(6,664)	(14,022)	(10,335)	(9,662)
Profit for the year	8,430	15,190	43,020	30,279	34,605
Profit attributable to:					
Owner of the Company	8,175	16,460	43,340	30,433	34,955
Non-controlling interests	255	(1,270)	(320)	(154)	(350)
	8,430	15,190	43,020	30,279	34,605

The following discussion summarizes components of selected line items of the consolidated statements of profit or loss appearing in "Appendix I—Accountant's Report" to this prospectus that we believe may be helpful in understanding the period-to-period discussions that follow.

#### Revenue

We derive our revenue from four core product groups: (i) above-ground pools and portable spas, (ii) recreation products, (iii) sporting goods and (iv) camping products. We also divide our revenue into four geographic regions: (i) Europe, (ii) North America, (iii) China and (iv) the rest of the world. Our revenue represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes.

Our revenue increased by 9.7% from US\$467.9 million in 2014 to US\$513.5 million in 2015 and further by 13.8% to US\$584.5 million in 2016, and increased by 19.3% from US\$353.4 million in the six months ended June 30, 2016 to US\$421.6 million in the same period of 2017.

Our revenue growth in the Track Record Period was mainly due to (i) our successful expansion in the United States market and our increased marketing campaigns there, (ii) increased sales of new products we introduced in recent years such as H<sub>2</sub>O GO! water slides introduced in 2013, COOLERZ outdoor water sporting goods introduced in 2014 and HYDRO FORCE inflatable stand-up paddle boards introduced in 2013 and (iii) we procured a new co-brand partner in 2015. For details of our new products, please see "Business—Our Products."

## Revenue by product group

The following table sets forth our revenue by product group and as a percentage of total revenue for the periods indicated:

		For	the year end	ed December		For the six months ended June 30,					
	20	14	20	15	20	16	20	16	20	17	
	US\$ ('000)	% of total revenue	US\$ ('000)	% of total revenue	US\$ ('000)	% of total revenue	US\$ ('000) (unaudited)	% of total revenue	US\$ ('000)	% of total revenue	
Above-ground Pools and											
Portable Spas	193,601	41.4	236,251	46.0	274,341	46.9	168,062	47.6	201,241	47.7	
Recreation Products	113,398	24.2	119,735	23.3	125,656	21.5	75,833	21.5	82,246	19.5	
Sporting Goods	43,652	9.3	49,729	9.7	76,036	13.0	49,387	14.0	62,151	14.7	
Camping Products	117,263	25.1	107,817	21.0	108,496	18.6	60,133	17.0	75,987	18.0	
Total	467,914	100.0	513,532	100.0	584,529	100.0	353,415	100.0	421,625	100.0	

The following table sets forth our sales volumes and average selling prices by product group for the periods indicated:

		For	the year ende	d December	31,		For t	s ended June	30,	
	201	4	201	5	201	6	201	6	2017	
Product Group	Sales Volume	Average Selling Price								
	'000 units	US\$								
Above-ground Pools and										
Portable Spas	9,661	20.0	10,836	21.8	11,052	24.8	5,714	29.4	7,145	28.2
Recreation Products	52,704	2.2	50,798	2.4	53,459	2.4	31,895	2.4	39,500	2.1
Sporting Goods	23,921	1.8	24,521	2.0	28,805	2.6	16,620	3.0	14,993	4.1
Camping Products	15,006	7.8	13,649	7.9	14,019	7.7	7,347	8.2	9,572	7.9
Total	101,292	4.6	99,804	5.1	107,335	5.4	61,576	5.7	71,210	5.9

Note: Since each of our four core product groups consists of multiple different product categories, which in turn contain numerous product series and models with varying selling prices, the average selling prices indicated in the table above are blended prices of the respective entire product group and do not represent the selling prices of our individual products.

#### Above-ground Pools and Portable Spas

Revenue from our sales of above-ground pools and portable spas increased by 22.0% from US\$193.6 million in 2014 to US\$236.3 million in 2015 and further increased by 16.1% to US\$274.3 million in 2016, and increased by 19.7% from US\$168.1 million in the six months ended June 30, 2016 to US\$201.2 million in the same period of 2017. These increases were primarily due to (i) increased sales of above-ground pools and portable spas in the United States market from US\$16.1 million in 2014 to US\$47.0 million in 2015 and further increased to US\$62.8 million in 2016, and from US\$47.4 million in the six months ended June 30, 2016 to US\$54.9 million in the same period of 2017 as a result of our expansion into the United States market and our increased marketing campaigns there; and (ii) the increased popularity and recognition of our portable spas in the European market, where we introduced these products in 2005, in particular our LAY-Z-SPA brand, which grew into a household brand in the European market during the Track Record Period.

The sales volume of above-ground pools and portable spas increased from 9.7 million units in 2014 to 10.8 million units in 2015 and further increased to 11.1 million units in 2016, and increased from 5.7 million units in the six months ended June 30, 2016 to 7.1 million units in the same period of 2017, which was in line with our business growth. The average selling price of above-ground pools and portable spas increased from US\$20.0 in 2014 to US\$21.8 in 2015 and further increased to US\$24.8 in 2016, primarily due to improvements in product mix as we increased sales of above-ground metal pools and portable spas with higher selling prices. The average selling price of above-ground pools and portable spas decreased from US\$29.4 in the six months ended June 30, 2016 to US\$28.2 in the same period of 2017, primarily due to higher sales of above-ground pools that had lower selling prices.

### Recreation Products

Revenue from our sales of recreation product increased by 5.6% from US\$113.4 million in 2014 to US\$119.7 million in 2015 and further increased by 4.9% to US\$125.7 million in 2016. These increases were primarily due to sales growth of recreation products in the United States market, which increased

by 22.4% from US\$19.9 million in 2014 to US\$24.4 million in 2015 and further increased by 22.7% to US\$29.9 million in 2016, as a result of our expansion into the United States market and our increased marketing campaigns there. Revenue from our sales of recreation products increased by 8.5% from US\$75.8 million in the six months ended June 30, 2016 to US\$82.2 million in the same period of 2017, primarily due to increased sales of recreation products in Australia and Brazil, as a result of economic recovery in these countries, and in the United States.

The sales volume of recreation products decreased from 52.7 million units in 2014 to 50.8 million units in 2015, primarily due to a decrease in sales to a customer in the United States that made large purchases in 2014. The sales volume rebounded to 53.5 million units in 2016, primarily due to our continued marketing efforts and business growth in the United States, and increased from 31.9 million units in the six months ended June 30, 2016 to 39.5 million units in the same period of 2017, primarily due to increased sales in Australia, Brazil and the United States. The average selling price of recreation products remained relatively stable from 2014 to 2016. The average selling price of recreation products decreased from US\$2.4 in the six months ended June 30, 2016 to US\$2.1 in the same period of 2017, primarily due to higher sales of recreation products that had lower selling prices.

## Sporting Goods

Revenue from our sales of sporting goods increased by 13.9% from US\$43.7 million in 2014 to US\$49.7 million in 2015 and further increased by 52.9% to US\$76.0 million in 2016, and increased by 25.8% from US\$49.4 million in the six months ended June 30, 2016 to US\$62.2 million in the same period of 2017. These increases were primarily due to our introduction of new products in recent years. For example, our H<sub>2</sub>O GO! water slides were introduced in 2013, COOLERZ outdoor water sporting goods were introduced in 2014 and HYDRO FORCE inflatable stand-up paddle boards introduced in 2013. These products have become some of our best-selling and fastest growing product categories. They gained popularity and recognition in our key markets, in particular the United States and the European markets, during the Track Record Period.

The sales volume of sporting goods increased from 23.9 million units in 2014 to 24.5 million units in 2015 and further increased to 28.8 million units in 2016, in line with our business growth. The average selling price of sporting goods increased from US\$1.8 in 2014 to US\$2.0 in 2015 and further increased to US\$2.6 in 2016, primarily due to improvements in product mix as a result of increased sales of rafting tubes and floating islands, inflatable stand-up paddle boards and water slides, which had higher selling prices. The sales volume of sporting goods decreased from 16.6 million units in the six months ended June 30, 2016 to 15.0 million in the same period of 2017, and the average selling price of sporting goods increased from US\$3.0 in the six months ended June 30, 2016 to US\$4.1 in the same period of 2017, primarily as a result of a decrease in sales of products with lower selling prices.

## Camping Products

Revenue from our sales of camping products decreased by 8.1% from US\$117.2 million in 2014 to US\$107.8 million in 2015, primarily due to lower sales in Russia as a result of the slowing economy. Revenue from our sales of camping products increased slightly from US\$107.8 million in 2015 to US\$108.5 million in 2016, primarily as a result of our business growth in Europe. Revenue from our sales of camping products increased by 26.4% from US\$60.1 million in the six months ended June 30, 2016 to US\$76.0 million in the same period of 2017, primarily due to increased sales of our FORTECH airbeds, which we launched in 2016.

The sales volume of camping products decreased from 15.0 million units in 2014 to 13.6 million units in 2015, primarily due to lower sales in Russia as a result of the slowing economy. The sales volume increased to 14.0 million units in 2016, and increased from 7.3 million units in the six months ended June 30, 2016 to 9.6 million units in the same period of 2017, which was in line with our business growth. The average selling price of camping products remained relatively stable during the Track Record Period.

# Revenue by geographic regions

The following table sets forth our revenue by geographic regions and as a percentage of total revenue for the periods indicated:

		For	the year end	ed December	31,		For the six months ended June 30,					
	20	14	20	15	20	16	20	16	2017			
	US\$ ('000)	% of total revenue	US\$ ('000)	% of total revenue	US\$ ('000)	% of total revenue	US\$ ('000) (unaudited)	% of total revenue	US\$ ('000)	% of total revenue		
Europe <sup>(1)</sup>	259,837	55.5	259,389	50.5	310,418	53.1	198,272	56.1	217,920	51.7		
North America(2)	77,274	16.5	124,285	24.2	161,238	27.6	120,240	34.0	141,481	33.6		
China	8,831	1.9	7,684	1.5	9,418	1.6	3,438	1.0	10,521	2.5		
Rest of the world	121,972	26.1	122,174	23.8	103,455	17.7	31,465	8.9	51,703	12.2		
Total	467,914	100.0	513,532	100.0	584,529	100.0	353,415	100.0	421,625	100.0		

#### Notes:

- (1) Includes countries in the European Economic Area, Switzerland, Turkey, Russia, Kazakhstan, Kyrgyzstan, Albania, Andorra, Armenia, Bosnia and Hercegovina, Georgia, Macedonia, Moldavia, Serbia, Montenegro and Ukraine.
- (2) Includes the United States, Canada and Puerto Rico.

#### Europe

Our revenue in Europe remained stable in 2014 and 2015, and increased by 19.7% to US\$310.4 million in 2016 and by 9.9% from US\$198.3 million in the six months ended June 30, 2016 to US\$217.9 million in the same period of 2017. The sales growth in 2016 and the six months ended June 30, 2017 was primarily due to increased sales in the UK and France as a result of the economic recovery in Europe.

## North America

After successful expansion in the European market, in 2012 we made a strategic decision to drive our overall growth by devoting additional resources on rolling out our presence in the North America market, which is the second largest market for outdoor leisure products and water leisure products in the world, according to the Frost & Sullivan Report. Since 2012, we have collaborated with major retailer customers to carry out various marketing campaigns to promote our products, which has enhanced our brand visibility and recognition in the United States. In addition, we also developed various products specifically catered to the preferences of the United States' consumers, such as H<sub>2</sub>O GO! water slides and COOLERZ outdoor water sports products, which have proven to be successful in terms of sales performance in recent years. Driven by our increased emphasis on, resources dedicated to, and

successful implementation of our growth strategy in the United States market in recent years, our revenue in North America increased by 60.8% from US\$77.3 million in 2014 to US\$124.2 million in 2015 and further increased by 29.7% to US\$161.2 million in 2016, and increased by 17.7% from US\$120.2 million in the six months ended June 30, 2016 to US\$141.5 million in the same period of 2017. This sales growth was primarily driven by sales growth in the United States, as revenue derived from our sales in the United States increased by 76.0% from US\$60.3 million in 2014 to US\$106.0 million in 2015 and further increased by 34.9% to US\$143.0 million in 2016, and increased by 17.0% from US\$106.1 million in the six months ended June 30, 2016 to US\$124.1 million in the same period of 2017. These increases were as a result of (i) our continued successful penetration into the United States market as a result of our marketing campaigns such as product placements and displaying advertisements in our major retailer customers and online advertisements, (ii) introduction of new products such as H<sub>2</sub>O GO! water slides, COOLERZ outdoor water sports products and FORTECH airbeds and (iii) establishing, maintaining and strengthening our strategic relationships with our major U.S. customers.

#### China

Our revenue derived from China decreased by 13.0% from US\$8.8 million in 2014 to US\$7.7 million in 2015, primarily because we sold our products directly to overseas customers instead of selling to trading companies in China. Our revenue derived from China increased by 22.6% from US\$7.7 million in 2015 to US\$9.4 million in 2016, and increased significantly from US\$3.4 million in the six months ended June 30, 2016 to US\$10.5 million in the same period of 2017, as a result of (i) our increased marketing campaigns in China and (ii) enhanced brand recognition and spreading word-of-mouth.

# Rest of the world

Our revenue derived from the rest of the world mainly includes sales to Brazil, Mexico, Chile, Argentina, Australia and New Zealand. Our revenue derived from the rest of the world remained stable in 2014 and 2015, and decreased by 15.3% to US\$103.5 million in 2016. The decrease in 2016 was primarily due to lower sales in Australia and Brazil as a result of slowing economic growth in these countries. Our revenue derived from the rest of the world increased by 64.3% from US\$31.5 million in the six months ended June 30, 2016 to US\$51.7 million in the same period of 2017, primarily due to increased sales in Australia and Brazil as a result of economic recovery in these countries.

#### Revenue by brand type

The following table sets forth our revenue by brand type and as a percentage of total revenue for the periods indicated:

		For	the year end	ed December		For the six months ended June 30,					
	20	14	20	15	20	16	20	16	20	17	
	TIG#1000	% of total	11001000	% of total	11041000	% of total	11561000	% of total	11061000	% of total	
	US\$'000	revenue	US\$'000	revenue	US\$'000	revenue	US\$'000 (unaudited)	revenue	US\$'000	revenue	
Own-brand products	346,790	74.1	352,778	68.7	435,108	74.4	255,665	72.3	310,282	73.6	
Private label products	92,742	19.8	106,392	20.7	92,956	15.9	57,265	16.2	70,885	16.8	
Co-branded products	28,382	6.1	54,362	10.6	56,465	9.7	40,485	11.5	40,458	9.6	
Total	467,914	100.0	513,532	100.0	584,529	100.0	353,415	100.0	421,625	100.0	

The following table sets forth our sales volumes and average selling prices by brand type for the periods indicated:

		For	the year ende	d December	31,		For t	he six month	s ended June	30,
	201	4	201	5	201	6	201	6	201	7
Brand Type	Sales Volume	Average Selling Price								
	'000 units	US\$								
Own-brand products	64,617	5.4	65,842	5.4	75,543	5.8	39,868	6.4	54,072	5.7
Private label products	20,563	4.5	23,133	4.6	22,643	4.1	17,152	3.3	13,184	5.4
Co-branded products	16,112	1.8	10,829	5.0	9,150	6.2	4,557	8.9	3,954	10.2
Total	101,292	4.6	99,804	5.1	107,336	5.4	61,577	5.7	71,210	5.9

*Note:* Since each of the brand type products consists of multiple different product groups and product categories, which in turn contain numerous product series and models with varying selling prices, the average selling prices indicated in the table above are blended prices of the respective brand type products as a whole and do not represent the selling prices of our individual products.

## Own-brand products

Revenue from sales of own-brand products continued to increase during the Track Record Period. The decrease in our revenue from sales of own-brand products as a percentage of our total revenue from 74.1% in 2014 to 68.7% in 2015 was primarily due to a significant increase in revenue from sales of cobranded products as described below. As part of our strategy to broaden our product and brand portfolio, we intend to increase our emphasis on our own BESTWAY-branded products going forward, while decreasing our emphasis on our private label and co-branded products businesses, as appropriate and in accordance with market conditions.

The sales volume of own-brand products increased from 64.6 million units in 2014 to 65.8 million units in 2015, and further increased to 75.5 million units in 2016, and increased from 39.9 million units in the six months ended June 30, 2016 to 54.1 million units in the same period of 2017, which was generally in line with our business growth and as we continued to implement our strategy to increase emphasis on our own-brand products. The average selling price of own-brand products increased from

2014 to 2016, primarily as a result of general improvements in product mix. The average selling price of own-brand products decreased from US\$6.4 in the six months ended June 30, 2016 to US\$5.7 in the same period of 2017, primarily due to higher sales of our own-brand recreation products that had lower selling prices.

#### Private label products

Revenue from sales of private label products increased by 14.7% from US\$92.7 million in 2014 to US\$106.4 million in 2015, primarily because we resumed our business relationship with a key customer in Brazil who placed additional purchase orders of private label products. Revenue from sales of private label products as a percentage of our total revenue remained stable in 2014 and 2015. Revenue from sales of private label products decreased by 12.6% from US\$106.4 million in 2015 to US\$93.0 million in 2016, and this revenue as a percentage of our total revenue also decreased from 20.7% in 2015 to 15.9% in 2016, primarily due to (i) a decrease in sales to some of our private label customers, particularly in Brazil as a result of the slowing economy there, and (ii) an increase in sales of our ownbrand products as we continued to promote our own brands and enhance our brand recognition. Revenue from sales of private label products increased by 23.8% from US\$57.3 million in the six months ended June 30, 2016 to US\$70.9 million in the same period of 2017, and our revenue from sales of private label products as a percentage of our total revenue, remained stable in these periods.

The sales volume of private label products increased from 20.6 million units in 2014 to 23.1 million units in 2015, primarily because we resumed our business relationship with a key customer in Brazil who placed additional purchase orders of private label products. The sales volume decreased to 22.6 million units in 2016, primarily due to (i) our strategy to increase emphasis on our own-brand products, and (ii) a decrease in sales to some of our private label customers, particularly in Brazil as a result of the slowing economy there. The sales volume of private label products decreased from 17.2 million units in the six months ended June 30, 2016 to 13.2 million in the same period of 2017, primarily because we sold less private label recreation products. The average selling price of private label products remained stable from 2014 to 2015. The average selling price decreased to US\$4.1 in 2016, primarily due to a decrease in sales of private label above-ground pools which had higher selling prices in 2016. The average selling price of private label products increased from US\$3.3 in the six months ended June 30, 2016 to US\$5.4 in the same period of 2017, primarily due to lower sales of private label recreation products that had lower selling prices.

# Co-branded products

Revenue from sales of co-branded products increased by 91.5% from US\$28.4 million in 2014 to US\$54.4 million in 2015, and this revenue as a percentage of our total revenue also increased from 6.1% in 2014 to 10.6% in 2015. These increases were primarily because sales of certain of our co-branded products introduced in 2014 increased significantly in 2015 as a result of our strategic promotions of such products. Revenue from sales of co-branded products and the revenue as a percentage of our total revenue remained relatively stable in 2015 and 2016 and in the six months ended June 30, 2017.

The sales volume of co-branded products decreased from 16.1 million units in 2014 to 10.8 million units in 2015 and further decreased to 9.2 million units in 2016, and decreased from 4.6 million units in the six months ended June 30, 2016 to 4.0 million units in the same period of 2017. These decreases were primarily due to lower sales of co-brand products, as we continued to place greater emphasis on our own-brand products. The average selling price of co-branded products increased from US\$1.8 in

2014 to US\$5.0 in 2015 and further increased to US\$6.2 in 2016, primarily due to increased sales of cobranded above-ground pools with higher selling prices. The average selling price of co-branded products increased from US\$8.9 in the six months ended June 30, 2016 to US\$10.2 in the same period of 2017, primarily due to improvement of product mix as a result of decreased sales of co-branded products that had lower selling prices.

#### Cost of Sales

Our cost of sales primarily comprises costs of raw materials and consumables used, wages and salaries, social welfare and benefits and manufacturing costs. Our cost of sales increased by 8.2% from US\$371.1 million in 2014 to US\$401.5 million in 2015 and further increased by 4.6% to US\$420.0 million in 2016, and increased by 19.9% from US\$253.7 million in the six months ended June 30, 2016 to US\$304.2 million in the same period of 2017, as a result of increase of sales in the same respective period.

The following table sets forth our cost of sales by category and as a percentage of total revenue for the periods indicated:

	-	For	the year end	ed December	31,		For the six months ended June 30,				
	20	14	20	15	20	16	20	16	20	17	
	US\$ ('000)	% of total revenue	US\$ ('000)	% of total revenue	US\$ ('000)	% of total revenue	US\$ ('000) (unaudited)	% of total revenue	US\$ ('000)	% of total revenue	
Raw materials and consumables used <sup>(1)</sup> Wages and salaries, social	294,036	62.8	315,460	61.4	322,875	55.2	195,419	55.3	232,997	55.3	
welfare and benefits	43,824	9.4	52,114	10.1	57,727	9.9	34,688	9.8	44,836	10.6	
Manufacturing costs <sup>(2)</sup>	33,206	7.1	33,913	6.6	39,391	6.7	23,543	6.7	26,369	6.3	
Total	371,066	79.3	401,487	78.2	419,993	71.9	253,650	71.8	304,202	72.2	

#### Notes:

- (1) Includes primarily PVC resins, plasticizers, filtration pumps, metal frames and packaging materials.
- (2) Includes primarily utilities, processing fees, depreciation and amortization and maintenance fees.

## Raw materials and consumables used

Our primary raw materials include PVC resins and plasticizers. Our costs of raw materials and consumables used accounted for 62.8%, 61.4%, 55.2% and 55.3% of our total revenue in 2014, 2015 and 2016 and in the six months ended June 30, 2017, respectively. The decrease in our costs of raw materials and consumables used as a percentage of our total revenue was primarily due to (i) a decrease in average purchase price of our raw materials and (ii) depreciation of the Renminbi in 2015 and 2016.

The increase in our costs of raw materials and consumables used from US\$294.0 million in 2014 to US\$315.5 million in 2015, further to US\$322.9 million in 2016, and from US\$195.4 million in the six months ended June 30, 2016 to US\$233.0 million in the same period of 2017, were primarily driven by higher sales volumes. Our costs of raw materials and consumables used during the Track Record Period were also affected by fluctuations in our average purchase prices for certain of our major raw materials.

According to the Frost & Sullivan Report, the average wholesale price of PVC resins decreased from US\$920.5/ton in 2014 to US\$800.0/ton in 2015 and increased slightly to US\$815.4/ton in 2016, and increased further to US\$879.4/ton in the six months ended June 30, 2017; the average wholesale price of plasticizers decreased from US\$1,523.6/ton in 2014 to US\$1,105.0/ton in 2015, decreased to US\$962.5/ton in 2016, and further decreased to US\$945.9/ton in the six months ended June 30, 2017. In light of the decrease in the average wholesale price of PVC resins from 2014 to 2015, we purchased additional PVC resins in 2015 to take advantage of the lower prices, and we fully utilized these additional purchases in 2016.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our average unit purchase prices for PVC resin, which is a commodity, on our profit before income tax for the periods indicated, assuming all other factors affecting our profitability had remained unchanged.

Change in profit before income tax	Increase/	Increase/	Increase/
(US\$'000)	decrease by 5%	decrease by 10%	decrease by 15%
2014	-/+ 2,767	-/+ 5,533	-/+ 8,300
2015	-/+ 2,940	-/+ 5,879	-/+ 8,819
2016	-/+ 2,835	-/+ 5,670	-/+ 8,505
Six months ended June 30, 2017	-/+ 2,016	-/+ 4,032	-/+ 6,048

Note: This sensitivity analysis is intended for reference only, and any variation may differ from the amounts indicated.

Investors should note in particular that this sensitivity analysis is not intended to be exhaustive and is limited to the impact of changes in our costs of PVC resins only.

# Wages and salaries, social welfare and benefits

The increase in our cost of sales during the Track Record Period was also affected by increases in wages and salaries, social welfare and benefits, which increased from US\$43.8 million in 2014 to US\$52.1 million in 2015 and further to US\$57.7 million in 2016, and from US\$34.7 million in the six months ended June 30, 2016 to US\$44.8 million in the same period of 2017, primarily due to increases in both headcount and average wages in these respective periods. As a percentage of revenue, wages and salaries, social welfare and benefits remained relatively stable during the Track Record Period.

## Manufacturing costs

The increase in our cost of sales during the Track Record Period was also due in part to the increases in our manufacturing costs. Our manufacturing costs increased from US\$33.2 million in 2014 to US\$33.9 million in 2015, further increased to US\$39.4 million in 2016, and increased from US\$23.5 million in the six months ended June 30, 2016 to US\$26.4 million in the same period of 2017. These increases were primarily due to higher processing fees in line with higher sales volumes.

# **Gross Profit and Gross Profit Margin**

Our gross profit represents our revenue less our cost of sales, and our gross profit margin represents our gross profit divided by our revenue, expressed as a percentage.

Our gross profit increased by 15.7% from US\$96.8 million in 2014 to US\$112.0 million in 2015 and further increased by 46.8% to US\$164.5 million in 2016; our gross profit increased by 17.7% from US\$99.8 million in the six months ended June 30, 2016 to US\$117.4 million in the same period of 2017. Our gross profit margin was 20.7%, 21.8%, 28.1% and 27.9% for the three years ended December 31, 2016 and for the six months ended June 30, 2017, respectively. The increases in our gross profit and gross profit margin for the three years ended December 31, 2016 were primarily due to (i) we were able to price our products at higher gross profit margins as we strengthened our customer relationships and our market position, in particular in the United States, (ii) increased sales of higher gross profit margin products, such as LAY-Z-SPA portable spas, H<sub>2</sub>O GO! water slides and COOLERZ outdoor water sports products, (iii) improved production efficiency as a result of enhancements in our production technology, for example, we completed 46 industrial automation projects, which we believe reduced our marginal production costs during the Track Record Period, (iv) a decrease in the average purchase price of certain key raw materials and (v) lower reported operating costs due to depreciation of the Renminbi against the U.S. dollar. The slight decrease in our gross profit margin from 28.2% in the six months ended June 30, 2016 to 27.9% in the same period of 2017 was primarily a result of our strategic promotion of certain recreation products and camping products in order to strengthen our market presence in certain regions, which resulted in lower gross profit margins for these two product groups.

The following table sets forth our gross profit, gross profit contribution and gross profit margins by product group for the periods indicated:

				For the ye	ar ended Dec	ember 31,	•				For the	e six months ended June 30,			
		2014			2015			2016			2016			2017	
		% of total gross	Gross profit		% of total gross	Gross profit		% of total gross	Gross profit		% of total gross	Gross profit		% of total gross	Gross profit
	Amount	<u>profit</u>	margin	Amount	<u>profit</u>	margin	Amount	<u>profit</u>	margin			margin	Amount	<u>profit</u>	margin
	US\$ ('000)	%	%	US\$ ('000)	%	%	US\$ ('000)	%	%	US\$ ('000) (unaudited)	%	%	US\$ ('000)	%	%
Above-ground Pools															
and Portable Spas	34,122	35.2	17.6	41,469	37.0	17.6	68,905	41.9	25.1	41,176	41.3	24.5	50,825	43.2	25.3
Recreation Products	28,261	29.2	24.9	29,823	26.6	24.9	38,814	23.6	30.9	23,678	23.7	31.2	23,549	20.0	28.6
Sporting Goods	11,718	12.1	26.8	13,476	12.0	27.1	23,588	14.3	31.0	15,952	16.0	32.3	21,107	18.0	34.0
Camping Products	22,747	23.5	19.4	27,277	24.3	25.3	33,230	20.2	30.6	18,958	19.0	31.5	21,942	18.8	28.9
Total	96,848	100.0	20.7	112,045	100.0	21.8	164,537	100.0	28.1	99,764	100.0	28.2	117,423	100.0	27.9

The increases in gross profit and gross profit margin by product group for the three years ended December 31, 2016 were generally in line with our business growth and overall increase in gross profit margin. In particular, the gross profit of above-ground pools and portable spas increased from US\$34.1 million in 2014 to US\$68.9 million in 2016, with the gross profit margin increasing from 17.6% in 2014 to 25.1% in 2016. This was primarily due to (i) an increase in average selling prices as we established stronger market presence in key markets such as the United States, and (ii) increased sales of higher gross margin products, such as LAY-Z-SPA portable spas. Similarly, the gross profit of sporting goods increased from US\$11.7 million in 2014 to US\$23.6 million in 2016, with the gross profit margin increasing from 26.8% in 2014 to 31.0% in 2016. This was primarily due to increased sales of higher gross margin products, such as H<sub>2</sub>O GO! water slides and COOLERZ outdoor water sports products.

The gross profit of recreation products and the gross profit margin of recreation products and camping products decreased in the six months ended June 30, 2017 as compared to the same period of 2016, primarily as a result of our strategic promotion of certain recreation products and camping products in order to strengthen our market presence in certain regions.

The following table sets forth our gross profit, gross profit contribution and gross profit margins by geographic regions for the periods indicated:

				For the ye	ar ended Dec	ember 31,					For the	six month	ıs ended Jui	1e 30,	
		2014			2015			2016			2016			2017	
	Amount	% of total gross profit	Gross profit margin	Amount	% of total gross profit	Gross profit margin	Amount	% of total gross profit	Gross profit margin	Amount	% of total gross profit	Gross profit margin	Amount	% of total gross profit	Gross profit margin
	US\$ ('000)	%	%	US\$ ('000)	%	%	US\$ ('000)	%	%	US\$ ('000) (unaudited)	%	%	US\$ ('000)	%	%
Europe <sup>(1)</sup>	54,179	56.5	21.1	64,276	57.4	24.8	93,112	56.6	30.0	60,599	56.1	30.6	68,434	58.3	31.4
North America	10,347	10.7	13.4	16,513	14.7	13.3	38,473	23.4	23.9	28,989	34.0	24.1	31,776	27.1	22.5
China	2,960	3.1	33.5	1,713	1.5	22.3	2,589	1.6	27.5	946	1.0	27.5	3,599	3.1	34.2
Rest of the world <sup>(2)</sup>	28,822	29.7	23.6	29,543	26.4	24.2	30,363	18.4	29.3	9,230	8.9	29.3	13,614	11.5	26.3
Total	96,848	100.0	20.7	112,045	100.0	21.8	164,537	100.0	28.1	99,764	100.0	28.2	117,423	100.0	27.9

#### Notes:

- (1) Includes countries in the European Economic Area, Switzerland, Turkey, Russia, Kazakhstan, Kyrgyzstan, Albania, Andorra, Armenia, Bosnia and Hercegovina, Georgia, Macedonia, Moldavia, Serbia, Montenegro and Ukraine.
- (2) Includes the United States, Canada and Puerto Rico.

The following table sets forth our gross profit, gross profit contribution and gross profit margins by brand type for the periods indicated:

				For the ye	ar ended Dec	ember 31,					For the	e six mont	hs ended Ju	ne 30,	
		2014			2015			2016			2016			2017	
	Amount	% of total gross profit	Gross profit margin		% of total gross profit	Gross profit margin	Amount	% of total gross profit	Gross profit margin		% of total gross profit	Gross profit margin	Amount	% of total gross profit	Gross profit margin
	US\$ ('000)	%	%	US\$ ('000)	%	%	US\$ ('000)	%	%	US\$ ('000) (unaudited)		%	US\$ ('000)	%	%
Own-brand products	69,997	72.3	20.2	81,017	72.3	23.0	121,243	73.7	27.9	72,440	72.6	28.3	92,028	78.4	29.7
Private label products	18,642	19.2	20.1	24,333	21.7	22.9	28,118	17.1	30.2	17,662	17.7	30.8	18,712	15.9	26.4
Co-branded products	8,209	8.5	28.9	6,695	6.0	12.3	15,176	9.2	26.9	9,662	9.7	23.9	6,683	5.7	16.5
Total	96,848	100.0	20.7	112,045	100.0	21.8	164,537	100.0	28.1	99,764	100.0	28.2	117,423	100.0	27.9

The increases in gross profit and gross profit margin of our own-brand products were generally in line with our business growth and overall increase in gross profit margin during the Track Record Period. The decrease in the gross profit margin of our co-branded products from 28.9% in 2014 to 12.3% in 2015, and from 23.9% in the six months ended June 30, 2016 to 16.5% in the same period of 2017, was primarily a result of our strategic promotion of certain of our co-branded products in order to strengthen our market presence in certain regions during these respective periods. The decrease in gross profit margin of our private label products from 30.8% in the six months ended June 30, 2016 to 26.4% in the same period of 2017 was primarily a result of strategic promotion of certain of our products, which had lower gross profit margins, to our existing private label customers.

## **Selling and Distribution Expenses**

Our selling and distribution expenses primarily consist of transportation expenses, service fees and commissions paid to our third-party regional relationship managers, wages and salaries, social welfare and benefits for our marketing and sales personnel, advertising and promotion expenses, royalty expenses for co-branded products and aftersales services expenses. For the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, our selling and distribution expenses were US\$44.4 million, US\$48.0 million, US\$60.7 million and US\$43.3 million, respectively, representing 9.5%, 9.3%, 10.4% and 10.3% of our revenue in these respective periods.

The following table sets forth our selling and distribution expenses by category and as a percentage of total revenue for the periods indicated:

		For	the year end	ed December	· 31,		For t	he six montl	e six months ended June 30,		
	20	14	20	15	20	16	20	16	20	17	
	US\$ ('000)	% of total revenue	US\$ ('000)	% of total revenue	US\$ ('000)	% of total revenue	US\$ ('000) (unaudited)	% of total revenue	US\$ ('000)	% of total revenue	
Transportation expenses	12,765	2.7	13,453	2.6	15,473	2.6	9,482	2.7	11,167	2.6	
Service fees and commissions	14,257	3.0	10,521	2.0	13,369	2.3	8,013	2.3	9,189	2.2	
Wages and salaries, social											
welfare and benefits	4,701	1.0	5,962	1.2	8,279	1.4	4,976	1.4	6,088	1.4	
Advertising and promotion											
expenses	1,312	0.3	3,536	0.7	7,465	1.3	4,822	1.4	5,654	1.3	
Royalty expenses	4,026	0.9	5,263	1.0	5,492	0.9	3,734	1.1	3,609	0.9	
After-sale services expenses	2,273	0.5	2,359	0.5	2,464	0.4	1,448	0.4	1,716	0.4	
Others <sup>(1)</sup>	5,050	1.1	6,909	1.3	8,162	1.5	4,055	1.1	5,904	1.4	
Total	44,384	9.5	48,003	9.3	60,704	10.4	36,530	10.3	43,327	10.3	

Note:

<sup>(1)</sup> Includes primarily travel expenses, inspection fees, insurance premiums, postage charges and rental fees.

#### **Administrative Expenses**

Our administrative expenses primarily consist of wages and salaries, social welfare and benefits for our administrative and management personnel, research and development expenses, depreciation and amortization of our office and employees dormitories, maintenance fees and rental expenses. For the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, our administrative expenses were US\$35.1 million, US\$41.8 million, US\$48.6 million and US\$27.7 million, representing 7.5%, 8.1%, 8.3% and 6.6% of our revenue in these respective periods.

The following table sets forth our administrative expenses by category and as a percentage of total revenue for the periods indicated:

	For the year ended December 31,				For	the six montl	hs ended June	30,		
	2014		2015		2016		2016		2017	
	US\$ ('000)	% of total revenue	US\$ ('000)	% of total revenue	US\$ ('000)	% of total revenue	US\$ ('000) (unaudited)	% of total revenue	US\$ ('000)	% of total revenue
Wages and salaries, social										
welfare and benefits	15,348	3.3	20,755	4.0	20,100	3.4	10,124	2.9	12,054	2.9
Research and development										
expenses <sup>(1)</sup>	4,914	1.1	6,254	1.2	7,333	1.3	3,152	0.9	3,180	0.8
Depreciation and										
amortization	3,435	0.7	3,977	0.8	4,553	0.8	2,012	0.6	2,418	0.6
Maintenance fees	1,401	0.3	1,333	0.3	2,199	0.4	1,099	0.3	444	0.1
Rental expenses	1,675	0.4	1,873	0.4	2,115	0.4	1,058	0.3	1,063	0.3
Listing expenses	_	_	_	_	674	0.1	_	0.0	2,641	0.6
Others <sup>(2)</sup>	8,362	1.7	7,608	1.4	11,651	1.9	6,279	1.8	5,903	1.3
Total	35,135	7.5	41,800	8.1	48,625	8.3	23,724	6.7	27,703	6.6

#### Notes:

- (1) Does not include relevant staff costs and equipment expenses.
- (2) Includes primarily consultancy service fees, office expenses, travel expenses, bank charges (e.g. issuance of letter of credit and remittance fees) and provisions for impairments of receivables.

#### Other Income

Our other income consists of (i) government grants, which include financial subsidies that we receive from local governments in recognition of our contributions to business innovation, industry and technological development and energy-saving and emission reduction, and (ii) income from sale of raw materials and scrap, which mainly represented sales of scrap raw materials. Government grants were given at the discretion of the relevant government authorities. There is no assurance that similar grants will be made to us in any future period. For details of these government grants, please see "Risk Factors—Preferential tax treatment and financial subsidies that we have enjoyed may be changed or terminated."

In 2014, 2015, 2016 and the six months ended June 30, 2017, other income was US\$1.8 million, US\$5.4 million, US\$2.1 million and US\$2.4 million, respectively, representing 0.4%, 1.1%, 0.4% and 0.6% of total revenue, respectively.

#### Other (Losses)/Gains-Net

Our other losses were US\$4.4 million in 2014, and other gains were US\$0.9 million in 2015 and US\$4.7 million in 2016 and other losses were US\$2.7 million in the six months ended June 30, 2017. These amounts represented (0.9)%, 0.2%, 0.8% and (0.6)% of total revenue in these respective periods. Our other (losses)/gains—net mainly consists of (i) fair value gains on financial assets at fair value through profit or loss, (ii) unrealized fair value changes and realized losses or gains on derivative financial instruments, which represented our forward foreign exchange contracts and foreign exchange-related options, (iii) losses on disposal of property, plant and equipment such as production equipment and (iv) net foreign exchange gains as a result of the fluctuations in foreign exchange in U.S. dollar and Renminbi for the amounts receivable or payable on our operating activities and cash and cash equivalents denominated in the Renminbi or the U.S. dollar. As most of our operating expenses are denominated in Renminbi and most of our sales are denominated and settled in U.S. dollars, we entered into forward foreign exchange contracts and foreign exchange-related options in respect of the Renminbi against the U.S. dollar during the Track Record Period. For details of our forward foreign exchange contracts and foreign exchange-related options, please see "—Description of Selected Items of the Consolidated Statements of Financial Position—Derivative Financial Instruments."

## Finance (Expenses)/Income—Net

Finance expenses include interest expenses on bank borrowings, interest expenses on retirement benefit obligations and foreign exchange losses on our financing activities. Finance income includes interest income on bank deposits. In 2014, 2015 and 2016 and the six months ended June 30, 2017, the net amount of finance expenses and finance income was US\$2.9 million, US\$6.7 million, US\$4.9 million and US\$1.8 million, respectively, representing 0.6%, 1.3%, 0.8% and 0.4% of total revenue, respectively.

For details of our bank borrowings and respective effective interest rates during the Track Record Period, please see "—Indebtedness—Borrowings."

## **Income Tax Expense**

Our income tax expense includes current and deferred income tax expenses. In 2014, 2015, 2016 and the six months ended June 30, 2017, our net income tax expenses were US\$3.4 million, US\$6.7 million, US\$14.0 million and US\$9.7 million, respectively.

Our effective tax rate increased from 29.0% in 2014 to 30.5% in 2015 primarily because we incurred share-based payments of US\$3.0 million in 2015, which were not deductible for tax purposes. For details of the share-based payments, please see Note 28 to "Appendix I—Accountant's Report." Our effective tax rate decreased from 30.5% in 2015 to 24.6% in 2016 primarily because Bestway Shanghai started to enjoy a 15% preferential enterprise income tax rate as described below, as compared to the 25% rate it was subject to in 2015. Our effective tax rate decreased from 25.4% in the six months ended June 30, 2016 to 21.8% in the same period of 2017, primarily because we incurred less PRC withholding tax imposed on dividends paid by our Chinese subsidiaries, as we paid fewer dividends in the first half of 2017.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, we are not subject to any income tax in the Cayman Islands or the British Virgin Islands.

Our subsidiaries including Bestway Enterprise and Bestway Hong Kong are subject to Hong Kong profit tax. The applicable Hong Kong profit tax rate was 16.5% during the Track Record Period.

During the Track Record Period, we were subject to overseas profits tax, which were provided for at the rates of taxation prevailing in the countries in which we operate, which ranged from 20% to 41%.

Our subsidiary, Bestway Shanghai obtained approvals in 2016 from the relevant Chinese tax authorities for eligibility for a 15% preferential enterprise income tax rate in accordance with the Administrative Measures For The Determination Of High And New Technology Enterprises (高新技術企業認定管理辦法). This status was granted for the years from 2016 to 2018. In addition, an additional 50% of the research and development expenses incurred by Bestway Shanghai are deductible from its taxable income in accordance with the Notice of the State Administration of Taxation on Issuing the Administrative Measures for the Pre-tax Deduction of Enterprise Research and Development Expenses (for Trial Implementation) (國家稅務總局關於印發《企業研究開發費用稅前扣除管理辦法(試行)》的 通知) and the Notice of the Ministry of Finance, the State Administration of Taxation and the Ministry of Science and Technology on Improving the Policies for the Weighted Pre-tax Deduction of Research and Development Expenses (財政部、國家稅務總局及科技部關於完善研究開發費用稅前加計扣除政策的通知) for the periods from 2014.

We obtained approvals in 2014 from the relevant Chinese tax authorities for eligibility for a 5% exemption from enterprise income tax in relation to the dividends our Chinese subsidiaries distributed out of China in accordance with the Announcement No. 60 2015 of the State Administration of Taxation—Announcement on Issuing the Measures for the Administration of Non-Resident Taxpayers' Enjoyment of the Treatment under Tax Agreements (國家稅務總局公告2015年第60號關於發佈《非居民納稅人享受稅收協定待遇管理辦法》的公告).

Except as disclosed above during the Track Record Period, all of our subsidiaries that are established in China were subject to the statutory income tax rate of 25% in accordance with the EIT Law, except for Bestway Shanghai, which is qualified as High and New Technology Enterprises and therefore entitled to a beneficial tax rate of 15%, and Bestway Shanghai Investment, which is qualified under the Law of the PRC on Enterprise Income Tax (中國企業所得稅法) and the Implementing Regulations of the Law of the PRC on Enterprise Income Tax (中國企業所得稅法實施條例), and therefore entitled to a beneficial tax rate of 20%.

## RESULTS OF OPERATIONS

The following table sets forth a summary of our results of operations for the periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

The Six Months Ended June 30, 2017 compared with the Six Months Ended June 30, 2016

	For the six months ended June 30,					
	2016		2017	2017 vs.		
		% of		% of		
	US\$ ('000) (unaudited)	Revenue	US\$ ('000)	Revenue	% Change	
Revenue	353,415	100.0	421,625	100.0	19.3	
Cost of sales	(253,651)	(71.8)	(304,202)	(72.1)	19.9	
Gross profit	99,764	28.2	117,423	27.9	17.7	
Selling and distribution expenses	(36,530)	(10.3)	(43,327)	(10.3)	18.6	
Administrative expenses	(23,724)	(6.7)	(27,703)	(6.6)	16.8	
Other income	431	0.1	2,444	0.6	467.3	
Other gains/(losses)—net	3,113	0.9	(2,720)	(0.6)	(187.4)	
Finance income	233	0.1	50	0.0	(78.5)	
Finance expenses	(2,673)	(0.8)	(1,900)	(0.5)	(28.9)	
Profit before income tax	40,614	11.5	44,267	10.5	9.0	
Income tax expense	(10,335)	(2.9)	(9,662)	(2.3)	(6.5)	
Profit for the period	30,279	8.6	34,605	8.2	14.3	

## Revenue

The 19.3% increase in our revenue from US\$353.4 million in the six months ended June 30, 2016 to US\$421.6 million in the same period of 2017 was primarily due to (i) our increased marketing campaigns, strengthened customer relationships and continued expansion in the United States, which resulted in a 17.7% increase in revenue we derived from the North America, which increased from US\$120.2 million in the six months ended June 30, 2016 to US\$141.5 million in the same period of 2017; (ii) a 64.3% increase in revenue from the Rest of the World from US\$31.5 million in the six months ended June 30, 2016 to US\$51.7 million in the same period of 2017, which was mainly driven by higher sales in Brazil and Australia as a result of economic recoveries in these countries; and (iii) a significant increase in revenue from China from US\$3.4 million in the six months ended June 30, 2016 to US\$10.5 million in the same period of 2017 as a result of our increased marketing campaigns and expansion there. The revenue growth is also due to higher sales of our New Products, such as LAY-Z-SPA portable spas, H2O GO! water slides, COOLERZ outdoor water sports products and FORTECH airbeds, which resulted in higher sales of our above-ground pools and portable spas, sporting goods and

camping products in the six months ended June 30, 2017. The revenue of our above-ground pools and portable spas increased by 19.7% from US\$168.1 million to US\$201.2 million, the revenue of our sporting goods increased by 25.8% from US\$49.4 million to US\$62.2 million and the revenue of our camping products increased by 26.4% from US\$60.1 million to US\$76.0 million, during these respective periods.

#### Cost of Sales

Our cost of sales increased by 19.9% from US\$253.7 million in the six months ended June 30, 2016 to US\$304.3 million in the same period of 2017, which was in line with the increase of sales. Our wages and salaries, social welfare and benefits increased by 29.3% from US\$34.7 million in the six months ended June 30, 2016 to US\$44.8 million in the same period of 2017, primarily due to higher headcount for our manufacturing facilities mainly as a result of the expansion of our production capacity in Nantong.

#### **Gross Profit**

Our gross profit increased by 17.7% from US\$99.8 million in the six months ended June 30, 2016 to US\$117.4 million in the same period of 2017, which was generally in line with our sales growth. Our gross profit margin decreased slightly from 28.2% in the six months ended June 30, 2016 to 27.9% in the same period of 2017, primarily as a result of our strategic promotion of certain recreation products and camping products in order to strengthen our market presence in certain regions in the first half of 2017.

## **Selling and Distribution Expenses**

Our selling and distribution expenses increased by 18.6% from US\$36.5 million in the six months ended June 30, 2016 to US\$43.3 million in the same period of 2017. This increase was primarily as a result of (i) a 17.6% increase in our transportation expenses from US\$9.5 million to US\$11.2 million as a result of our business growth (ii) a 22.3% increase in wages and salaries, social welfare and benefits for our marketing personnel from US\$5.0 million to US\$6.1 million as a result of increased headcount and higher average wages, and (iii) a 14.7% increase in service fees and commissions paid to our third-party regional relationship managers from US\$8.0 million to US\$9.2 million, which is generally is in line with our business growth. As a percentage of revenue, our selling and distribution expenses remained stable in both periods.

# **Administrative Expenses**

Our administrative expenses increased by 16.8% from US\$23.7 million in the six months ended June 30, 2016 to US\$27.7 million in the same period of 2017, primarily as a result of (i) a 19.1% increase in wages and salaries, social welfare and benefits for our administrative staff from US\$10.1 million to US\$12.1 million as a result of both higher headcount and higher average wages, which were in line with our business growth, and (ii) US\$2.6 million of listing expenses for the Global Offering incurred in the six months ended June 30, 2017. As a percentage of revenue, our administrative expenses remained stable in both periods.

#### Other Income

Our other income increased from US\$0.4 million in the six months ended June 30, 2016 to US\$2.4 million in the same period of 2017, primarily because the local government granted financial subsidies of US\$1.9 million to Bestway Nantong in the first half of 2017 to encourage our business development there.

## Other Gains/(Losses)—Net

We recorded other losses of US\$2.7 million in the six months ended June 30, 2017 compared with other gains of US\$3.1 million in the same period of 2016. This reversal was mainly attributable to a reversal from net foreign exchange gains of US\$1.5 million in the six months ended June 30, 2016 to net foreign exchange losses of US\$2.7 million in the same period of 2017 as a result of the appreciation of the Renminbi against the U.S. dollar in the first half of 2017.

## Finance (Expenses)/Income—Net

Our net finance expenses decreased from US\$2.4 million in the six months ended June 30, 2016 to US\$1.8 million in the same period of 2017, primarily due to a reversal from our foreign exchange losses on financing activities of US\$0.4 million in the six months ended June 30, 2016 to foreign exchange gains on financing activities of US\$0.2 million in the same period of 2017, as a result of the appreciation of the Renminbi against the U.S. dollar in the first half of 2017.

#### **Profit Before Income Tax**

As a result of the foregoing, our profit before income tax increased from US\$40.6 million in the six months ended June 30, 2016 to US\$44.3 million in the same period of 2017.

# **Income Tax Expense**

Our income tax expenses decreased from US\$10.3 million in the six months ended June 30, 2016 to US\$9.7 million in the same period of 2017. Our effective tax rate decreased from 25.4% in the six months ended June 30, 2016 to 21.8% in the same period of 2017, primarily because we incurred lower PRC withholding tax imposed on dividends paid by our Chinese subsidiaries, as we paid fewer dividends.

## **Profit for the Period**

As a result of the foregoing, our profit for the period increased from US\$30.3 million in the six months ended June 30, 2016 to US\$34.6 million in the same period of 2017.

For the year ended December 31

The Year Ended December 31, 2016 Compared with the Year Ended December 31, 2015

	For the year ended December 31,					
	2015		201	2016 vs. 2015		
		% of		% of		
	US\$ ('000)	Revenue	US\$ ('000)	Revenue	% Change	
Revenue	513,532	100.0	584,529	100.0	13.8	
Cost of sales	(401,487)	(78.2)	(419,993)	(71.9)	4.6	
Gross profit	112,045	21.8	164,537	28.1	46.8	
Selling and distribution expenses	(48,003)	(9.3)	(60,704)	(10.4)	26.5	
Administrative expenses	(41,800)	(8.1)	(48,625)	(8.3)	16.3	
Other income	5,428	1.1	2,101	0.4	(61.3)	
Other gains — net	920	0.2	4,667	0.8	407.4	
Finance income	1,345	0.3	492	0.1	(63.4)	
Finance expenses	(8,081)	(1.6)	(5,427)	(0.9)	32.8	
Profit before income tax	21,854	4.3	57,042	9.8	161.0	
Income tax expense	(6,664)	(1.3)	(14,022)	(2.4)	110.4	
Profit for the year	15,190	3.0	43,020	7.4	183.2	

#### Revenue

The 13.8% increase in our revenue from US\$513.5 million in 2015 to US\$584.5 million in 2016 was primarily due to (i) our increased marketing campaigns, strengthened customer relationships and continued expansion in the United States, which resulted in a 34.9% increase in revenue we derived from the United States, which increased from US\$106.0 million in 2015 to US\$143.0 million in 2016; (ii) a 19.7% increase in revenue from Europe from US\$259.4 million in 2015 to US\$310.4 million in 2016, which was mainly driven by higher sales in the UK, Poland and France as a result of the economic recovery in Europe; (iii) our sales growth of above-ground pools and portable spas, with revenue from sales of these products increasing from US\$236.3 million in 2015 to US\$274.3 million in 2016, primarily due to higher sales in Europe; (iv) higher sales of sporting goods, with revenue increasing by 52.9% from US\$49.7 million in 2015 to US\$76.0 million in 2016, primarily due to the introduction of New Products in recent years, such as LAY-Z-SPA portable spas, H<sub>2</sub>O GO! water slides and COOLERZ outdoor water sports products; and (v) a 22.6% increase in revenue derived from China, which increased from US\$7.7 million in 2015 to US\$9.4 million in 2016 as we expanded into the Chinese market. These increases in revenue were partially offset by a 12.6% decrease in revenue from sales of private label products from US\$106.4 million in 2015 to US\$93.0 million in 2016, primarily due to a decrease in sales to some of our private label customers in Brazil as a result of the slowing economy there.

#### Cost of Sales

Our cost of sales increased by 4.6% from US\$401.5 million in 2015 to US\$420.0 million in 2016, as a result of increase of sales in the same period. The 4.6% increase in cost of sales was smaller than the 13.8% increase in revenue primarily due to (i) lower operating costs due to the depreciation of the Renminbi against the U.S. dollar, (ii) enhancements in our production technology, which improved our production efficiency and reduced our marginal production costs, and (iii) decrease in the average purchase price of our raw materials.

#### **Gross Profit**

Our gross profit increased by 46.8% from US\$112.0 million in 2015 to US\$164.5 million in 2016 and our gross profit margin increased from 21.8% in 2015 to 28.1% in 2016, primarily due to (i) we were able to price our products at higher gross profit margins as we strengthened our customer relationships and our market position, in particular in the United States; (ii) increased sales of higher gross profit margin products, such as LAY-Z-SPA portable spas, H<sub>2</sub>O GO! water slides and COOLERZ outdoor water sports products; (iii) improved production efficiency as a result of enhancement in our production technology, for example, we completed 46 industrial automation projects, which we believe reduced our marginal production costs during the Track Record Period; (iv) a decrease in the average purchase price of certain key raw materials and (v) lower reported operating costs due to depreciation of Renminbi against the U.S. dollar.

## **Selling and Distribution Expenses**

Our selling and distribution expenses increased by 26.5% from US\$48.0 million in 2015 to US\$60.7 million in 2016. This increase was primarily as a result of (i) a 27.1% increase in service fees and commissions paid to our third-party regional relationship managers from US\$10.5 million to US\$13.4 million, (ii) a 38.9% increase in wages and salaries, social welfare and benefits for our marketing personnel from US\$6.0 million to US\$8.3 million and (iii) a significant increase in advertising and promotion expenses from US\$3.5 million to US\$7.5 million, as we increased marketing campaigns in key markets (in particular the United States) to expand our sales in 2016. As a percentage of revenue, our selling and distribution expenses increased from 9.3% in 2015 to 10.4% in 2016.

# **Administrative Expenses**

Our administrative expenses increased by 16.3% from US\$41.8 million in 2015 to US\$48.6 million in 2016, primarily as a result of (i) consultancy service fees of US\$4.2 million we paid to our legal advisors to protect our intellectual property rights, (ii) a 17.3% increase in research and development expenses from US\$6.3 million to US\$7.3 million to support our new product development, and (iii) US\$0.7 million of listing expenses for the Global Offering incurred in 2016. As a percentage of revenue, our administrative expenses remained stable at approximately 8% in both years.

# Other Income

Our other income decreased from US\$5.4 million in 2015 to US\$2.1 million in 2016 primarily because the local government granted financial subsidies of US\$0.6 million to Bestway Nantong in 2016 to encourage our business development as compared to US\$3.7 million that was granted to Bestway Nantong in 2015.

#### Other Gains-Net

Our other gains increased from US\$0.9 million in 2015 to US\$4.7 million in 2016, primarily because our gains/losses on derivative financial instruments, which represented gains/losses arising from the forward foreign exchange contracts and foreign exchange-related options we entered into to manage foreign exchange rate risk between Renminbi and U.S. dollar, reversed from a loss of US\$7.7 million in 2015 to a gain of US\$0.4 million in 2016. This reversal occurred because we ceased to enter into foreign exchange-related options since 2016, while we entered into foreign exchange-related options contracts in 2015. This was partially offset by a 39.0% decrease in net foreign exchange gains from US\$8.2 million in 2015 to US\$5.0 million in 2016 as a result of slower depreciation of Renminbi in the same period. For details of our forward foreign exchange contracts and foreign exchange-related options during the Track Record Period, please see "—Description of Selected Items of the Consolidated Statements of Financial Position—Derivative Financial Instruments."

#### Finance (Expenses)/Income—Net

Our net finance expenses decreased from US\$6.7 million in 2015 to US\$4.9 million in 2016, primarily due to (i) a 22.3% decrease in interest expense on banks borrowings from US\$5.5 million in 2015 to US\$4.3 million in 2016 as a result of a decrease in bank borrowings and (ii) a 55.8% decrease in foreign exchange losses on financing activities from US\$2.6 million in 2015 to US\$1.1 million in 2016 as a result of the depreciation of the Renminbi against the U.S. dollar. These are partially offset by a 63.4% decrease in interest income from US\$1.3 million in 2015 to US\$0.5 million in 2016 as a result of a decrease in loans to third parties.

#### **Profit Before Income Tax**

As a result of the foregoing, our profit before income tax for the year increased from US\$21.9 million in 2015 to US\$57.0 million in 2016.

## **Income Tax Expenses**

The increase in income tax expenses from US\$6.7 million in 2015 to US\$14.0 million in 2016 was primarily as a result of the increase in our profit before income tax from US\$21.9 million in 2015 to US\$57.0 million in 2016. Our effective tax rate decreased from 30.5% in 2015 to 24.6% in 2016 primarily because Bestway Shanghai enjoyed a 15% preferential enterprise income tax rate in 2016.

# Profit for the Year

As a result of the foregoing, our profit for the year increased from US\$15.2 million in 2015 to US\$43.0 million in 2016.

The Year Ended December 31, 2015 Compared with the Year Ended December 31, 2014

	1				
	2014		201:	2015 vs. 2014	
	US\$ ('000)	% of Revenue	US\$ ('000)	% of Revenue	% Change
Revenue	467,914	100.0	513,532	100.0	9.7
Cost of sales	(371,066)	(79.3)	(401,487)	(78.2)	8.2
Gross profit	96,848	20.7	112,045	21.8	15.7
Selling and distribution expenses	(44,384)	(9.5)	(48,003)	(9.3)	8.2
Administrative expenses	(35,135)	(7.5)	(41,800)	(8.1)	19.0
Other income	1,838	0.4	5,428	1.1	195.4
Other (losses)/gains—net	(4,431)	(0.9)	920	0.2	(120.8)
Finance income	660	0.1	1,345	0.3	103.6
Finance expenses	(3,528)	(0.8)	(8,081)	(1.6)	129.1
Profit before income tax	11,868	2.5	21,854	4.3	84.1
Income tax expense	(3,438)	(0.7)	(6,664)	(1.3)	93.9
Profit for the year	8,430	1.8	15,190	3.0	80.2

#### Revenue

The 9.7% increase in our revenue from US\$467.9 million in 2014 to US\$513.5 million in 2015 was primarily due to (i) our increased marketing campaigns, strengthened customer relationships and expansion in the United States market, which resulted in a 76.0% increase in revenue derived from the United States' market from US\$60.3 million in 2014 to US\$106.0 million in 2015, (ii) our sales growth of above-ground pools and portable spas, with revenue from sales of these products increasing from US\$193.6 million in 2014 to US\$236.3 million in 2015, primarily due to a significant increase in revenue derived from the sales of above-ground pools and portable spas in the United States market from US\$16.1 million in 2014 to US\$47.0 million in 2016, (iii) sales of certain of our co-branded products introduced in 2014 increased significantly in 2015 as a result of our strategic promotions of such products and (iv) we resumed our business relationship with a key customer in Brazil who placed additional purchase orders of private label products. Our sales to Europe remained stable at US\$259.8 million in 2014 and 2015, primarily because our stable business growth in the rest of Europe was offset by a 27.2% decrease in our sales to Russia, which declined from US\$41.1 million in 2014 to US\$30.0 million in 2015 as a result of the slowing Russian economy.

## **Cost of Sales**

Our cost of sales increased by 8.2% from US\$371.1 million in 2014 to US\$401.5 million in 2015. The increase was generally in line with our higher sales but was partially offset by lower purchase prices of our raw materials. In light of the decreases in average purchase prices of PVC resins, we purchased more PVC resins to take advantage of such lower prices. For details of the sensitivity analysis of the impact of hypothetical fluctuations in our average unit purchase prices for PVC resins, please see "—Description of Selected Items of the Consolidated Statements of Profit or Loss—Cost of Sales."

## **Gross Profit**

Our gross profit increased by 15.7% from US\$96.8 million in 2014 to US\$112.0 million in 2015, and our gross profit margin increased from 20.7% in 2014 to 21.8% in 2015, primarily due to (i) increased sales of higher gross profit margin products, such as portable spas, (ii) a decrease in the average purchase price of certain key raw materials and (iii) lower reported operating costs due to the depreciation of the Renminbi against the U.S. dollar. These factors were offset in part by the decrease in the gross profit margin of our co-branded products business, from 28.9% in 2014 to 12.3% in 2015, primarily because we strategically promoted certain of our co-branded products in order to strengthen our market presence in certain regions.

## **Selling and Distribution Expenses**

Our selling and distribution expenses increased by 8.2% from US\$44.4 million in 2014 to US\$48.0 million in 2015. This increase was primarily attributable to (i) a significant increase in our advertising and promotion expenses from US\$1.3 million in 2014 to US\$3.5 million in 2015, primarily as a result of our increased marketing campaigns in the United States, and (ii) a 26.8% increase in wages and salaries, social welfare and benefits from US\$4.7 million in 2014 to US\$6.0 million in 2015 as a result of an increase in wages paid to our marketing personnel in recognition of their sales performance. These were partially offset by a 26.2% decrease in service fees and commissions paid to our third-party regional relationship managers from US\$14.3 million in 2014 to US\$10.5 million in 2015 as we increased our reliance on our own marketing personnel. As a percentage of revenue, our selling and distribution expenses remained relatively stable in both years.

# **Administrative Expenses**

Our administrative expenses increased by 19.0% from US\$35.1 million in 2014 to US\$41.8 million in 2015. This increase was primarily attributable to (i) a 35.2% increase in wages and salaries, social welfare and benefits for our administrative staff from US\$15.3 million in 2014 to US\$20.8 million in 2015 as we incurred share-based payments of US\$3.0 million in 2015 and (ii) a 27.3% increase in research and development expenses from US\$4.9 million in 2014 to US\$6.3 million in 2015 for our new product development. For details of the share-based payments, please see Note 28 to "Appendix I—Accountant's Report." As a percentage of revenue, our administrative expenses increased from 7.5% in 2014 to 8.1% in 2015.

#### Other Income

Our other income increased from US\$1.8 million in 2014 to US\$5.4 million in 2015 primarily because the local government granted financial subsidies of US\$3.7 million to Bestway Nantong in 2015 to encourage our business development there.

#### Other (Losses)/Gains-Net

We incurred other gains of US\$0.9 million in 2015 compared with other losses of US\$4.4 million in 2014. This reversal was mainly attributable to (i) a significant increase in net foreign exchange gains from US\$1.1 million in 2014 to US\$8.2 million in 2015 as a result of the depreciation of the Renminbi against the U.S. dollar and (ii) a 96.9% decrease in losses on disposal of property, plant and equipment from US\$2.7 million in 2014 to US\$0.1 million in 2015. These were partially offset by the significant increase in losses on derivative financial instruments, which represented losses arising from the forward foreign exchange contracts and foreign exchange-related options we entered into to mitigate foreign exchange rate risk between the Renminbi and the U.S. dollar, which increased from US\$3.3 million in 2014 to US\$7.7 million in 2015. These losses were due to the change in the trend of the exchange rate between the Renminbi against the U.S. dollar, in particular the depreciation of the Renminbi against the U.S. dollar since August 2015, which caused our unrealized fair value losses on derivative financial instruments to increase from US\$1.6 million in 2014 to US\$6.5 million in 2015. For details of our forward foreign exchange contracts and foreign exchange-related options during the Track Record Period, please see "—Description of Selected Items of the Consolidated Statements of Financial Position—Derivative Financial Instruments."

# Finance (Expenses)/Income—Net

Our net finance expenses increased from US\$2.9 million in 2014 to US\$6.7 million in 2015, primarily due to (i) a 63.3% increase in interest expense on banks borrowings from US\$3.4 million in 2014 to US\$5.5 million in 2015 as we obtained more bank borrowings for working capital, and (ii) a significant increase in foreign exchange losses on financing activities from US\$0.1 million in 2014 to US\$2.6 million in 2015 as a result of the depreciation of Renminbi against the U.S. dollar since August 2015, which resulted in foreign exchange losses on our banks borrowings that were denominated in the U.S. dollar.

#### **Profit Before Income Tax**

As a result of the foregoing, our profit before income tax for the year increased from US\$11.9 million in 2014 to US\$21.9 million in 2015.

## **Income Tax Expenses**

The increase in income tax expenses from US\$3.4 million in 2014 to US\$6.7 million in 2015 was primarily as a result of a 67.5% increase in current income tax from US\$5.1 million in 2014 to US\$8.5 million in 2015, which was in line with the significant increase in our profit before income tax from US\$11.9 million in 2014 to US\$21.9 million in 2015.

Our effective tax rate increased from 29.0% in 2014 to 30.5% in 2015 primarily because we incurred share-based payments of US\$3.0 million in 2015, which were not deductible for tax purposes. For details of the share-based payments, please see Note 28 to "Appendix I—Accountant's Report."

#### Profit for the Year

As a result of the foregoing, our profit for the year increased from US\$8.4 million in 2014 to US\$15.2 million in 2015.

# LIQUIDITY AND CAPITAL RESOURCES

## **Cash Flow**

Our primary uses of cash during the Track Record Period were to pay for purchases of raw materials and capital expenditure for expansion of production facilities. We financed our liquidity requirements mainly through cash flows generated from our operating activities and bank borrowings.

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

For the

	For the yea	six months ended June 30,		
	2014 2015 2016			2017
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)
Net cash (used in)/generated from				
operating activities	(21,581)	27,347	65,366	56,405
Net cash used in investing activities	(34,806)	(44,580)	(36,419)	(32,504)
Net cash (used in)/generated from				
financing activities	56,150	23,654	(30,360)	38,640
Net (decrease)/increase in cash and				
cash equivalents	(237)	6,422	(1,413)	62,541
Cash and cash equivalents at				
the beginning of year	16,723	16,326	23,455	22,965
Exchange (loss)/gain on cash and				
cash equivalent	(161)	708	922	(298)
Cash and cash equivalents at the end				
of year	16,326	23,455	22,965	85,208

# Cash Flow (Used in)/Generated from Operating Activities

In the six months ended June 30, 2017, we had net cash inflows from operating activities of US\$56.4 million, consisting of US\$54.6 million in net cash generated from operations before changes in working capital, net cash inflow of US\$15.5 million relating to changes in working capital, income tax paid of US\$10.1 million and interest paid of US\$2.4 million. Our net cash generated from operations before changes in working capital were primarily attributable to our profit before income tax of US\$44.3 million, adjusted for non-cash items, including primarily to add back depreciation of property, plant and equipment of US\$5.9 million, foreign exchange gains on operating activities of US\$3.0 million and finance expenses of US\$1.9 million and to deduct fair value gains on derivative financial instruments of US\$0.8 million, which mainly resulted from the appreciation of the Renminbi against the U.S. dollar. Our net cash inflows relating to changes in working capital were primarily attributable to an increase in inventories of US\$21.8 million as a result of our increased purchase of raw materials and an increase in other payables and accruals of US\$12.6 million which was mainly due to increased accruals for our increased marketing campaigns in key markets and US\$2.6 million of listing expenses for the Global Offering incurred in the first half of 2017. These were partially offset by an increase in trade receivables of US\$24.4 million in the same period, primarily due to higher sales to our customers from the northern hemisphere to whom we normally sell in the first half of the year. For details, please see Note 37 to "Appendix I—Accountant's Report."

In 2016, we had net cash inflows from operating activities of US\$65.4 million, consisting of US\$69.6 million in net cash generated from operations before changes in working capital, net cash inflow of US\$10.0 million relating to changes in working capital, income tax paid of US\$9.5 million and interest paid of US\$4.7 million. Our net cash generated from operations before changes in working capital were primarily attributable to our profit before income tax of US\$57.0 million, adjusted for non-cash items, including primarily to add back depreciation of property, plant and equipment of US\$10.9 million and finance expenses of US\$4.9 million and to deduct foreign exchange gains on operating activities of US\$5.9 million. Our net cash inflows relating to changes in working capital were primarily attributable to a significant decrease in inventories of US\$25.5 million primarily due to utilization of PVC resins that we purchased in 2015, partially offset by an increase in trade receivables of US\$24.6 million in the same period primarily due to longer credit period we granted to certain major retailers and importers who made large purchases from us. For details, please see Note 37 to "Appendix I—Accountant's Report."

In 2015, we had net cash inflows from operating activities of US\$27.3 million, consisting of US\$39.0 million in net cash generated from operations before changes in working capital, net cash inflows of US\$0.5 million relating to changes in working capital, income tax paid of US\$6.0 million and interest paid of US\$6.1 million. Our net cash generated from operations before changes in working capital were primarily attributable to our profit before income tax of US\$21.9 million, adjusted for non-cash items, including primarily to add back depreciation of property, plant and equipment of US\$9.5 million, fair value losses on derivative financial instruments of US\$7.7 million and finance expenses of US\$6.7 million and to deduct foreign exchange gains on operating activities of US\$8.9 million. Our net cash inflows relating to changes in working capital were primarily attributable to (i) a decrease in bank deposits pledged as security for bank borrowings of US\$16.6 million and (ii) a decrease in prepayments and other receivables of US\$8.9 million due in part to a decrease in loans to third parties in the same period. These were partially offset by (i) a decrease in other payables and accruals of US\$9.8 million

due in part to a decrease in advances from customers and (ii) a decrease in trade payables of US\$11.6 million primarily due to a decrease in price of raw materials. For details, please see Note 37 to "Appendix I—Accountant's Report."

In 2014, we had net cash outflows from operating activities of US\$21.6 million, consisting of US\$30.4 million in net cash generated from operations before changes in working capital, net cash outflows of US\$45.9 million relating to changes in working capital, income tax paid of US\$3.1 million and interest paid of US\$3.0 million. Our net cash generated from operations before changes in working capital were primarily attributable to our profit before income tax of US\$11.9 million, adjusted for noncash items, including primarily to add back depreciation of property, plant and equipment of US\$8.1 million, fair value losses on derivative financial instruments of US\$3.3 million, finance expenses of US\$2.9 million and loss on disposal of property, plant and equipment of US\$2.7 million as a result of our disposal of production equipment with negligible scrap values in the same period, and to deduct foreign exchange gains on operating activities of US\$1.0 million. Our net cash outflows relating to changes in working capital were primarily attributable to (i) an increase in inventories of US\$58.8 million near the year end of 2014, partially because we expected sales growth in 2015 and therefore increased our inventories near the end of 2014, these inventories of finished goods were subsequently sold in 2015, and (ii) an increase in trade receivables of US\$25.2 million as a result of a growth of sales in 2014. These were partially offset by (i) an increase in trade payables of US\$41.1 million as a result of increase of purchase of raw materials and (ii) an increase in other payables and accruals of US\$12.4 million due in part to the increase in service fees and commissions paid to our third-party regional relationship managers and royalty expenses paid to our co-brand partners. For details, please see Note 37 to "Appendix I—Accountant's Report."

## Cash Flow Used in Investing Activities

In the six months ended June 30, 2017, our net cash flows used in investing activities were US\$32.5 million. This was mainly attributable to purchases of property, plant and equipment of US\$29.1 million primarily to expand our manufacturing facilities and the purchase of land use rights of US\$5.8 million for the lands in Nantong. These were partially offset by proceeds from financial assets at fair value through profit or loss of US\$3.4 million in relation to the sale of wealth management products.

In 2016, our net cash flows used in investing activities were US\$36.4 million. This was mainly attributable to (i) purchase of property, plant and equipment of US\$34.3 million primarily to expand our manufacturing facilities, (ii) payment for derivative financial instruments of US\$4.8 million and (iii) purchase of financial assets at fair value through profit or loss of US\$3.4 million. These were partially offset by proceeds from financial assets at fair value through profit or loss of US\$8.2 million in relation to sale of wealth management products.

In 2015, our net cash flows used in investing activities were US\$44.6 million. This was mainly attributable to (i) purchase of property, plant and equipment of US\$33.5 million primarily to expand our manufacturing facilities, (ii) purchase of financial assets at fair value through profit or loss of US\$8.2 million and (iii) purchase of land use rights of US\$4.8 million in relation to our construction site in Nantong. These were partially offset by proceeds from financial assets at fair value through profit or loss of US\$2.7 million in relation to sale of wealth management products.

In 2014, our net cash flows used in investing activities were US\$34.8 million. This was mainly attributable to (i) purchase of property, plant and equipment of US\$23.5 million primarily to expand our manufacturing facilities, (ii) loans granted to third parties of US\$10.3 million and (iii) purchase of financial assets at fair value through profit or loss of US\$2.6 million. These were partially offset by the proceeds from disposal of property, plant and equipment of US\$0.7 million.

## Cash Flow from/(Used in) Financing Activities

During the Track Record Period, we primarily entered into short-term bank borrowings to finance our working capital.

In the six months ended June 30, 2017, our net cash flows generated from financing activities were US\$38.6 million. This was mainly attributable to proceeds from borrowings of US\$96.8 million to pay for capital expenditures and general working capital, partially offset by repayments of borrowings of US\$57.5 million.

In 2016, our net cash flows used in financing activities were US\$30.4 million. This was mainly attributable to repayments of borrowings of US\$133.5 million, partially offset by proceeds from borrowings of US\$103.6 million to pay for capital expenditures and for general working capital.

In 2015, our net cash flows generated from financing activities were US\$23.7 million. This was mainly attributable to proceeds from borrowings of US\$142.8 million to pay for capital expenditures and for general working capital, partially offset by repayments of borrowings of US\$119.1 million.

In 2014, our net cash flows generated from financing activities were US\$56.1 million. This was mainly attributable to proceeds from borrowings of US\$134.3 million to pay for capital expenditures and for general working capital, partially offset by repayments of borrowings of US\$75.8 million.

#### **Current Assets and Liabilities**

We recorded net current assets of US\$56.7 million, US\$35.4 million, US\$45.2 million, US\$42.7 million and US\$48.5 million as of December 31, 2014, 2015, 2016, June 30, 2017 and September 30, 2017, respectively. The following table sets forth our current assets and current liabilities by category as of the dates indicated:

					As of
<u>-</u>	As	of December 31,	As of	September 30,	
<u>-</u>	2014	2015	2016	June 30, 2017	2017
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)
Current Assets					
Inventories	188,056	189,260	162,365	141,018	224,329
Trade receivables	69,862	70,530	94,587	118,863	84,589
Prepayments and other receivables	37,905	23,656	14,151	15,942	29,336
Financial assets at fair value					
through profit or loss	2,709	8,204	3,415	980	946
Derivative financial instruments	_	_	1,482	873	1,056
Cash and cash equivalents	16,326	23,455	22,965	85,208	50,917
Restricted cash	25,328	8,726	3,154	4,573	7,592
Total current assets	340,186	323,831	302,119	367,457	398,765
Current Liabilities					
Trade payables	113,280	96,033	90,423	97,337	114,216
Other payables and accruals	53,250	47,007	54,596	75,326	76,976
Current income tax liabilities	3,671	6,047	7,707	7,478	7,290
Bank borrowings	110,415	131,535	94,603	136,390	161,257
Derivative financial instruments	1,559	6,523	2,816	1,402	4,249
Loans from related parties	1,300	1,300	6,788	6,788	
Total current liabilities	283,475	288,445	256,933	324,721	363,988
Net current assets	56,711	35,386	45,186	42,736	34,777

Our net current assets decreased from US\$42.7 million as of June 30, 2017 to US\$34.8 million as of September 30, 2017, primarily due to (i) a decrease in trade receivables of US\$34.3 million, (ii) a decrease of cash and cash equivalents of US\$34.3 million and (iii) an increase of bank borrowings of US\$24.9 million. These were offset in part by an increase of inventories of US\$83.3 million.

Our net current assets decreased slightly from US\$45.2 million as of December 31, 2016 to US\$42.7 million as of June 30, 2017, primarily due to (i) an increase in bank borrowings of US\$41.8 million, (ii) an increase in other payables and accruals of US\$20.1 million and (iii) a decrease in inventories of US\$21.3 million. These were partially offset by (i) an increase in cash and cash equivalents of US\$62.2 million and (ii) an increase in trade receivables of US\$24.3 million.

Our net current assets increased from US\$35.4 million as of December 31, 2015 to US\$45.2 million as of December 31, 2016, primarily due to (i) a decrease in bank borrowings of US\$36.9 million as we used more internally generated funds as a result of our significant revenue growth and (ii) an increase in trade receivables of US\$24.1 million because of our higher sales. These were partially offset by a decrease in inventories of US\$26.9 million in the same period.

Our net current assets decreased from US\$56.7 million as of December 31, 2014 to US\$35.4 million as of December 31, 2015, primarily due to (i) an increase in bank borrowings of US\$21.1 million to finance our working capital, (ii) a decrease in prepayments and other receivables of US\$14.2 million and (iii) a decrease in restricted cash, which represented bank deposits pledged as security for bank borrowings, of US\$16.6 million. These were partially offset by (i) a decrease in trade payables of US\$17.2 million and (ii) a decrease in other payables and accruals of US\$6.2 million in the same period.

For details, please see below "—Description of Selected Items of the Consolidated Statements of Financial Position" in this section.

# DESCRIPTION OF SELECTED ITEMS OF THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

#### **Inventories**

Our vertically integrated business model gives us substantial control over the most critical elements of the value chain, including product development, raw material procurement, production, marketing, sales and aftersales service. Our inventories consist primarily of raw materials, work-in-progress and finished goods. The following table sets forth a summary of our total inventories as of the dates indicated:

	As	As of December 31,				
	2014	2014 2015		June 30, 2017		
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)		
Raw materials	24,618	42,663	27,758	58,516		
Work-in-progress	48,136	50,587	52,818	40,424		
Finished goods	115,302	96,010	81,789	42,078		
Total	188,056	189,260	162,365	141,018		

Our inventories increased by 0.6% from US\$188.1 million as of December 31, 2014 to US\$189.3 million as of December 31, 2015, primarily due to a 73.3% increase in raw materials from US\$24.6 million to US\$42.7 million as a result of our increased purchase of PVC resins in 2015, as we sought to benefit from lower PVC resins prices. According to the Frost & Sullivan Report, the wholesale price of PVC resins decreased from US\$920.5/ton in 2014 to US\$800.0/ton in 2015. This was partially offset by a 16.7% decrease in finished goods from US\$115.3 million to US\$96.0 million in the same period as a result of the sales of our products manufactured in 2014. Our inventories decreased by 14.2% from US\$189.3 million as of December 31, 2015 to US\$162.4 million as of December 31, 2016, primarily due to our utilization of PVC resins we purchased in 2015, as our inventories of raw materials decreased by

34.9% from US\$42.7 million as of December 31, 2015 to US\$27.8 million as of December 31, 2016. Our inventories decreased by 13.1% from US\$162.4 million as of December 31, 2016 to US\$141.0 million as of June 30, 2017, primarily due to lower inventories of finished goods, which decreased from US\$81.8 million as of December 31, 2016 to US\$42.1 million as of June 30, 2017, as we typically make shipments of finished goods to the majority of our customers in the first half of the year in time for the northern hemisphere's summer season. Inventories of finished goods then typically increase in the second half of the year as we prepare for the next cycle of shipments in the first half of the following year. This was partially offset by a significant increase in inventories of raw materials, which rose from US\$27.8 million as of December 31, 2016 to US\$58.5 million as of June 30, 2017 as a result of our increased purchase of raw materials for our future production needs.

We have a policy of making provisions for slow-moving and obsolete inventories. Our inventory provision policy takes into account the product life span and the fact that our products, along with the related raw materials and work-in-progress, are made of durable materials with extended shelf lives. We periodically assess impairment to inventories and record impairment to inventories in our cost of sales when their cost is lower than their net realizable value. For the years ended December 31, 2014, 2015, 2016 and the six months ended June 30, 2017, we recorded impairment of inventories of US\$1.9 million, US\$1.6 million, US\$1.4 million and a reversal of write-down of inventories of US\$0.5 million as a result of accounting adjustments for the value of inventories based on revised selling prices of products, respectively.

The following table sets forth our inventory turnover days during the periods indicated:

				I of the
				six months
				ended
	For the year	ended Decem	ber 31,	June 30,
	2014	2015	2016	2017
Inventory turnover days <sup>(1)</sup>	157	172	153	91
inventory turnover days	137	1/2	133	91

For the

Note:

(1) Inventory turnover days for each one-year period equals the average of the beginning and ending inventory for that year divided by cost of sales for that year and multiplied by 365 days, and the inventory turnover days for a sixmonth period equals the average of the beginning and ending inventory for that period divided by the cost of sales for that period and multiplied by 183 days.

During the Track Record Period, our inventory turnover days were mainly affected by the following factors:

• We operate a vertically integrated business model on a global basis with operations spanning across manufacturing (including value-added materials and finished products), sales and marketing as well as aftersales services. A significant portion of our inventories consists of production inventories, namely raw materials and work-in-progress. Production inventories accounted for 38.7%, 49.3%, 49.6% and 70.2% of our total inventories as of December 31, 2014, 2015, 2016 and June 30, 2017, respectively; and

• The relatively long inventory turnover days are in part due to the average life span of our products. The average life span of our above-ground pools and portable spas ranges from approximately two to three years. The average life span of our recreation products, sporting goods and camping products ranges from approximately one to two years.

Our inventory turnover days increased from 157 days in 2014 to 172 days in 2015 primarily because we purchased additional PVC resins in 2015 as we sought to benefit from lower PVC resins prices. The decrease of our inventory turnover days from 172 days to 153 days in 2016 was primarily due to a 34.9% decrease in raw materials from US\$42.7 million as of December 31, 2015 to US\$27.8 million as of December 31, 2016 as we utilized the PVC resins we had purchased in 2015 and did not place bulk purchase orders of PVC resins in the same period. The decrease in our inventory turnover days from 153 days in 2016 to 91 days in the six months ended June 30, 2017 was primarily due to a decrease in our finished goods inventory from US\$81.8 million as of December 31, 2016 to US\$42.1 million as of June 30, 2017 as we typically make shipments of finished goods to the majority of our customers in the first half of the year in time for the northern hemisphere's summer season. Inventories of finished goods then typically increase in the second half of the year as we prepare for the next cycle of shipments in the first half of the following year.

As of the Indebtedness Date, US\$59.2 million, or 42.0%, of our inventory balance as of June 30, 2017, had been sold or utilized.

## **Trade Receivables**

The following table sets forth a summary of our trade receivables as of the dates indicated:

	As (	As of June 30,		
	2014	2015	2016	2017
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)
Trade receivables  Less: allowance for impairment of	70,653	71,474	95,815	120,235
trade receivables	(791)	(944)	(1,228)	(1,372)
Total	69,862	70,530	94,587	118,863

We generally grant credit periods of 30 to 60 days after the date of delivery of our products to major retailers and importers and we also grant up to 90 days credit period to customers that make relatively large purchases from us, have relatively large business scale and have good credit records. We assess the credit worthiness of our customers through inquiries into their credit profiles and by collecting and reviewing materials regarding their operating history, sales performance, relationship history with us, past credit problems and financial conditions. We also regularly review the credit terms granted to customers.

Our trade receivables slightly increased by 1.0% from US\$69.9 million as of December 31, 2014 to US\$70.5 million as of December 31, 2015, primarily because we collected our trade receivables within credit periods prior to the year-end notwithstanding with the increase in sales in the same period. Our trade receivables increased by 34.1% from US\$70.5 million as of December 31, 2015 to US\$94.6 million as of December 31, 2016, primarily due to the longer credit periods we granted to certain major retailers and importers which made large purchases from us in the same period. Our trade receivables increased by 25.7% from US\$94.6 million as of December 31, 2016 to US\$118.9 million as of June 30, 2017, primarily due to higher sales to our customers from the northern hemisphere to whom we normally sell in the first half of the year.

The following table sets forth an aging analysis, based on invoice date, of our trade receivables as of the dates indicated:

	As	As of June 30,		
	2014	2014 2015 2016		2017
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)
Within 90 days	65,717	63,098	91,864	117,188
91–180 days	4,225	6,824	2,104	2,915
181–365 days	537	911	1,726	131
Over a year	174	641	121	1
Total	70,653	71,474	95,815	120,235

During the Track Record Period, a substantial majority of our trade receivables were aged within 90 days. We recorded impairment of trade receivables of US\$0.4 million, US\$0.2 million, US\$0.3 million and US\$0.1 million in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively.

The table below sets forth our trade receivables turnover days for the periods indicated:

				six months
	For the year	ended June 30,		
	2014	2015	2016	
Trade receivables turnover days <sup>(1)</sup>	45	50	52	46

Note:

(1) Trade receivables turnover days for each one-year period equals the average of the beginning and ending balances of trade receivables for that year divided by revenue for that year and multiplied by 365 days, and the trade receivables turnover days for a six-month period equals the average of the beginning and ending balances of trade receivables for that period divided by revenue for that period and multiplied by 183 days.

Our trade receivables turnover days were 45, 50, 52 and 46 days in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively. The increase of our trade receivables turnover days from 45 days in 2014 to 50 days in 2015 was mainly due to increased sales to large retailer customers in the United States, who we generally grant longer credit periods. Trade receivables turnover days slightly increased from 50 days in 2015 to 52 days in 2016 primarily because we granted longer credit period to certain customers who made large purchases from us in the same period. Trade receivables turnover days decreased from 52 days in 2016 to 46 days in the six months ended June 30, 2017, primarily due to higher sales to customers from Australia, to which we generally grant shorter credit periods.

As of the Indebtedness Date we had collected US\$92.4 million, or 77.7%, of the outstanding balance amount of our trade receivables as of June 30, 2017.

## **Prepayments and Other Receivables**

Our prepayments and other receivables included deductible input value added tax ("VAT") and prepaid taxation which mainly consisted of value-added tax, loans to third parties, amounts due from related parties, loans to a related party and prepayments and other receivables which consisted primarily of prepaid costs for purchasing raw materials.

The following table sets forth a summary of our prepayments and other receivables as of the dates indicated:

A ~ ~ C

	Asa	As of		
	2014	of December 3 2015	2016	June 30, 2017
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)
Deductible input VAT and				
prepaid taxation	19,439	9,512	10,038	7,727
Loans to third parties	10,244	4,604	240	242
Amounts due from related parties <sup>(1)</sup>	5,312	5,390	168	544
Loans to a related party <sup>(1)</sup>	_	_	150	150
Prepayments and other receivables	4,341	5,257	4,709	7,883
Less: allowance for impairment of other				
receivables	(223)	(114)	(134)	(150)
Less non-current portion				
Long-term receivables	(819)	(779)	(859)	(289)
Loans to third parties	(389)	(214)	(161)	(165)
Total	37,905	23,656	14,151	15,942

Note:

<sup>(1)</sup> For details, please see "—Related Party Transactions."

Our prepayments and other receivables decreased by 37.6% from US\$37.9 million as of December 31, 2014 to US\$23.7 million as of December 31, 2015, primarily due to (i) a 51.1% decrease in deductible input VAT and prepaid taxation from US\$19.4 million to US\$9.5 million and (ii) a 55.1% decrease in loans to third parties from US\$10.2 million to US\$4.6 million. Our prepayments and other receivables further decreased by 40.2% from US\$23.7 million as of December 31, 2015 to US\$14.2 million as of December 31, 2016, primarily due to (i) a 94.8% decrease in loans to third parties from US\$4.6 million to US\$0.2 million and (ii) a 96.9% decrease in amounts due from related parties from US\$5.4 million to US\$0.2 million. Our prepayments and other receivables increased by 12.7% from US\$14.2 million as of December 31, 2016 to US\$15.9 million as of June 30, 2017, primarily due to prepayments of listing expenses for the Global Offering.

Loans to third parties represented loans we granted to suppliers. As of December 31, 2014, 2015, 2016 and June 30, 2017, total loans to third parties amounted to US\$10.2 million, US\$4.6 million, US\$0.2 million and US\$0.2 million, respectively. These consisted of (i) a one-year term loan amounting to US\$9.9 million, US\$4.3 million as of December 31, 2014 and 2015, respectively, with the interestbearing at 7.2%, which was settled in 2016 and (ii) long-term loans amounting to US\$0.4 million, US\$0.3 million, US\$0.2 million and US\$0.2 million as of December 31, 2014, 2015, 2016 and June 30, 2017, respectively, with maturity dates from four to five years and are interest-free. These loans were granted to maintain good relationships with the suppliers and to ensure timely delivery and steady supply of raw materials from the relevant suppliers who had temporary funding needs. As advised by our PRC Legal Advisors, the loans to third parties do not breach any Chinese laws or administrative regulations but do fall within the category of unauthorised loans under the General Provisions on Loan (貸款通則) (the"General Provisions"). As advised by our PRC Legal Advisors, the General Provisions are rules of a government department, not laws or administrative regulations. According to the General Provisions, the PBOC may (i) impose on the lender a fine equivalent to one time to five times of its income derived from such loan transactions; and (ii) suppress such lending activity. As advised by our PRC Legal Advisors, the maximum penalty could range from a minimum of RMB3.5 million to a maximum of RMB17.7 million in relation to the loans granted to our suppliers. As such, we may have to pay a penalty of up to five times of the interest we received. However, the Supreme People's Court of the PRC has conditionally affirmed the validity of intercompany loans by issuing the Provisions on Certain Issues regarding the Application of Law in Trials for Private Lending Cases (《最高人民法院關 於審理民間借貸案件適用法律若干問題的規定》) (the "**Provisions**") on August 6, 2015 which came into effect on September 1, 2015. Pursuant to the Provisions, private lending contracts concluded between legal persons or other organizations are effective and valid under PRC law except where the contracts for the lending (i) are void under the PRC Contract Law or (ii) fall within the scope of void lending contracts as particularly provided in the Provisions; and if the interest rate provided in a private lending contract is not more than 24% per annum, the PRC courts will rule that the lender is legally entitled to such interest income. As of the Latest Practicable Date, we had not received any notice of claim or penalty relating to the loans. We are advised by our PRC Legal Advisors that the possibility that the PBOC could impose a penalty on us in respect of the loans to third parties is remote. We already ceased providing the loans to third parties in August 2017.

#### Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss were US\$2.7 million, US\$8.2 million, US\$3.4 million and US\$0.9 million as of December 31, 2014, 2015, 2016 and June 30, 2017, respectively.

During the Track Record Period, our financial assets at fair value through profit or loss were Renminbi and Euro denominated financial products with floating interest rates ranging from 0.5% to 5.5% per annum and with maturity of between 5 days and 90 days, mainly purchased from Bank of China, China Construction Bank, Agricultural Bank Of China, Ping An Bank, China Guangfa Bank and Zurich Insurance Inc.. To improve utilization of our cash-on-hand on a short-term basis, we purchased Renminbi denominated wealth management products during the Track Record Period. The pay-out of these wealth management products was linked to a variety of fixed and floating rate financial assets. These underlying financial assets included Renminbi and foreign currency money market instruments, such as bonds issued by financial institutions, money market instruments, debentures with relatively high credit ratings, private placement notes issued in the inter-bank bond market, low-risk inter-bank lending and swaps; fixed investment instruments and non-standard debts issued by commercial banks and other qualified institutions; and regulatory compliant trust plans and other investments. None of these assets are either past due or impaired.

Our financial assets at fair value through profit or loss increased significantly from US\$2.7 million as of December 31, 2014 to US\$8.2 million as of December 31, 2015, decreased by 58.4% to US\$3.4 million as of December 31, 2016 and further decreased by 71.3% to US\$0.9 million as of June 30, 2017.

We are subject to interests risk, default risk and market risk associated with the wealth management products we hold. Since 2010, we began implementing investment policies that required appropriate internal approval for each investment in wealth management products. Starting from 2013, we have gradually formalized our capital and investment management policies to monitor and control the potential risks relating these investment activities. Such policies specify detailed responsible parties and their respective authorities as well as internal procedures for the review and approval for each investment activity. In determining whether and which product to invest, our management team will consider, on a case-by-case basis and among other things, the level of risk, return on investment, liquidity and the term to maturity of the relevant wealth management product. According to our current internal investment management policies adopted in 2013, for all new investments we make since then, we can invest no less than 80% of our total investment amounts in risk-free or principal protected investments with the remaining up to 10% of the total investment amount in products with low level of risk. Our management are responsible for evaluating our investment portfolio and investment policies on an annual basis. Under the supervision of Mr. Tan Guozheng, our executive Director and vice president, our finance department is responsible for the daily execution and communication with the wealth management advisors, the relevant banks or financial institutions. Mr. Tan Guozheng also reviews and analyses the performance of our investments to ensure that they are in line with our investment management policies. In addition, to manage and mitigate the potential risks of these investments, our investment management policies require our management team to consider and adjust the investment policies based on its constant evaluation of return on the investments, allocation among various types of investment products, credit ratings of the relevant products or financial institutions as well as the overall macroeconomic environment. Our finance department staff prepare investment reports on a monthly basis for our management's review. Any investment other than in risk-free or principal-protected

products also needs Mr. Tan Guozheng's approval. For details of the qualification and working experience of Mr. Tan Guozheng, please see "Directors and Senior Management—Board of Directors." We do not believe that currently any single investment in the wealth management products will cause any material adverse impact on our business or financial performance. Our investments during the Track Record Period were in line with our then effective capital and investment management policies and strategies. Subject to working capital sufficiency requirements, we may from time to time consider purchasing additional risk-free or principal protected investment products after the Listing.

## **Trade Payables**

Our trade payables represented purchases of raw materials and were US\$113.3 million, US\$96.0 million, US\$90.4 million and US\$97.3 million as of December 31, 2014, 2015, 2016 and June 30, 2017, respectively.

Our trade payables decreased by 15.2% from US\$113.3 million as of December 31, 2014 to US\$96.0 million as of December 31, 2015, primarily due to decrease in price of raw materials such as PVC resins and plasticizers. Our trade payables further decreased by 5.8% from US\$96.0 million as of December 31, 2015 to US\$90.4 million as of December 31, 2016 primarily because we purchased less PVC resins in 2016 compared with 2015. Our trade payables increased by 7.6% from US\$90.4 million as of December 31, 2016 to US\$97.3 million as of June 30, 2017 primarily because we purchased more raw materials.

The trade payables are generally non-interest bearing and we settle most of our trade payables within 30 to 90 days of our suppliers' delivery of the products to us. However, some of our key suppliers granted us credit periods of up to 180 days. We also settled some of our payments by way of letter of credits, primarily issued for purchases of imported raw materials.

The following table sets forth an aging analysis of our trade payables as of the dates indicated, based on the transaction dates:

	As	As of June 30,		
	2014	2015	2016	2017
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)
Within 90 days	109,594	88,878	75,418	89,277
91–180 days	2,917	4,484	8,972	4,877
181–365 days	62	2,276	5,368	2,717
Over a year	707	395	665	466
Total	113,280	96,033	90,423	97,337

During the Track Record Period, a substantial majority of our trade payables were aged within 90 days.

The following table sets forth our trade payables turnover days for the periods indicated:

				For the	
				six months	
				ended	
	For the year	For the year ended December 31,			
	2014	2015	2016	2017	
Trade payables turnover days <sup>(1)</sup>	92	95	81	56	

Note:

(1) Trade payables turnover days for each one-year period equals the average of the beginning and ending trade payables for that year divided by cost of sales for that year and multiplied by 365 days, and the trade payables turnover days for a six-month period equals the average of the beginning and ending trade payables for that period divided by cost of sales for that period and multiplied by 183 days.

Our trade payables turnover days were 92, 95, 81 and 56 days in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively. Our trade payable turnover days increased from 92 days in 2014 to 95 days in 2015, primarily because we purchased more PVC resins in 2015 from suppliers who normally granted longer credit periods. Our trade payable turnover days decreased from 95 days in 2015 to 81 days in 2016, primarily because we purchased fewer PVC resins as compared with the prior year. Our trade payable turnover days decreased from 81 days in 2016 to 56 days in the six months ended June 30, 2017, primarily due to higher purchases of raw materials from our Chinese suppliers who normally grant us shorter credit periods.

## Other Payables and Accruals

Our other payables and accruals included employee benefit payables, advances from customers, amounts due to related parties, tax payables, interest payables and accruals and other payables consisted primarily of accrued service fees and commissions paid to our third-party regional relationship managers and royalty fees for our co-branded products.

	As o	As of June 30,		
	2014	2015 2016		2017
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)
Employee benefit payables	8,378	8,685	9,960	14,186
Advances from customers	19,530	9,976	7,263	3,368
Amounts due to related parties <sup>(1)</sup>	2,448	2,757	2,160	2,065
Tax payables	431	415	689	2,038
Interest payables	773	377	125	236
Accruals and other payables	24,566	25,969	34,507	56,707
Less: Long-term payables	(2,876)	(1,172)	(108)	(3,274)
Total	53,250	47,007	54,596	75,326

Note:

(1) For details, please see "-Related Party Transactions."

Our other payables and accruals decreased by 11.7% from US\$53.3 million as of December 31, 2014 and to US\$47.0 million as of December 31, 2015, primarily due to a 48.9% decrease in advances from customers from US\$19.5 million to US\$10.0 million in the same period. Our other payables and accruals increased by 16.1% from US\$47.0 million as of December 31, 2015 to US\$54.6 million as of December 31, 2016, primarily due to a 14.7% increase in employee benefit payables from US\$8.7 million to US\$10.0 million in the same period as a result of the increase in headcounts and average wage level and a 32.9% increase in accruals and other payables from US\$26.0 million to US\$34.5 million in the same period as a result of increase in the accruals of advertising and promotion and other sales-related expenses and accruals of listing expenses for the Global Offering. Our other payables and accruals increased by 40.1% from US\$54.6 million as of December 31, 2016 to US\$76.5 million as of June 30, 2017, primarily due to a 42.4% increase in employee benefit payables from US\$10.0 million to US\$14.2 million as a result of higher employee headcounts and higher average wage level and a 64.3% increase in accruals and other payables from US\$34.5 million to US\$56.7 million as a result of the increases in the accruals of advertising and promotion expenses and accruals of listing expenses for the Global Offering.

## **Derivative Financial Instruments**

The following table sets forth our derivative financial instruments as of the dates indicated:

		As of Dec	As of June 30,					
	2014	2015	20	2016		2017		
	Liabilities	Liabilities	Assets	Liabilities	Assets	Liabilities		
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)		
Forward foreign exchange contracts Foreign exchange-related	869	1,651	1,482	2,816	873	1,402		
options	690	4,872						
Total	1,559	6,523	1,482	2,816	873	1,402		

As most of our operating expenses are denominated in Renminbi and most of our sales are denominated and settled in U.S. dollar, we entered into forward foreign exchange contracts and foreign exchange-related options in respect of the Renminbi against the U.S. dollar. Under these forward foreign exchange contracts and foreign exchange-related options, any Renminbi appreciation beyond a predetermined exchange rate results in gains for us and effectively mitigate our exposure to the Renminbi exchange rate risks. During the Track Record Period, the Renminbi appreciated against the U.S. dollar from mid-2014 until early 2015, and reversed this trend and depreciated significantly since August 2015 until December 31, 2016.

As of December 31, 2014, 2015, 2016 and June 30, 2017, the notional principal amounts of our forward foreign exchange contracts were US\$81.2 million, US\$58.5 million, US\$92.0 million and US\$90.9 million, respectively. The notional principal amounts of our foreign exchange-related options were US\$113.6 million and US\$101.7 million as of December 31, 2014 and 2015, respectively. We ceased to enter into foreign exchange-related options in 2016.

Under these forward foreign exchange contracts and foreign exchange-related options, if the Renminbi depreciates or appreciates against the U.S. dollar substantially in the future, our obligation to pay to the banks under these derivative financial instruments would increase or decrease, which would affect our cash flows and financial position.

The derivative financial instruments, which represented forward foreign exchange contracts and foreign exchange-related options, resulted in unrealized losses of US\$1.6 million, US\$6.5 million and US\$1.3 million and realized losses of US\$1.7 million, US\$1.1 million and realized gains of US\$1.7 million in 2014, 2015 and 2016, respectively. However, we had net foreign exchange gains of US\$1.2 million, US\$8.2 million and US\$5.0 million in 2014, 2015 and 2016, respectively due to the depreciation of the Renminbi against the U.S. dollar since August 2015. For the six months ended June 30, 2017, we had unrealized losses of US\$0.5 million and realized gains of US\$1.4 million from our derivative financial instruments, while we had net foreign exchange losses of US\$2.7 million mainly as a result of the appreciation of the Renminbi against the U.S. dollar during this period.

We will continue to monitor our market risks, including foreign exchange risks, and take prudent measures, including purchasing forward foreign exchange contracts in adequate amounts and on acceptable terms, to minimize our exposures to these risks. We do not plan to enter into foreign exchange-related options in the future. For derivative financial instruments that we may purchase in the future, we have implemented and will continue to implement internal policies which set forth overall principles as well as detailed evaluation and monitoring processes of our purchases of derivative financial instruments.

Our investment management policy includes, among other things, the following:

- the purchase of forward foreign exchange contracts may only be used to mitigate our foreign exchange risk exposure;
- investment should be undertaken only in situations where we have surplus cash not required for our short-term working capital purposes in the following one to three months; and
- criteria for selecting derivative financial instruments to be considered by our senior management include liquidity, risk and expected yield.

Our finance department conducts initial assessment and analysis on risk and benefit of each investment. Feasibility analysis, expert opinions, audited financial statements and asset assessment reports, if applicable, and draft legal documentation are required to be submitted by our financial manager to our management team for evaluation and approval. Prior approvals from Mr. Tan Guozheng, our executive Director and vice president, and Mr. Zhu Qiang, our Chairman, executive Director and chief executive officer of the Company, must be obtained. Mr. Tan Guozheng is a certified public accountant and has extensive experiences in overseeing and managing overall finance and internal control of the Group, including derivative financial instruments.

Our investment management policy does not set forth any minimum or maximum threshold of foreign exchange exposures which require to be mitigated. Instead, our investment decision, including the amount and duration of each investment, is made on a case by case basis after due and careful consideration of a number of factors, including the level of risk exposure, the available investment vehicles, the purchase cost of the instrument, the potential benefit and loss of the instrument and the expected market trends. Our accounting personnel are responsible for the review of our annual investment budgets and accounting review and management of each investment. Going forward, our Audit Committee may also review our new investment in the amount exceeding 5% of our net assets, and such 5% threshold will be subject to review by the Board and the independent non-executive Directors from time to time. The Audit Committee consists of three independent non-executive Directors, namely Mr. Dai Guoqiang, Mr. Lam Yiu Kin and Mr. Yao Zhixian. Mr. Lam Yiu Kin, who is a certified public accountant and has extensive experience in accounting and auditing, is the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group, including monitoring derivative financial instruments.

Furthermore, our internal audit personnel will be charged with monitoring and supervising all investments and will also be required to submit reports and investment return analysis regularly on all investments during the investment process. The reports and investment return analysis submitted by our internal audit personnel will be reviewed by the Board. The internal audit personnel graduated from Chongqing University with a master's degree in Management Science and Engineering and obtained the Certificate for Passing All the Required Subjects of the Professional Stage of the National Uniform CPA Examination of the PRC. She has over 8 years' experience in financial accounting and is responsible for, among other duties, monitoring derivative financial instruments of the Group.

We have an emergency reporting system. When the accumulated loss occurs or the total amount of the transaction exceeds 20% of the original limit, or a loss of a single transaction exceeds 50% of the original plan, our trader must report to the financial manager, who must then report to Mr. Tan Guozheng in order to adopt appropriate measure such as closing out positions on an emergency basis.

During the Track Record Period, we maintained a general stop-loss policy with respect to our purchases of derivative financial instruments, pursuant to which our accounting and finance departments monitor our derivative financial instruments on a regular basis. While we did not set a specific quantitative stop-loss benchmark, we may settle all or part of our derivative financial instruments based on a number of factors, including, among others, prevalent market conditions and our initial investment plans.

For details of the relevant experience and qualifications of our Audit Committee members and Mr. Tan Guozheng, please see "Directors and Senior Management—Senior Management."

## **Related Party Transactions**

The following table sets forth the amounts due from related parties, loans to a related party, amounts due to related parties and loans from related parties as of the dates indicated:

	As o	As of June 30,		
	2014	2015	2016	2017
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)
Amounts due from related parties	5,312	5,390	168	544
Loans to a related party	_	_	150	150
Amounts due to related parties	(2,448)	(2,757)	(2,160)	(2,065)
Loans from related parties (current portion)	(1,300)	(1,300)	(6,788)	(6,788)
Loans from related parties (non-current portion)	(2,668)	(2,668)		
Total	(1,104)	(1,335)	(8,630)	(8,159)

As of December 31, 2014, 2015, 2016 and as of June 30, 2017, amounts due from related parties was US\$5.3 million, US\$5.4 million, US\$0.2 million and US\$0.5 million. As of December 31, 2016 and as of June 30, 2017, loans to a related party were US\$0.2 million. As of December 31, 2014, 2015, 2016 and as of June 30, 2017, amounts due to related parties were US\$2.5 million, US\$2.8 million, US\$2.2 million and US\$2.1 million, respectively. As of December 31, 2014, 2015, 2016 and as of June 30, 2017, loans from related parties were US\$4.0 million, US\$4.0 million, US\$6.8 million and US\$6.8 million, respectively. As of the Indebtedness Date, we had settled the loans to a related party and all loans from related parties.

For details of our related party transactions, please see Note 39 to "Appendix I—Accountant's Report." The Directors confirm that all related party transactions during the Track Record Period as referred to in Note 39 to "Appendix I—Accountant's Report" to this prospectus were entered into on normal commercial terms and except for the transactions disclosed in "Connected Transaction," all other related party transactions that were non-trade in nature will be discontinued before Listing.

Our Directors confirm that although the amounts due from related parties is unsecured and interest free, our related party transactions did not cause any distortion of our results of operations or make our historical results not reflective in the Track Record Period, and that all non-trade balances with related parties will be settled and released before Listing.

## **Capital Expenditures**

The following table sets forth our capital expenditures for the periods indicated:

	For the ye	six months ended June 30,		
	2014	2015	2016	2017
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)
Payments for property, plant and equipment	23,471	33,504	34,348	29,098
Payments for land use rights	_	4,766	2,194	5,859
Payments for other intangible assets	55	63	332	38
Total capital expenditures	23,526	38,333	36,874	34,995

For the

Our capital expenditures amounted to US\$23.5 million, US\$38.3 million, US\$36.9 million and US\$35.0 million in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively. Our capital expenditure for property, plant and equipment in 2014 mainly related to our construction of employees dormitories in Shanghai. Our capital expenditure for property, plant and equipment in 2015 mainly related to construction of manufacturing facilities in Nantong. Our capital expenditure for property, plant and equipment in 2016 mainly related to the expansion of our office buildings in Shanghai. Our capital expenditures for property, plant and equipment in the six months ended June 30, 2017 mainly related to the construction of manufacturing facilities in Nantong and Yancheng. Our capital expenditures for land use rights mainly related to our purchase of two parcels of land in Nantong in 2015, 2016 and the six months ended June 30, 2017, respectively, for the expansion of our manufacturing facilities in Nantong.

During the Track Record Period, we funded our capital expenditures primarily with internally generated resources and borrowings. We expect to incur capital expenditures of US\$70.0 million in the year ending December 31, 2017. Our expected capital expenditures may vary from the amounts actually spent for a variety of reasons, including changes in market conditions and other factors. We plan to finance our capital expenditures mainly with borrowings, cash flows generated from operating activities, and the proceeds from the Global Offering.

## **Capital Commitments and Operating Lease Commitments**

The following tables sets forth our capital commitments at the dates indicated:

	As	As of June 30,		
	2014	2015	2016	2017
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)
Contracted, but not provided for:				
Property, plant and equipment	6,845	758	7,187	17,492

Our capital commitments during the Track Record Period were primarily for the purchase of machinery and factory equipment, vehicles and other equipment and fixtures, and construction of office buildings and manufacturing facilities. The US\$6.1 million decrease from 2014 to 2015 was primarily due to settlements of payments for the completion of the construction of our manufacturing facilities in Nantong. The increase of US\$6.4 million from 2015 to 2016 was primarily due to purchase of automated machinery and factory equipment by Bestway Jiangsu and Bestway Nantong to expand the production lines. The increase of US\$10.3 million from as of December 31, 2016 to June 30, 2017 was primarily due to construction of our manufacturing facilities and logistics centres in Nantong, and manufacturing facilities and employees' dormitories in Yancheng. We plan to finance our capital commitments with bank borrowings, cash flows generated from operating activities, and the proceeds from the Global Offering.

As of June 30, 2017, the Group had future aggregate minimum lease payments under non-cancellable operating leases related to our offices as follows:

	As	As of December 31,				
	2014	2015	2016	2017		
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)		
Within one year	354	290	479	1,784		
Later than one year but no later than two years	290		444	992		
Later than two year but no later than three years			381	455		
Total	644	290	1,304	3,231		

# **INDEBTEDNESS**

# **Borrowings**

The following table sets forth our interest-bearing bank borrowings and loans from related parties as of the dates indicated:

	As of December 31,				As of June 30,		As of the			
	201	4	201	5	2016		2017		Indebtedness Date	
	US\$ ('000)	Effective Interest Rate	US\$ ('000)	Effective Interest Rate	US\$ ('000)	Effective Interest Rate	US\$ ('000)	Effective Interest Rate	US\$ ('000)	Effective Interest Rate
Bank borrowings										
Secured	44,863	4.57%	45,261	4.97%	60,979	4.61%	53,250	4.14%	107,382	4.06%
Unsecured	69,355	4.96%	86,315	4.79%	33,676	4.48%	83,196	4.56%	53,932	4.50%
Loans from related parties Unsecured	3,968	4.43%	3,968	4.43%	6,788	3.84%	6,788	3.84%		_
Total	118,186	4.77%	135,545	4.83%	101,442	4.55%	143,234	4.29%	161,314	4.21%

The following table sets forth the maturity profile of our borrowings as of the dates indicated:

	As of December 31,			As of June 30,	As of the Indebtedness	
	2014	2015	2016	2017	Date	
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)	
Maturity of Borrowings						
On demand or within one year	111,715	132,835	101,391	143,178	161,257	
In the second year	3,803	2,710	51	56	57	
In the third to fifth year						
inclusive	2,668			=		
Total	118,186	135,545	101,442	143,234	161,314	

The following table sets forth certain additional details of our outstanding banking facilities as of the Indebtedness Date:

	As of the Indebtedness Date			
	Capacity	Drawdowns under Letter of Credit	Drawdowns under Borrowings	Amount Available
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)
Facilities				
China	319,237	29,903	137,025	152,309
Hong Kong	15,000	_	_	15,000
Europe	5,294		3,901	1,393
Total	339,531	29,903	140,926	168,702

### Bank borrowings

Our bank borrowings were primarily denominated in U.S. dollars, Renminbi and Euro, and a majority of them were short-term borrowings that we entered into to finance our working capital during the Track Record Period. As of December 31, 2014, 2015, 2016, June 30, 2017 and September 30, 2017, the weighted average effective interest rate of our borrowings was 4.77%, 4.83%, 4.55%, 4.29% and 4.21% per annum, respectively. Our bank borrowings amounted to US\$114.2 million, US\$131.6 million, US\$94.6 million, US\$136.4 million and US\$161.3 million as of December 31, 2014, 2015, 2016, June 30, 2017 and September 30, 2017, respectively.

During the Track Record Period, our outstanding bank borrowings were primarily secured by corporate guarantees provided by our subsidiaries, our trade receivables, bank deposits, buildings, land use rights, machinery and factory equipment and financial assets at fair value through profit or loss, and personal guarantees provided by Mr. Zhu Qiang, our Chairman, executive Director and chief executive officer of the Company, and his spouse. The personal guarantees in respect of our Group's indebtedness provided by Mr. Zhu and his spouse were US\$26.5 million as of June 30, 2017 and will be released upon Listing. We do not expect the effective interest rate of our bank borrowings will be materially affected by the release of these personal guarantees.

We have obtained banking facilities from various banks in China, Hong Kong and Europe to support our funding needs. These facilities are generally at prevailing market interest rates. Our facilities include mainly Renminbi-denominated, U.S. dollar-denominated and Euro-denominated facilities. Under these facilities, we may utilize revolving term loans and letters of credits. We use our facilities for various purposes, including financing our general corporate funding requirements, refinancing existing indebtedness and for our operations such as purchasing raw materials and constructions of our manufacturing facilities.

As of the Indebtedness Date, we had made drawdowns of US\$170.8 million under our banking facilities to finance our working capital, and we had unutilized banking facilities of US\$168.7 million. As of the Latest Practicable Date, we had made additional drawdowns of approximately US\$3.0 million

under the banking facilities we had as of the Indebtedness Date to finance our working capital. Other than disclosed in this prospectus, as of the Latest Practicable Date, we did not have any further plan for material external debt financing. Our ability to obtain adequate external financing will depend on a number of factors, including our financial performance and results of operations, as well as factors beyond our control. For details, please see "Risk Factors—Risks Relating to Our Business and Industry—We are subject to risks associated with managing future growth and expansion."

Our loan agreements contain certain standard terms and conditions that are customary for commercial bank loans in China. Among other things, those terms require lenders' consent before our relevant borrower's and guarantor's entities make any mergers, acquisitions, reorganization, divisions, capital reduction, changes of shareholding structure, or equity investment; enter into joint ventures; significantly increase indebtedness; assign material assets or creditor's rights; or apply for bankruptcy or dissolution; restrict our ability to dispose of or transfer assets, make guarantees, enter into change of control transactions or change the scope of our business. Our banking facilities and borrowings include facilities and borrowings entered into by our subsidiaries, primarily our Chinese subsidiaries with various commercial banks in China. Certain of our facilities and borrowings also contain financial covenants that, among other things, require the relevant subsidiary borrower and/or subsidiary guarantor to maintain certain financial ratios. These financial ratios include requirements to maintain a debt-toasset ratio of no more than 70%, an adjusted gearing ratio of no more than 0.5 times, and a dividend payout ratio of no more than 50% of the subsidiary's net profit for the relevant year. As of June 30, 2017, the debt-to-asset ratio of Bestway Jiangsu and Bestway Nantong was 34.9% and 54.9%, respectively, based on which Bestway Jiangsu and Bestway Nantong could incur additional borrowings of approximately RMB1.1 billion and RMB820 million, respectively; and the adjusted gearing ratio of Bestway Enterprise was 47.3%, based on which Bestway Enterprise could incur additional borrowings of approximately US\$5.0 million. In addition to financial ratios, availability under our other facilities and borrowings may be subject to the discretion of the relevant lenders.

Under the supervision of Mr. Tan Guozheng, our executive Director and vice president, our finance department is responsible for closely monitoring our facilities and loan agreements (including relevant financial ratios) on a regular basis, in order to ensure compliance with the covenants imposed under these agreements. During the Track Record Period and up to the Latest Practicable Date, there were no violations of any covenants that could have a material adverse effect on our business operations or financial results and compliance with these covenants has not restricted our ability to conduct our business in any material aspect. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material default in repayment of our trade and other payables or bank or other borrowings or any difficulties in obtaining banking facilities with terms that are commercially acceptable to us.

We intend to apply a portion of the net proceeds of the Global Offering to repay part of our bank borrowings after the Listing. For details, please see "Future Plans and Use of Proceeds—Use of Proceeds."

# Loans from related parties

As of December 31, 2014, 2015, 2016 and June 30, 2017, loans from related parties amounted to US\$4.0 million, US\$4.0 million, US\$6.8 million and US\$6.8 million, respectively, representing two loans from Scrindale Limited (i) with the amount of US\$1.3 million, US\$1.3 million and US\$4.1 million

and US\$4.1 million, respectively, with an annual interest rate of 3%, and (ii) with the amount of US\$2.1 million with an annual interest rate of 6.31% as of the respective dates; and one loan from Mr. Zhu Qiang with the amount of US\$0.5 million which is interest free as of the respective dates. We have settled all the loans from related parties as of the Indebtedness Date.

#### **Statement of Indebtedness**

Save as disclosed in this prospectus, as of the Indebtedness Date, we did not have any outstanding debt securities, debentures, bank overdrafts, loans or other similar indebtedness, hire purchase or finance lease obligations, or any mortgages, charges, guarantees or other material contingent liabilities. Other than as disclosed in this prospectus, since the Indebtedness Date, there has been no material adverse change in our indebtedness.

#### OTHER KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as of the dates or for the periods indicated:

				For the six n	nonths		
	For the year	For the year ended December 31,			ended June 30,		
	2014	2015	2016	2016	2017		
			(	(unaudited)			
Gross profit margin <sup>(1)</sup>	20.7%	21.8%	28.1%	28.2%	27.9%		
Net profit margin <sup>(2)</sup>	1.8%	3.0%	7.4%	8.6%	8.2%		
Return on equity <sup>(3)</sup>	4.9%	8.6%	22.4%	N/A <sup>(8)</sup>	$N/A^{(8)}$		
Return on assets <sup>(4)</sup>	2.1%	3.2%	9.2%	N/A <sup>(8)</sup>	N/A <sup>(8)</sup>		

	As of December 31,			As of June 30,
	2014	2015	2016	2017
Current ratio <sup>(5)</sup>	1.20	1.12	1.18	1.13
Quick ratio <sup>(6)</sup>	0.54	0.47	0.54	0.70
Gearing ratio <sup>(7)</sup>	0.44	0.58	0.37	0.22

## Notes:

- (1) Equals gross profit divided by revenue and multiplied by 100%.
- (2) Equals profit for the period divided by revenue and multiplied by 100%.
- (3) Equals profit for the period divided by the average of the beginning and ending total equity for that period and multiplied by 100%.
- (4) Equals profit for the period divided by the average of the beginning and ending total assets for that period and multiplied by 100%.
- (5) Equals current assets divided by current liabilities as of the respective financial period-end date.
- (6) Equals current assets less inventories and divided by current liabilities as of the respective financial period-end date.

- (7) Equals total debt divided by total equity as of the respective financial period-end date. Total debt is calculated as total borrowings plus loans from related parties, less cash and cash equivalents and restricted cash.
- (8) This semi-annual number is not meaningful as it is not comparable to the annual numbers.

#### **Return on Equity**

Our return on equity increased from 4.9% in 2014 to 8.6% in 2015, primarily due to a significant increase in our profit for the year from US\$8.4 million in 2014 to US\$15.2 million in 2015. Our return on equity further increased from 8.6% in 2015 to 22.4% in 2016, primarily due to a significant increase in our profit for the year from US\$15.2 million in 2015 to US\$43.0 million in 2016.

#### **Return on Assets**

Our return on assets increased from 2.1% in 2014 to 3.2% in 2015, primarily due to a significant increase in our profit for the year from US\$8.4 million in 2014 to US\$15.2 million in 2015. Our return on assets further increased from 3.2% in 2015 to 9.2% in 2016, primarily due to a significant increase in our profit for the year from US\$15.2 million in 2015 to US\$43.0 million in 2016.

#### **Current Ratio**

Our current ratio decreased from 1.20 in 2014 to 1.12 in 2015 primarily due to (i) a 19.1% increase in borrowings from US\$110.4 million as of December 31, 2014 to US\$131.5 million as of December 31, 2015, and (ii) a 37.6% decrease in prepayment and other receivables from US\$37.9 million as of December 31, 2014 to US\$23.7 million as of December 31, 2015, and partially offset by a 15.2% decrease in trade payables from US\$113.2 million as of December 31, 2014 to US\$96.0 million as of December 31, 2015.

Our current ratio increased from 1.12 in 2015 to 1.18 in 2016 primarily due to (i) a 34.1% increase in trade receivables from US\$70.5 million as of December 31, 2015 to US\$94.6 million as of December 31, 2016, and (ii) a 28.1% decrease in borrowings from US\$131.5 million as of December 31, 2015 to US\$94.6 million as of December 31, 2016, and partially offset by a 14.2% decrease in inventories from US\$189.3 million as of December 31, 2015 to US\$162.4 million as of December 31, 2016.

Our current ratio decreased from 1.18 as of December 31, 2016 to 1.13 as of June 30, 2017 primarily due to (i) a 44.2% increase in bank borrowings from US\$94.6 million as of December 31, 2016 to US\$136.4 million as of June 30, 2017, (ii) a 40.1% increase in other payables and accruals from US\$54.6 million as of December 31, 2016 to US\$76.5 million as of June 30, 2017 and (iii) a 13.1% decrease in inventories from US\$162.4 million as of December 31, 2016 to US\$141.0 million as of June 30, 2017; these factors were partially offset by (i) a significant increase in cash and cash equivalents from US\$23.0 million as of December 31, 2016 to US\$85.2 million as of June 30, 2017 and (ii) a 25.7% increase in trade receivables from US\$94.6 million as of December 31, 2016 to US\$118.9 million as of June 30, 2017.

#### **Ouick Ratio**

Our quick ratio decreased from 0.54 in 2014 to 0.47 in 2015 primarily due to (i) a 19.1% increase in borrowings from US\$110.4 million as of December 31, 2014 to US\$131.5 million as of December 31, 2015, and (ii) a 37.6% decrease in prepayment and other receivables from US\$37.9 million as of

December 31, 2014 to US\$23.7 million as of December 31, 2015, and partially offset by a 15.2% decrease in trade payables from US\$113.3 million as of December 31, 2014 to US\$96.0 million as of December 31, 2015.

Our quick ratio increased from 0.47 in 2015 to 0.54 in 2016 primarily due to (i) a 34.1% increase in trade receivables from US\$70.5 million as of December 31, 2015 to US\$94.6 million as of December 31, 2016, and (ii) a 28.1% decrease in borrowings from US\$131.5 million as of December 31, 2015 to US\$94.6 million as of December 31, 2016, and partially offset by a 40.2% decrease in prepayment and other receivables from US\$23.7 million as of December 31, 2015 to US\$14.2 million as of December 31, 2016.

Our quick ratio increased from 0.54 as of December 31, 2016 to 0.70 as of June 30, 2017 primarily due to (i) a significant increase in cash and cash equivalents from US\$23.0 million as of December 31, 2016 to US\$85.2 million as of June 30, 2017 and (ii) a 25.7% increase in trade receivables from US\$94.6 million as of December 31, 2016 to US\$118.9 million as of June 30, 2017; these factors were partially offset by (i) a 44.2% increase in bank borrowings from US\$94.6 million as of December 31, 2016 to US\$136.4 million as of June 30, 2017 and (ii) a 40.1% increase in other payables and accruals from US\$54.6 million as of December 31, 2016 to US\$76.5 million as of June 30, 2017

#### **Gearing Ratio**

Our gearing ratio increased from 0.44 times in 2014 to 0.58 times in 2015 primarily because we obtained more bank borrowings during the year to finance our business expansion.

Our gearing ratio decreased from 0.58 times in 2015 to 0.37 times in 2016 primarily because (i) our net cash in 2016 generated from operating activities increased from US\$27.3 million in 2015 to US\$65.4 million in 2016 and (ii) we repaid part of our bank borrowings in 2016.

Our gearing ratio decreased from 0.37 times as of December 31, 2016 to 0.22 times as of June 30, 2017 primarily due to a significant increase in cash and cash equivalents from US\$23.0 million as of December 31, 2016 to US\$85.2 million as of June 30, 2017 as we had net cash generated from financing activities of US\$38.6 million for the six months ended June 30, 2017 compared with net cash used in financing activities of US\$30.4 million in 2016.

#### WORKING CAPITAL

As of the Indebtedness Date, we had unutilized banking facilities of US\$168.7 million. Under these banking facilities, we may drawdown funds to repay loans to finance our working capital. Our Directors believe that, after taking into account the financial resources available to us, including internally generated funds, our available banking facilities and the estimated net proceeds of the Global Offering, we have sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus.

After due consideration and discussions with our management and based on the above and the assumption that there is no material change in the composition and trend of our capital expenditure, the Sole Sponsor has no reason to believe that we cannot meet our working capital requirements for the 12-month period from the date of this prospectus.

#### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any material off-balance sheet transactions.

## FINANCIAL RISKS DISCLOSURE

We are exposed to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. Our overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our financial performance. We use derivative financial instruments to mitigate certain risk exposures. For details of our financial risk management, please see Note 3 to "Appendix I—Accountant's Report."

Our Directors confirm that, since June 30, 2017, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially affect the information shown in "Appendix I—Accountant's Report" to this prospectus.

#### Market Risk

Foreign exchange risk

We operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar for certain Chinese subsidiaries of the Company for which the functional currency is Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, we use forward contracts, transacted by group treasury. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

As of December 31, 2014, 2015 and 2016 and June 30, 2017, if the Renminbi had weakened/strengthened by 5% against the U.S. dollar, with all other variables held constant, post-tax profit for each year/period would have changed mainly as a result of foreign exchange gains/losses on translation of U.S. dollar-denominated cash and cash equivalent, trade receivables, trade payables and bank borrowings in Renminbi functional currency subsidiaries. Details of the changes are as follows:

	As	of December 3	1,	As of
	2014	2015	2016	2017
	US\$ ('000)	US\$ ('000)	US\$ ('000)	US\$ ('000)
Year/period ended				
Post-tax profit increase/(decrease)				
Weakened 5% against U.S. dollar	735	2,492	3,578	4,946
Strengthened 5% against U.S. dollar	(735)	(2,492)	(3,578)	(4,946)

Cash flow and fair value interest rate risk

Our interest-rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose us to cash flow interest-rate risk, and if at fixed rates expose us to fair value interest-rate risk. As of December 31, 2014, 2015 and 2016 and June 30, 2017, if interest rates on long-term borrowings had been 100 basis points higher/lower with all other variables held constant, the post-tax profit for the year/period would have been approximately US\$4,853 lower/higher, US\$2,032 lower/higher, US\$38 lower/higher and US\$42 lower/higher, respectively, mainly as a result of higher/lower interest expenses on borrowings.

## Credit Risk

Credit risk arises from pledged bank deposits, cash and cash equivalents and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent our maximum exposure to credit risk in relation to the corresponding class of financial assets. To manage the risk with respect to cash and cash equivalents, bank deposits are placed with highly reputable financial institutions. Our trade receivables at the end of each reporting period, were mainly due from retailers, importers and e-commerce consumers. For trade receivables, we perform ongoing credit evaluations of its debtors' financial condition and does not require collateral from the debtors on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, we maintain a provision for doubtful accounts and actual losses incurred have been within management's expectations. For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The Directors believe that there is no material credit risk inherent in our outstanding balance of other receivable.

## Liquidity Risk

We finance our working capital requirements through a combination of funds generated from our operations and short-term bank borrowings. Our policy is to maintain sufficient cash and cash equivalents and have sufficient available funding through our banking facilities and operations to meet our working capital requirements. Our Directors believe that we have maintained sufficient general banking facilities for financing our capital commitment and working capital purposes.

Cash flow forecasting is performed in the operating entities of the Group and aggregated by our finance. Group finance monitors rolling forecasts of our liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration our debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements, for example, currency restrictions.

#### DIVIDEND POLICY

We may declare dividends in the future after taking into account our results of operations, our total equity, our business conditions, strategies or needs for future expansions, our capital expenditure needs, dividend paid to us by our subsidiaries, impact of the dividend distribution on our working capital and financial position, and other factors as our Directors may deem relevant at such time.

Chinese laws require that dividends be paid only out of our profit for the year calculated according to Chinese accounting principles, which may differ from generally accepted accounting principles in other jurisdictions, including HKFRSs. Some of our subsidiaries in China, which are foreign-invested enterprises, set aside part of their profit for the year as statutory reserves, in accordance with the requirements of relevant Chinese laws and the provisions of their respective articles of association. These portions of our subsidiaries' profits for the year are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in banking facilities, loans agreements or other agreements that we or our subsidiaries and associated companies may enter into in the future. These restrictions may limit or affect our ability in paying dividends.

Any declaration and payment, as well as the amount of dividends, will be subject to our Articles of Association and the Cayman Companies Law. Our Shareholders in general meetings may approve any declaration of dividends, which must not exceed the amount recommended by our Board. No dividend may be declared or paid except out of our profits or reserves set aside from profits in our Board's discretion. Dividends may also be declared and paid out of our share premium account or any other fund or account that can be authorized for such purpose in accordance with the Cayman Companies Law and our Articles of Association.

The Company declared dividends of US\$2,822,935, US\$3,236,670 and US\$350,000 in 2014, 2016 and the six months ended June 30, 2017, respectively. Bestway Europe, one of our subsidiaries, declared dividends of US\$93,324 to its then shareholders in 2015. We have settled all these dividends payable. In September and October 2017, the Company declared a dividend of US\$4,620,000 and US\$6,632,000, respectively, and these dividends were fully paid as of the Latest Practicable Date. Any future declaration of dividends may or may not reflect our prior declarations of dividends and any dividend recommendation will be at the discretion of our Board, subject to Cayman Companies Law. We may declare dividends in the future after taking into account our results of operations, our total equity, our business conditions, strategies or needs for future expansions, our capital expenditure needs, dividend paid to us by our subsidiaries, impact of the dividend distribution on our working capital and financial position, and other factors as our Directors may deem relevant at such time. Subject to the above limitations, our Directors expect that, in the future, we may pay dividends from time to time in an aggregate amount of not less than 30% of distributable profits attributable to the owners of our Company.

## LISTING EXPENSES

We incurred US\$4.5 million of listing expenses during the Track Record Period, of which US\$3.3 million were recognised as expenses and US\$1.2 million was capitalized. We expect to incur approximately US\$9.8 million of listing expenses after the Track Record Period, of which approximately US\$2.4 million will be recognized as expenses in the consolidated statements of profit or loss for the year ending December 31, 2017 and the remaining (predominantly related to underwriting commission expenses, which will be fully capitalized) will be capitalized after the Listing.

# UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to the owners of the Company as at June 30, 2017 as if the Global Offering had taken place on June 30, 2017.

This unaudited pro forms statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at June 30, 2017 or at any future date.

	Audited				
	consolidated		Unaudited pro		
	net tangible		forma adjusted		
	assets of the		consolidated		
	Group		net tangible	Unaudited pro	Unaudited pro
	attributable to		assets of the	forma adjusted	forma adjusted
	the owners of	Estimated net	Group	consolidated	consolidated
	the Company	proceeds from	attributable to	net tangible	net tangible
	as at	the Global	owners of the	assets per	assets per
	June 30, 2017	Offering	Company	share	share
	US\$	US\$	US\$	US\$	HK\$
	(Note 1)	(Note 2)		( <i>Note 3</i> )	(Note 4)
Based on an offer price of					
HK\$4.38 per Share	245,043,740	139,942,289	384,986,029	0.36	2.84
Based on an offer price of					
HK\$5.80 per Share	245,043,740	185,925,214	430,968,954	0.41	3.18

#### Notes:

- The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at June 30, 2017 is extracted from the financial information contained in the Accountant's Report set out in Appendix I to this prospectus which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as at June 30, 2017 of US\$245,481,105 less intangible assets of US\$437,365.
- 2. The estimated net proceeds from the Global Offering are based on the offering price of HK\$4.38 and HK\$5.80 per Share respectively, after deduction of relevant estimated underwriting fees and other related fees and expenses payable by the Group (excluding approximately US\$4,527,423 listing-related expenses which have been accounted for prior to June 30, 2017) but takes no accounts of any Shares which may be issued upon the exercise of the Overallotment Option.
- 3. The unaudited pro forma adjusted consolidated net tangible assets per share is arrived at after the adjustments as described in note 2 above and is based on that 1,058,391,000 shares were in issue immediately prior to the Listing (assuming that the Capitalization Issue and the Global Offering had been completed on June 30, 2017), without taking into account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- 4. For the purpose of this unaudited pro forma adjusted consolidated net tangible assets per share, the amounts stated in US dollars are converted into Hong Kong dollar at a rate of US\$1.00 to HK\$7.80.
- 5. No adjustments have been made to the unaudited pro forma adjusted net tangible assets of the Group to reflect any trading result or other transactions of the Group entered into subsequent to June 30, 2017. In particular, the unaudited pro forma net adjusted tangible assets of our Group has not taken into account the cash dividends of approximately RMB31 million (equivalent to US\$4.62 million) and RMB44 million (equivalent to US\$6.63 million) approved at the meeting of the Board of Directors of the Company on September 18, 2017 and October 4, 2017, respectively. The unaudited pro forma net tangible assets per share would have been HK\$2.76 per share based on the Offer Price of HK\$4.38 and HK\$3.09 per share based on the Offer Price of HK\$5.80, respectively, if these dividends of approximately RMB75 million had been accounted for. For details, please see "Appendix II—Unaudited Pro Forma Financial Information" to this prospectus.

# DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, they were not aware of circumstances that would give rise to a disclosure required under Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules upon the Listing of the Shares on the Stock Exchange.

#### NO MATERIAL ADVERSE CHANGE

Our Directors confirm that up to the date of this prospectus, other than the above, there has been no material adverse change in our financial or trading position or prospects since June 30, 2017, and there is no event since June 30, 2017 which would materially and adversely affect the audited financial information as set out in "Appendix I—Accountant's Report" to this prospectus.

## **OVERVIEW**

Immediately after the completion of the Capitalization Issue and the Global Offering, Great Success will directly own 793,793,000 Shares, representing approximately 75% of our total issued share capital if the Over-allotment Option is not exercised, or approximately 72.3% of our total issued share capital if the Over-allotment Option is exercised in full. Great Success is held as to approximately 72.4% by Great Access, 8.1% by Outland Enterprise, 18.0% by Mr. Bogdan Nowak and 1.5% by Mr. Patrizio Fumagalli. Great Access is in turn held as to 92.0% by Mr. Zhu Qiang and 8% by Mr. Zhu Jiachen, the son of Mr. Zhu Qiang. As Great Access, Outland Enterprise, Mr. Bogdan Nowak, Mr. Patrizio Fumagalli, Mr. Zhu Qiang and Mr. Zhu Jiachen hold their interests in the Company through Great Success; Great Success, Great Access, Outland Enterprise, Mr. Bogdan Nowak, Mr. Patrizio Fumagalli, Mr. Zhu Qiang and Mr. Zhu Jiachen will constitute a group of controlling shareholders for the purpose of the Listing Rules immediately after the Global Offering.

Outland Enterprise is held as to approximately 11.0% by Mr. Zhu Qiang and 89.0% by the Scheme Participants. Outland Enterprise was set up by Mr. Zhu Qiang on November 27, 2013 to implement the Pre-IPO Share Incentive Scheme, pursuant to which Outland Enterprise would allot and issue or Mr. Zhu Qiang would transfer shares in Outland Enterprise to the employees of the Group to award their past contribution to the Group and to incentivize them. It is expected that no new shares in Outland Enterprise will be issued upon Listing, and it is intended that Mr. Zhu Qiang may transfer the shares he held in Outland Enterprise to employees of the Group in the future to reward their contribution to the Group. For details of the Pre-IPO Share Incentive Scheme, please see "History, Development and Reorganization—Pre-IPO Share Incentive Scheme." As the Scheme Participants are shareholders of Outland Enterprise only because of their participation in the Pre-IPO Share Incentive Scheme, they will not be considered as our controlling shareholders as defined under the Listing Rules immediately after the Global Offering.

Mr. Zhu Qiang is the founder of our Group, Chairman, executive Director and chief executive officer of our Company. For details of the background of Mr. Zhu Qiang, please see "Directors and Senior Management."

Our Controlling Shareholders and the Directors confirm that they do not have any interest in a business which competes with or is likely to compete with our business, whether directly or indirectly, or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

## INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

# **Operational Independence**

We do not rely on our Controlling Shareholders for any significant amount of our revenue, product development, staffing or marketing and sales activities. We independently hold all of the production and operating facilities and technology relating to our current business operations. Sales, marketing and administrative functions relating to our business are carried out independently by our Group. We have sufficient operational capacity in terms of capital, equipment and employees to operate our businesses independently from our Controlling Shareholders. We have our own headcount of employees for our operations and independently manage our human resources. Our Group owns all licenses, trademarks or licenses to use the trademarks and other intellectual property rights which are required for our Group to carry on its business.

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

## **Management Independence**

Our Board consists of seven Directors, comprising four executive Directors and three independent non-executive Directors. The executive management team of our Group is led by Mr. Zhu Qiang, the executive Director, Chairman and chief executive officer of the Company, who is supported by a team of senior management and all of the members of our senior management have been managing the business of our Group throughout the Track Record Period. Each of our senior management possesses relevant management and/or industry-related experience. Please see "Directors and Senior Management" for further details of their management experience.

Apart from being our founder, Controlling Shareholder, Chairman, executive Director and chief executive officer of the Company, Mr. Zhu Qiang is also a director of Great Access, Great Success and Outland Enterprise.

To the best knowledge of our Directors and as at the Latest Practicable Date, no other Director or senior management member of our Group is also a director or member of senior management of Great Access, Great Success and Outland Enterprise.

We believe that the Directors and members of the senior management of our Group are able to perform their roles in our Group independently and that our Group is capable of managing our business independently our Controlling Shareholders for the following reasons:

- (i) in the event of a conflict of interest arising out of any transaction to be entered into by our Group, any Director with a conflicting interest shall abstain from voting in respect of such transaction and shall not be counted in forming quorum at the relevant Board meeting;
- (ii) our three independent non-executive Directors have extensive experience in different areas and have been appointed in accordance with the requirements under the Listing Rules to ensure that the decision of the Board are made only after due consideration of independent and impartial opinions; and
- (iii) each of our Directors is aware of his or her fiduciary duties as a Director, which require, among other things, that he acts for our Company's benefits and best interests and does not allow any conflict between his duties as a Director and his personal interests.

As at the Latest Practicable Date, none of the Directors or their respective close associates has interests in any business which competes or is likely to compete, either directly or indirectly, with that of our Group.

## **Financial Independence**

Our Group has its own financial management system and ability to operate independently of the Controlling Shareholders from a financial perspective. Our Directors are of the view that our Group does not unduly rely on advances from our Controlling Shareholders or their associates for our business operations. As at June 30, 2017, the total amount of outstanding loans from Mr. Zhu Qiang to our Group were US\$0.5 million, and the total amount of personal guarantees provided by Mr. Zhu Qiang and his spouse in respect of our Group's indebtedness were US\$26.5 million. During the Track Record Period, our Group has relied principally on cash generated from operations and debt financing to carry on its businesses and this is expected to continue immediately after Listing. Our Directors confirm that any loans, advances or non-trade payables and receivables due to and from, or any pledges and guarantees in respect of debt financing of the Group provided by our Controlling Shareholders and their respective close associates will be fully settled or released before Listing.

Our Directors believe that our Group is capable of obtaining financing from external sources without reliance on any guarantee or security provided by our Controlling Shareholders and/or their respective close associates. Furthermore, our Group has its own finance and audit department and has established its own financial management system independent from our Controlling Shareholders. Our Group has its own bank account, makes its tax registrations and has employed sufficient number of financial accounting personnel.

Accordingly, our Directors consider that our Group is capable of operating independently from a financial perspective.

#### NON-COMPETITION UNDERTAKING

In order to ensure that direct competition does not develop between us and the activities of our Controlling Shareholders, each of our Controlling Shareholders has agreed to provide a non-competition undertaking in our favor, which is described below.

Each of our Controlling Shareholders has entered into the deed of non-competition in favor of our Company, pursuant to which each of our Controlling Shareholders has undertaken to our Company (for itself and for the benefit of its subsidiaries) that they would not, and they would use their best endeavors to procure that their associates (except any members of our Group) shall not, whether directly or indirectly (including through any body corporate, partnership, joint venture or other contractual arrangement) or as principal or agent, and whether on their own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any member of our Group), carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is in competition, directly or indirectly, with the business of any member of our Group (the "Restricted Business").

The above undertaking does not preclude our Controlling Shareholders from having an aggregate interest in:

- (a) not more than 5% of the issued shares in any company engaging any Restricted Business (the "Subject Company") which is or whose holding company is listed on any recognized exchange; or
- (b) not more than 5% of the Subject Company's combined turnover or combined assets, as shown in the Subject Company's latest audited accounts; provided that there is a holder (with its associates where appropriate) with a larger shareholding in the Subject Company than the aggregate shareholding held by any of our Controlling Shareholders and/or his or her or its associates and the total number of representatives of any of our Controlling Shareholders on the board of directors of the Subject Company is not significantly disproportionate in relation to his or her or its shareholding in the Subject Company.

If any investment or other business opportunity relating to our Business (the "Business Opportunity") is identified by any of our Controlling Shareholders, they shall refer such Business Opportunity to our Company and shall not pursue such Business Opportunity unless our Directors or a board committee declines the Business Opportunity.

Pursuant to the deed of non-competition, the respective obligations of each of the Controlling Shareholders thereunder would terminate on the earliest of the date on which such Controlling Shareholder ceases to hold directly or indirectly in aggregate 30% or more of the entire issued share capital, or otherwise ceases to be a controlling shareholder (as defined under the Listing Rules), of the Company or the Shares cease to be listed and traded on the Stock Exchange.

Further, the independent non-executive Directors will review, on an annual basis, the compliance of our Controlling Shareholders with the deed of non-competition (in particular, the right of first refusal relating to any Business Opportunity) and our Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance with and enforcement of the deed of non-competition in our annual report or by way of announcement to the public.

## CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following corporate governance measures to avoid potential conflict of interests and safeguard the interests of our Shareholders:

- (a) compliance with the Listing Rules, in particular, strictly observe any proposed transactions between us and connected persons as defined under the Listing Rules and comply with the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules where applicable;
- (b) in the event that connected transactions, if any, between our Group and other business in which any Director or his respective associates had any interest are submitted to the Board for consideration, the relevant interested Director will not be counted in the quorum and will abstain from voting on such matters, and majority votes on such matters, and majority votes by non-conflicted Directors are required to decide on such connected transactions;

- (c) appointment of Guotai Junan Capital Limited as our compliance advisor to advise us on the compliance matters in respect of the Listing Rules and applicable laws and regulations;
- (d) appointment of three independent non-executive Directors in order to achieve a balanced composition of executive and non-executive Directors in our Board. The independent non-executive Directors have the qualification, integrity, independence and experience to fulfill their roles effectively. Please see "Directors and Senior Management" for further details of our independent non-executive Directors;
- (e) our independent non-executive Directors will review, on an annual basis, the compliance with the deed of non-competition by our Controlling Shareholders;
- (f) each of our Controlling Shareholders has undertaken to our Company that it will provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the deed of non-competition;
- (g) our Company will disclose the review by our independent non-executive Directors relating to the compliance and enforcement of the deed of non-competition either in its annual report or by way of announcements to the public; and
- (h) each of our Controlling Shareholders will make an annual confirmation to our Company on compliance with the deed of non-competition which shall be disclosed in the annual report of our Company or by way of announcements to the public.

#### INTRODUCTION TO CONNECTED TRANSACTIONS

The Group has entered into certain agreements with certain entities that will, upon Listing, become the Group's connected persons (as defined under Chapter 14A of the Listing Rules). Following Listing, the transactions contemplated under such agreements will constitute continuing connected transactions of the Group under Chapter 14A of the Listing Rules.

## **OUR CONNECTED PERSONS**

Upon Listing, the following entities, with which the Group has entered into certain transactions in the ordinary and usual course of the Group's business, will become connected persons of the Group under Chapter 14A of the Listing Rules:

上海事通塑膠製品廠 (Shanghai Shitong Plastic Production Factory) ("Shanghai Shitong") and 上海亞鳴塑膠製品廠 (Shanghai Yaming Plastic Production Factory) ("Shanghai Yaming"), being companies controlled by Mr. Zhu Qiang's sisters, and 上海明威印務有限公司 (Shanghai Mingwei Printing Limited Co.) ("Shanghai Mingwei"), 上海九豐塑料製品有限公司 (Shanghai Jiufeng Plastic Production Factory) ("Shanghai Jiufeng"), 上海凱良塑料製品有限公司 (Shanghai Kailiang Plastic Production Factory) ("Shanghai Kailiang"), 上海捷茂塑膠有限公司 (Shanghai Jiemao Plastic Limited Co.) ("Shanghai Jiemao") and 南通捷茂塑膠有限公司 (Nantong Jiemao Plastic Limited Co.) ("Nantong Jiemao"), together with Shanghai Shitong, Shanghai Yaming, Shanghai Mingwei, Shanghai Jiufeng, Shanghai Kailiang and Shanghai Jiemao, the "Connected Suppliers"), being companies controlled by Mr. Zhu Qiang's family members, are connected persons of the Group pursuant to Rule 14A.12(2)(b) and Rule 14A.21(1)(b) of the Listing Rules, respectively.

Accordingly, upon Listing, the following transactions between each of the connected persons and the Group, which are entered into in the ordinary and usual course of business of our Group on normal commercial terms on a recurring and continuing nature, will constitute continuing connected transactions of the Group under Chapter 14A of the Listing Rules.

#### CONTINUING CONNECTED TRANSACTIONS

# **Summary Table of Our Continuing Connected Transactions**

	Applicable A		Proposed annual caps  For the year ending December 31,			
		Applicable Waiver				
Nature of Transactions	Listing Rules	Sought	2017	2018	2019	
			(RMB)	(RMB)	(RMB)	
Partially exempt continuing connected transactions	14A.76(2)(a)	Waiver from strict compliance with the announcement	40 million	40 million	40 million	
Purchase Framework Agreement		requirement under Rule 14A.35 of the Listing Rules				

#### **Partially Exempt Continuing Connected Transactions**

The following transactions are entered into in the ordinary and usual course of business of our Group and on normal commercial terms where, as our Directors currently expect, the highest applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules will be more than 0.1% but less than 5% on an annual basis. Under Rule 14A.76(2)(a) of the Listing Rules, the following transactions will be subject to the reporting, announcement and annual review requirements but will be exempted from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

## Purchase of injection molding and printed products

Historically, our Group had been purchasing injection molding and printed products from the Connected Suppliers due to the family relationship between Mr. Zhu Qiang and the shareholders of the Connected Suppliers, which secures more convenient and efficient logistics, more reliable product quality and better service quality. Our Group will continue to carry on the relevant transactions after Listing in order to satisfy our high demand for our products. In anticipation of Listing, on November 3, 2017, the Company entered into a purchase framework agreement with the Connected Suppliers to govern the relevant transactions after Listing (the "Purchase Framework Agreement"). The principal terms of the Purchase Framework Agreement are as follows:

- (a) the Purchase Framework Agreement is for a term commencing on the Listing Date until December 31, 2019 and may be renewed by agreement between the parties, and each renewal shall be of a term of three years;
- (b) the Connected Suppliers shall supply injection molding and printed products for the production of our products at prevailing market prices to our Group; and
- (c) the parties shall enter into separate contracts to govern the underlying transactions according to the principles and conditions as set out in the Purchase Framework Agreement.

#### Pricing

The aggregate purchase amount of injection molding and printed products payable under the Purchase Framework Agreement is determined as follows:

(a) tender process, which a tender will be offered to at least two independent bidders for injection molding and printed products in similar quantities. The chief officer of the procurement department will evaluate the following factors to determine if the price and terms offered by the Connected Suppliers are fair and reasonable: (1) the terms of tender proposals offered by the participating bidders, including tender price and other response to specifications set by the Group; (2) the background, qualifications and financial position of participating bidders; and (3) the experience of participating bidders in producing similar products. The tender procedures shall comply with the relevant local regulations; and

- (b) after arms' length negotiation between the parties based on the following principles:
  - by reference to the prevailing market prices of similar products provided by independent third parties under normal commercial terms in the ordinary course of business in the vicinity;
  - ii. by reference to the prices of non-connected transactions between the connected parties and independent third parties; and
  - iii. in any event at prices and terms no less favourable than those offered by independent third parties.

## Historical figures

The aggregate purchase amount of injection molding and printed products paid by our Group to the Connected Suppliers for the three years ended December 31, 2014, 2015 and 2016 and for the six months ended June 30, 2017 were RMB31.7 million, RMB32.5 million, RMB37.0 million and RMB17.6 million, respectively, representing 1.40%, 1.45%, 1.69% and 1.28% of our total purchase amount of raw materials in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively.

## Annual caps

The Directors estimated the aggregate purchase amount of injection molding and printed products payable by our Group under the Purchase Framework Agreement for the years ending December 31, 2017, 2018 and 2019 as follows:

	For the year ending December 31,			
	2017	2018	2019	
	(RMB)	(RMB)	(RMB)	
Purchase amount of injection molding and				
printed products	40 million	40 million	40 million	

In arriving at the above proposed annual caps in respect of the purchase price of injection molding and printed products payable under the Purchase Framework Agreement, the Directors have considered the following factors:

- (i) the historical figures as set out above; and
- (ii) the anticipated business growth of the Group. The Group has been producing some of the injection molding and printed products in the past, and as the Group plans to increase manufacturing some of the injection molding and printed products starting from 2017, the Directors do not anticipate the purchase of injection and molding and printed products from the Connected Suppliers to increase in the coming two to three years and therefore the estimated annual caps for the years ended December 31, 2017, 2018 and 2019 remain the same.

#### Waiver Application for Partially Exempt Continuing Connected Transaction

The Directors, including the independent non-executive Directors, consider that disclosure of the partially exempt continuing connected transactions described above in full compliance with the Listing Rules would be impracticable and, in particular, would add unnecessary administrative costs to our Company. In addition, the Directors, including the independent non-executive Directors, believe that it is in the interest of our Company to continue with these transactions after Listing.

As a result, pursuant to Rule 14A.105 of the Listing Rules, we have sought and obtained from the Stock Exchange a waiver from strict compliance with the announcement requirement under Rule 14A.35 of the Listing Rules in respect of partially exempt continuing connected transactions, subject to the condition that the annual transaction values shall not exceed their respective estimated annual caps (as stated above).

In addition, the Directors confirm that we will comply with the applicable requirements under Chapter 14A of the Listing Rules and will immediately inform the Stock Exchange if any of the proposed annual caps set out above are exceeded, or when there is a material change in the terms of the transactions.

#### Confirmation from the Directors

The Directors, including the independent non-executive Directors, are of the view that:

- (a) the continuing connected transactions described above for which a waiver is sought has been entered into and will be carried out in the ordinary and usual course of business of our Group on normal commercial terms, and that the terms of the continuing connected transactions are fair and reasonable and in the interest of our Company and the Shareholders as a whole; and
- (b) the proposed annual caps (where applicable) of such continuing connected transactions set out above are fair and reasonable and in the interest of our Company and the Shareholders as a whole.

## **Confirmation from the Sole Sponsor**

The Sole Sponsor has reviewed the relevant information and historical figures prepared and provided by our Company relating to the partially exempt continuing connected transactions above, and has also discussed this transaction with us and obtained various representations from us. Based on the aforementioned due diligence work, the Sole Sponsor is of the view that:

- (a) such partially exempt continuing connected transactions set out above for which a waiver is sought has been entered into in the ordinary and usual course of business of our Group on normal commercial terms, is fair and reasonable and in the interest of the Shareholders as a whole; and
- (b) the proposed annual caps (where applicable) of such partially exempt continuing connected transactions set out above are fair and reasonable and in the interest of the Shareholders as a whole.

## SHARE CAPITAL

#### AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid prior to and immediately following the completion of the Capitalization Issue and the Global Offering:

## As of the Date of this Prospectus

HK\$

Authorized share capital

1,000,000 Shares 10,000

Issued share capital

1,001 Shares 10.01

Immediately after Completion of the Capitalization Issue and the Global Offering

HK\$

Shares to be issued under the Capitalization Issue

793,791,999 Shares 7,937,919.99

Shares to be issued under the Global Offering

2,645,980 Shares 2,645,980

Total Issued Shares on completion of the Capitalization Issue and the Global

Offering

1,058,391,000 Shares 10,583,910

#### **ASSUMPTIONS**

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Capitalization Issue and the Global Offering. The above does not take into account any Shares which may be issued and/or sold pursuant to the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

# **RANKING**

The Shares are ordinary shares in the share capital of our Company and rank equally with all Shares upon Listing and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the Listing Date.

### PRE-IPO SHARE INCENTIVE SCHEME

The Pre-IPO Share Incentive Scheme was established to award the past contribution of the employees of the Group and to incentivize them. Please see "Appendix IV—Statutory and General Information—D. Pre-IPO Share Incentive Scheme" for more information of the Pre-IPO Share Incentive Scheme.

## SHARE CAPITAL

#### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. Please see "Appendix IV—Statutory and General Information—E. Share Option Scheme" for more information of the Share Option Scheme.

#### GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with at any time subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering; and
- (ii) the nominal amount of our share capital repurchased by the Company (if any) pursuant to the repurchase mandate (as mentioned below).

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

- (i) at the conclusion of our next annual general meeting;
- (ii) the expiration of the period within which our Company's next annual general meeting is required to be held under any applicable laws or the Articles; or
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting, whichever is the earliest.

Please see "Appendix IV—Statutory and General Information—A. Further Information About Our Group—3. Resolutions of Our Shareholders" for more information of this general mandate.

## GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in "Structure of the Global Offering—Conditions of the Global Offering," our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal value of our share capital in issue immediately following the completion of the Capitalization Issue and the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

This general mandate relates only to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in "Appendix IV—Statutory and General Information—A. Further Information About Our Group—6. Repurchase of Our Own Securities."

## SHARE CAPITAL

This general mandate to repurchase Shares will expire:

- (i) at the conclusion of our next annual general meeting;
- (ii) the expiration of the period within which our Company's next annual general meeting is required to be held under any applicable laws or the Articles; or
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting, whichever is the earliest.

Please see "Appendix IV—Statutory and General Information—A. Further Information About Our Group—3. Resolutions of Our Shareholders" for more information of this general mandate.

# CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS AND CLASS MEETINGS ARE REQUIRED

Our Company has only one class of shares, namely ordinary shares, each of which ranks pari passu with the other shares.

Pursuant to the Cayman Companies Law and the Articles of Association, the Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares; (c) subdivide its shares or any of them into shares of smaller amount than that fixed by the Memorandum; and (d) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

Subject to the Cayman Companies Law and to confirmation by the Grand Court of the Cayman Islands, the Company may, if so authorized by its Articles of Association, by special resolution, reduce its share capital in any way. For details, please see "Appendix III—Summary of the Constitution of the Company and Cayman Companies Law—2. Articles of Association—2.5 Alteration of capital."

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for in the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. For details, please see to "Appendix III—Summary of the Constitution of the Company and Cayman Companies Law—2. Articles of Association—2.4 Variation of rights of existing shares or classes of shares."

Pursuant to the Articles of Association, extraordinary general meetings may be convened on the requisition of two or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such meeting shall be held within three months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following the completion of the Capitalization Issue and the Global Offering and assuming that the Over-allotment Option is not exercised, have beneficial interests or short positions in our Shares or underlying Shares, which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, 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:

			Approximate
			percentage of
		Number of	interest in
		Shares	our Company
		interested immediately	immediately
		after completion of the	after completion of the
		Capitalization Issue and	Capitalization Issue and
Name of Shareholder	Nature of interest	the Global Offering <sup>(1)</sup>	the Global Offering <sup>(1)</sup>
Great Success <sup>(2)</sup>	Beneficial owner	793,793,000	75.0%
Great Access <sup>(2)(3)</sup>	Interest in controlled corporation	793,793,000	75.0%
Mr. Zhu Qiang <sup>(2)(3)(4)</sup>	Interest in controlled corporation	793,793,000	75.0%

#### Notes:

- (1) Assuming the Over-allotment Option is not exercised.
- (2) Great Success is owned as to approximately 72.4%, 8.1%, 18.0% and 1.5% by Great Access, Outland Enterprise, Mr. Bogdan Nowak and Mr. Patrizio Fumagalli, respectively.
- (3) Great Access is owned as to 92.0% and 8.0% by Mr. Zhu Qiang and his son, Mr. Zhu Jiachen, respectively. Therefore, Great Access is deemed or taken to be interested in all the Shares which are beneficially owned by Great Success for the purpose of Part XV of the SFO.
- (4) Mr. Zhu Qiang is deemed or taken to be interested in all the Shares which are beneficially owned by Great Success for the purpose of Part XV of the SFO.

Save as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the Capitalization Issue and the Global Offering and assuming that the Over-allotment Option is not exercised, have beneficial interests or short positions in our Shares or underlying Shares, which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, 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.

## FUTURE PLANS AND USE OF PROCEEDS

#### **FUTURE PLANS**

For further details of our future plans, please see "Business—Our Growth Strategies," "Business—Research and Development—Expansion Plans," "Business—Production—Expansion Plans" and "Business—Logistics and Transportation—Expansion Plans."

#### USE OF PROCEEDS

Assuming an Offer Price of HK\$5.09 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), we estimate that (i) the gross proceeds of the Global Offering that we will receive will be approximately HK\$1,346.8 million, and (ii) the net proceeds of the Global Offering that we will receive, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering, will be approximately HK\$1,271.3 million.

We intend to use the net proceeds of the Global Offering for the following purposes assuming the Offer Price is fixed at HK\$5.09 per Offer Share (being the mid-point of the indicative Offer Price range).

- approximately 40%, or HK\$508.5 million, will be used to expand and upgrade our research and development, manufacturing and storage capabilities, of which approximately:
  - (i) 50%, or HK\$254.3 million, will be used for constructing our facilities in Nantong, Yancheng and Shanghai. As of the Latest Practicable Date, the estimated total remaining development costs for construction of our facilities are RMB365.0 million (HK\$419.7 million), including (a) RMB174.2 million (HK\$200.2 million) for our production facilities in Yancheng and Nantong, (b) RMB21.8 million (HK\$25.1 million) for our research and development facilities in Shanghai, and (c) RMB169.0 million (HK\$194.4 million) for our warehouses in Yancheng and Nantong. Subject to changes in light of our evolving business needs and changing market conditions, we intend to allocate approximately 35% (or HK\$89.0 million), 5% (or HK\$12.7 million) and 60% (or HK\$152.6 million) of the net proceeds to our production facilities, research and development facilities and warehouses, respectively; and
  - (ii) 50%, or HK\$254.3 million, will be used for the purchase of equipment and machinery. As of the Latest Practicable Date, the total capital expenditure we expect to incur for the purchase of machines and equipment are RMB262.8 million (HK\$302.2 million), including (a) RMB112.5 million (HK\$129.4 million) for expansion of our existing production lines, (b) RMB30.0 million (HK\$34.5 million) for our new manufacturing facilities in Yancheng and Nantong, and (c) RMB120.3 million (HK\$138.3 million) for our warehouses in Yancheng and Nantong. Subject to changes in light of our evolving business needs and changing market conditions, we intend to allocate approximately 45% (or HK\$114.4 million), 12% (or HK\$30.5 million) and 43% (or HK\$109.3 million) of the net proceeds to the purchase of the aforesaid machines and equipment, respectively.

## FUTURE PLANS AND USE OF PROCEEDS

We expect to complete construction of our facilities in Nantong, Yancheng and Shanghai by September 2019 and purchase of equipment and machinery by 2020. For details of our expansion plans, please see "Business—Research and Development—Expansion Plans," "Business—Production—Expansion Plans" and "Business—Logistics and Transportation—Expansion Plans;"

- approximately 30%, or HK\$381.4 million, will be used for our repayment of short-term bank borrowings maturing from December 2017 to June 2018 with interest rates ranging from 3% to 6%;
- approximately 10%, or HK\$127.1 million, will be used for research and development of our products including (i) introduction of a new product category, constant-air inflatable play centers, in 2018, (ii) development of New Products, new materials and new product packaging such as new models of portable spas, high-end airbeds with new features and floating islands with new functions and (iii) improvement of existing products including product features and functions;
- approximately 5%, or HK\$63.6 million, will be used for advertising and promotional activities in key growth markets including the United States, China and Europe. We will further develop our multi-dimensional marketing strategies and promote our products and brands through different channels, in particular to increase our focus on online advertisements and other targeted marketing campaigns;
- approximately 5%, or HK\$63.6 million, will be used for enhancing our information technology systems (in particular our ERP program); and
- approximately 10%, or HK\$127.1 million, will be used for working capital and other general corporate purposes.

Except for the amount of HK\$381.4 million that we expect to use to repay short-term bank borrowings, the allocation of the proceeds outlined above will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher level or lower level compared to the mid-point of the estimated offer price range or the Over-allotment Option is exercised. If the Offer Price is fixed at a higher level compared to the mid-point of the estimated offer price range or the Over-allotment Option is exercised, not more than 10% of the net proceeds will be used for working capital and other general corporate purposes.

Assuming an Offer Price of HK\$5.80 per Offer Share (being the high end of the Offer Price range stated in this prospectus), we estimate that (i) the gross proceeds of the Global Offering that we will receive will be approximately HK\$1,534.7 million, and (ii) the net proceeds of the Global Offering that we will receive, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering, will be approximately HK\$1,450.7 million.

Assuming an Offer Price of HK\$4.38 per Offer Share (being the low end of the Offer Price range stated in this prospectus), we estimate that (i) the gross proceeds of the Global Offering that we will receive will be approximately HK\$1,158.9 million, and (ii) the net proceeds of the Global Offering that we will receive, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering, will be approximately HK\$1,091.9 million.

## FUTURE PLANS AND USE OF PROCEEDS

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments. 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.

#### HONG KONG UNDERWRITERS

Morgan Stanley Asia Limited

CMB International Capital 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 Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator and our Company, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 26,460,000 Hong Kong Offer Shares and the International Offering of initially 238,138,000 International Offer 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 Offering.

#### UNDERWRITING ARRANGEMENTS AND EXPENSES

## Hong Kong Public Offering

## Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription by the public in Hong Kong in accordance with the terms and conditions of this prospectus and the Application Forms relating thereto.

Subject to the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, and certain other conditions set forth in the Hong Kong Underwriting Agreement (including the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and our Company agreeing upon the Offer Price) being satisfied (or, as the case may be, waived), the Hong Kong Underwriters have agreed to subscribe or procure subscribers for their respective applicable portions of the Hong Kong Offer Shares in aggregate, now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms relating thereto and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

#### **Grounds for Termination**

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares are subject to termination by written or oral notice from the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), if any of the events set forth below occur at any time prior to 8:00 a.m. on the Listing Date:

- (1) there develops, occurs or comes into effect:
  - (a) any event or circumstance in the nature of force majeure (including any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the Cayman Islands, the British Virgin Islands, the United States, Italy, France, Germany, Russia, Chile, Australia or Brazil (collectively, the "Relevant Jurisdictions"); or
  - (b) any change or development involving a prospective change, or any event or circumstance likely to result in any change or development involving a prospective change in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any of the Relevant Jurisdictions; or
  - (c) any moratorium, suspension or restriction (including any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
  - (d) any general moratorium on commercial banking activities in any of the Relevant Jurisdictions, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of the Relevant Jurisdictions; or
  - (e) any new laws, or any change or any development involving a prospective change in the interpretation or application by any competent authorities of existing laws in or affecting any of the Relevant Jurisdictions; or
  - (f) the imposition of economic sanctions in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or

- (g) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the United States dollar, Euro or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or
- (h) any proceedings of any third party being threatened or instigated against any member of the Group or any Major Controlling Shareholder; or
- (i) any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (j) the chairman of the Company vacating his office; or
- (k) an authority in any of the Relevant Jurisdictions commencing any investigation or other action, or announcing an intention to investigate or take other action, against any member of the Group, any Director or any Major Controlling Shareholder; or
- (l) non-compliance of this prospectus (or any other documents used in connection with the Global Offering) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or
- (m) the issue or requirement to issue by the Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the Global Offering) pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC, unless such supplemental or amendment has been issued with the prior written approval of the Sole Global Coordinator; or
- (n) an order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group; or
- (o) a contravention by any member of the Group of the Listing Rules or applicable laws,

which, individually or in the aggregate, in the sole and absolute opinion of the Sole Global Coordinator:

(A) has or will have or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or

- (B) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or
- (C) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or
- (D) has or will 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 or materially delaying the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or
- (2) there has come to the notice of the Sole Global Coordinator:
  - (a) a prohibition on the Company for whatever reason from offering, allotting, issuing, selling or delivering any of the Offer Shares (including the option shares) pursuant to the terms of the Global Offering; or
  - (b) that any statement contained in any of the Hong Kong Public Offering Documents (as defined in the Hong Kong Underwriting Agreement) and/or in any notices or announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect, inaccurate or misleading in any material respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of the Hong Kong Public Offering Documents (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or
  - (c) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of the Hong Kong Public Offering Documents (including any supplement or amendment thereto); or
  - (d) any material breach of any of the obligations imposed upon any party to this Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and any of the Underwriters); or
  - (e) any event, act or omission which gives or is likely to give rise to any liability of any of the Company or the Major Controlling Shareholders pursuant to the indemnities given by the Company or the Major Controlling Shareholders under the Hong Kong Underwriting Agreement; or

- (f) any material adverse change, or any development involving a prospective material adverse change, in or affecting the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group taken as a whole; or
- (g) any breach of, or any event rendering untrue or incorrect or misleading in any respect, any of the warranties given by Company or the Major Controlling Shareholders in the Hong Kong Underwriting Agreement; or
- (h) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (i) the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
- (j) the reporting accountants, or any of the counsels of the Company which is named as an expert in "Appendix IV Statutory and General Information F. Other Information 9. Qualification of Experts", has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- (k) any person (other than the Sole Sponsor, the Sole Global coordinator, the Joint Bookrunners, the Joint Lead Mangers and the Underwriters) has withdrawn or is subject to withdrawal of its consent to being named in any of the offering documents or to the issue of any of the offering documents in connection with the Hong Kong Public Offering.

## Undertakings to the Stock Exchange Pursuant to the Listing Rules

#### (A) Undertakings by Our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that, no further Shares or securities convertible into equity securities of the Company (whether or not of a class already listed) shall be issued by us or form the subject of any agreement to such issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except (i) pursuant to the Global Offering (including any exercise of the Over-allotment Option); or (ii) in certain circumstances provided under Rule 10.08 of the Listing Rules.

#### (B) Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, the group of our Controlling Shareholders has collectively undertaken to the Stock Exchange that, except pursuant to the lending of any Shares pursuant to the Stock Borrowing Agreement (if applicable), it shall not, unless in compliance with the requirements of the Listing Rule:

- (i) in the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; or
- (ii) in the period of six months commencing on the date on which the period referred to in the preceding paragraph expires, dispose of, or enter into any agreement to dispose of or otherwise create, any options, rights, interests or encumbrances in respect of, any of the Shares referred to in the preceding paragraph to such an extent that immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Note (2) to Rule 10.07(2) of the Listing Rules provides that Rule 10.07 does not prevent the group of Controlling Shareholders from using the Shares beneficially owned by it as security (including a charge or pledge) in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan.

Pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, the group of our Controlling Shareholders has collectively further undertaken to the Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, it shall:

- (i) when it or the relevant registered holders pledge or charge any Shares beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance, (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform our Company of such pledge or charge together with the number of Shares so pledged or charged; and
- (ii) when it or the relevant registered holders receive indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform our Company in writing of such indications.

We will inform the Stock Exchange as soon as we have been informed of the matters referred to in paragraph (i) and (ii) above (if any) by any of our Controlling Shareholders and subject to the then requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

#### Undertakings Pursuant to the Hong Kong Underwriting Agreement

## (A) Undertakings by Our Company

Our Company has undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that except pursuant to the Capitalization Issue, the Global Offering (including pursuant to the exercise of the Over-allotment Option) and the Share Option Scheme or otherwise pursuant to the Listing Rules, at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months from the Listing Date (the "First Six-Month Period"), our Company will not and to procure each other member of the Group not to, without 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 set out in the Listing Rules:

- allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, (i) issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other equity securities of the Company or any shares or other equity securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares or other equity securities of the Company or any shares or other equity securities of such other member of the Group, as applicable, or any interest in any of the foregoing), or deposit any Shares or other equity securities of the Company or any shares or other equity securities of such other member of the Group, as applicable, with a depositary in connection with the issue of depositary receipts; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other equity securities of the Company or any shares or other equity securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other equity securities of the Company or any shares or other equity securities of such other member of the Group, as applicable, or any interest in any of the foregoing); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or other equity securities of the Company or shares or other equity securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of such

Shares or other share or securities will be completed within the First Six-Month Period). In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires (the "Second Six-Month Period"), the Company enters into any of the transactions specified in (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company. The Major Controlling Shareholders jointly and severally undertake to each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters to procure the Company to comply with the undertakings above.

#### (B) Undertakings by our Controlling Shareholders

Each of the Major Controlling Shareholders has jointly and severally undertaken to each of the Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, save for using securities of the Company beneficially owned by him/it as security (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, except as pursuant to the Capitalization Issue, the Global Offering (including pursuant to the exercise of the Over-allotment Option) and the Stock Borrowing Agreement, none of the Major Controlling Shareholders will, without 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:

(i) save for the lending of Shares by Great Success pursuant to the Stock Borrowing Agreement, he/it will not, at any time during the First Six-Month Period, (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company, and any shares or other securities of Great Success or Great Access (where applicable) or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any such other securities of the Company, any shares or other securities of Great Success or Great Access (where applicable) or any interest in any of the foregoing), or deposit any Shares or other securities of the Company or any shares or other securities of Great Success or Great Access (where applicable) with a depositary in connection with the issue of depositary receipts, 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 Shares or other securities of the Company or any shares or other securities of Great Success or Great Access (where applicable) or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any such other securities of the Company, any shares or other securities of Great Success or Great Access (where applicable) or any interest in any of the foregoing), or (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by

delivery of Shares or other securities of the Company, any shares or other securities of Great Success or Great Access (where applicable), or in cash or otherwise (whether or not the issue of such Shares or other securities of the Company or any shares or other securities of Great Success or Great Access (where applicable) will be completed within the First Six-Month Period); and

- (ii) he/it will not, until the expiry of the Second Six-Month Period, enter into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrances pursuant to such transaction, he/it would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company and;
- (iii) until the expiry of the Second Six-Month Period, in the event that he/it enters into any of the transactions specified in (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, he/it would take all reasonable steps to ensure that he/it would not create a disorderly or false market in the securities of our Company.

## Lock-up Undertakings from the remaining Controlling Shareholders

To facilitate the Global Offering, in addition to the lock-up undertakings given by the Major Controlling Shareholders pursuant to the Hong Kong Underwriting Agreement as disclosed above (the "Major Controlling Shareholders Undertakings"), the remaining Controlling Shareholders, namely Outland Enterprise, Mr. Bogdan Nowak, Mr. Patrizio Fumagalli and Mr. Zhu Jiachen (the "Remaining Controlling Shareholders"), have entered into the Lock-up Undertakings in favor of the Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters pursuant to which the Remaining Controlling Shareholders have also given lock-up undertakings on terms same as those of the Major Controlling Shareholders Undertakings.

## **Indemnity**

We and the Major Controlling Shareholders have agreed to indemnify, among others, the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters for certain losses which they may suffer, including, amongst others, losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Company of the Hong Kong Underwriting Agreement.

#### Hong Kong Underwriters' Interests in Our Company

Except for its obligations under the Hong Kong Underwriting Agreement, the Hong Kong Underwriters do not have any shareholding interest in our Company or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company or any member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

#### The International Offering

## International Underwriting Agreement

In connection with the International Offering, it is expected that we and the Major Controlling Shareholders will enter into the International Underwriting Agreement with the Sole Global Coordinator and the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters would agree to purchase, or procure purchasers to purchase, the Offer Shares being offered pursuant to the International Offering (subject to, amongst others, any reallocation between the International Offering and the Hong Kong Public Offering). It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

## Over-allotment Option

We expect to grant to the International Underwriters, exercisable in whole or in part by the Sole Global Coordinator at its sole and absolute discretion (on behalf of the International Underwriters), the Over-allotment Option, which will be exercisable from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 39,689,500 Shares, representing no more than 15% of the initial Offer Shares, at the Offer Price under the International Offering, to cover over-allocations in the International Offering, if any.

## **Commissions and Expenses**

The Hong Kong Underwriters will receive a gross underwriting commission equal to 3.5% of the aggregate Offer Price in respect of all the Hong Kong Offer Shares (excluding any International Offer Shares reallocated to and from the Hong Kong Public Offering). Our Company may also in our sole discretion pay the Hong Kong Underwriters an additional incentive fee of up to 1.0% of the aggregate Offer Price.

For unsubscribed Hong Kong Offer Shares reallocated to the International Offering (in such proportion as the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole discretion consider appropriate), the underwriting commission regarding such Hong Kong Offer Shares shall be reallocated to the International Underwriters (in such proportion as the Sole Global Coordinator in its sole discretion consider appropriate).

Assuming the Over-allotment Option is not exercised, the aggregate commissions and fees, together with Stock Exchange listing fees, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, legal and other professional fees and printing and other expenses relating to the Global Offering, which are currently estimated to amount in aggregate to approximately HK\$112.2 million (assuming an Offer Price of HK\$5.09 per Offer Share, being the mid-point of the indicative Offering Price range stated in this prospectus), are payable and borne by our Company.

#### INDEPENDENCE OF SOLE SPONSOR

Morgan Stanley Asia Limited satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

#### ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the "Syndicate Members") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by the Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in "Structure of the Global Offering." Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

## 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:

- (a) the Hong Kong Public Offering of 26,460,000 Shares (subject to adjustment as mentioned below) for subscription by the public in Hong Kong as described in "Structure of the Global Offering—The Hong Kong Public Offering" below; and
- (b) the International Offering of an aggregate of 238,138,000 Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S and in the United States only to QIBs in reliance on Rule 144A or any other available exemption from registration under the U.S. Securities Act as described in "Structure of the Global Offering—The International Offering" below.

Investors may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 25.0% of the enlarged issued share capital of our Company immediately after completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.7% of the enlarged issued share capital of our Company immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in "Structure of the Global Offering—The International Offering—Over-allotment Option."

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, respectively, may be subject to reallocation as described in "Structure of the Global Offering—The Hong Kong Public Offering—Reallocation."

#### THE HONG KONG PUBLIC OFFERING

## Number of Hong Kong Offer Shares Initially Offered

We are initially offering 26,460,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering and assuming that the Over-allotment Option is not exercised, the Hong Kong Offer Shares will represent approximately 2.5% of our Company's enlarged issued share capital immediately after the completion of the Global Offering. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set forth in "Structure of the Global Offering—Conditions of the Global Offering."

#### Allocation

The allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking into account of any reallocation) is to be divided into two pools for allocation purposes: Pool A and Pool B with any odd board lots being allocated to Pool A. Accordingly, the maximum number of Hong Kong Offer Shares initially in Pool A and Pool B will be 13,230,000 and 13,230,000, respectively. The Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK\$5.00 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) or less. The Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK\$5.00 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable). Investors should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either Pool A or Pool B but not from both pools. Multiple applications or suspected multiple applications and any application for more than 13,230,000 Hong Kong Offer Shares (being 50% of the 26,460,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering) are liable to be rejected.

## Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below:

• if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then no Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 26,460,000 Offer Shares, representing 10% of the Offer Shares initially available under the Global Offering;

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 79,379,500 Offer Shares, representing approximately 30% of the Offer Shares initially available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 105,839,500 Offer Shares, representing approximately 40% of the Offer Shares initially available under the Global Offering; and
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 132,299,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

Any such clawback and reallocation between the International Offering and the Hong Kong Public Offering will be completed prior to any adjustments of the number of the Offer Shares pursuant to the exercise of the Over-allotment Option, if any.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator in its sole discretion consider appropriate. In addition, the Sole Global Coordinator may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering in such proportions as the Sole Global Coordinator in its sole discretions considers appropriate.

## **Applications**

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him/her that he/she and any person(s) for whose benefit he/she 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 for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$5.80 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in "Structure of the Global Offering—Pricing and Allocation," is less than the maximum price of HK\$5.80 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For details, please see "How to Apply for Hong Kong Offer Shares."

#### THE INTERNATIONAL OFFERING

## Number of International Offer Shares Offered

Subject to reallocation as described in this section and the exercise of the Over-allotment Option, the International Offering will consist of an initial offering of 238,138,000 Offer Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering and assuming that the Over-allotment Option is not exercised.

#### Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. 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 Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in "Structure of the Global Offering—Pricing and Allocation" and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and its shareholders as a whole.

The Sole Global Coordinator (for itself and on behalf of the International Underwriters) may require any investor who has been offered International Offer Shares under the International Offering, 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 they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

#### Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in "Structure of the Global Offering—The Hong Kong Public Offering—Reallocation," the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering to the International Offering.

## **Over-allotment Option**

Our Company expects to grant to the International Underwriters, exercisable in whole or in part by the Sole Global Coordinator at its sole and absolute discretion (on behalf of the International Underwriters), the Over-allotment Option, which will be exercisable from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 39,689,500 Shares, representing no more than 15% of the Offer Shares initially available under the Global Offering, at the Offer Price, to cover over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the Offer Shares will represent 27.7% of our Company's issued share capital immediately following completion of the Capitalization Issue, the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, we will make an announcement in due course.

#### **STABILIZATION**

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued 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 and a number of other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for it, as stabilizing manager, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager, or any persons acting for it, to conduct any such stabilizing action. Such stabilization action, if commenced, may be discontinued at any time, and is required to be brought to an end within 30 days after the last day for the lodging of applications under the Hong Kong Public Offering. Should stabilizing transactions be effected in connection with the Global Offering, this will be at the absolute discretion of the Stabilizing Manager or any person acting for it.

Stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong), as amended, includes (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares, (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close

out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (vi) offering or attempting to do anything as described in paragraph (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager, or any person acting for it may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time or period for which the Stabilizing Manager, or any person acting for it, will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager, or any person acting for it, may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date, and is expected to expire on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. After this date, when no further stabilizing 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 by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

The Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) will be made within seven days of the expiration of the stabilization period.

## Over-allocation

Following any over-allocation of Shares in connection with the Global Offering, the Sole Global Coordinator, or any person acting for it may cover such over-allocation by, amongst others, using Shares purchased by the Stabilizing Manager or any person acting for it in the secondary market, exercising the Over-allotment Option in full or in part, or through the stock borrowing arrangement mentioned below or by a combination of these means. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong on stabilization. The number of Shares which can be over-allocated will not exceed the number of Shares which may be allotted and issued pursuant to the exercise in full of the Over-allotment Option, being 39,689,500 Shares, representing approximately 15% of the Offer Shares initially available under the Global Offering.

#### STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager may choose to borrow up to 39,689,500 Shares from Great Success pursuant to a stock borrowing agreement (the "Stock Borrowing Agreement").

If such Stock Borrowing Agreement is entered into, it will comply with the requirements set forth in Rule 10.07(3) of the Listing Rules and thus not subject to the restrictions of Rule 10.07(1) of the Listing Rules, and it will only be effected by the Stabilizing Manager for settlement of over-allocations in the International Offering.

#### PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different price or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Offer Price is expected to be fixed by agreement between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or around Friday, November 10, 2017 and in any event no later than Tuesday, November 14, 2017, by agreement among the Sole Global Coordinator (on behalf of the Underwriters) and our Company. The number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$5.80 per Offer Share and is expected to be not less than HK\$4.38 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Sole Global Coordinator (on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause them to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the website of our Company (http://www.bestwaycorp.com) and the website of the Stock Exchange (www.hkexnews.hk) notices of the reduction. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by our Company and the Sole Global Coordinator (on behalf of the Underwriters), will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or

revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set forth in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon between our Company and the Sole Global Coordinator (on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range stated in this prospectus.

In the event of a reduction in the number of Offer Shares, the Sole Global Coordinator may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings solely in the discretion of the Sole Global Coordinator but the number of Offer Shares to be offered in the Hong Kong Public Offering shall not in any event be less than 10% of the total number of Offer Shares available under the Global Offering.

If applications for the Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, such applications can be subsequently withdrawn if the number of Offer Shares and/or the indicative Offer Price range is so reduced.

The net proceeds from the Global Offering accruing to us (after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering) are estimated to be approximately HK\$1,271.3 million, assuming an Offer Price of HK\$5.09 per Offer Share, being the approximate midpoint of the proposed Offer Price range of HK\$4.38 to HK\$5.80.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of Offer Shares under the Hong Kong Public Offering are expected to be announced on Wednesday, November 15, 2017 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the website of our Company (http://www.bestwaycorp.com) and the website of the Stock Exchange (www.hkexnews.hk).

#### HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

The underwriting arrangements under the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in "Underwriting."

#### CONDITIONS OF THE GLOBAL OFFERING

Acceptances of all applications for Offer Shares will be conditional on:

- (a) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as described in this prospectus (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option);
- (b) the Offer Price having been agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date;
- (c) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- (d) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective Underwriting Agreements,

in each case on or before the dates and times specified in the 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 between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on or before Tuesday, November 14, 2017, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, amongst others, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will as soon as possible publish or cause to be published a notice of the lapse of the Hong Kong Public Offering in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the website of our Company (http://www.bestwaycorp.com) and the website of the Stock Exchange (www.hkexnews.hk). In such eventuality, all application monies will be returned, without interest, on the terms set forth "How to Apply for Hong Kong Offer Shares—14. Dispatch/Collection of Share Certificates and Refund Monies." In the meantime, all application monies will be held in a separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as amended.

Share certificates issued in respect of the Hong Kong Offer Shares will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional in all respects (including the Underwriting Agreements not having been terminated in accordance with their terms) at any time prior to 8:00 a.m. on the Listing Date.

#### 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 to be issued pursuant to the Capitalization Issue and the Global Offering (including pursuant to the exercise of the Over-allotment Option) and the exercise of any options that may be granted under the Share Option Scheme.

No part of our Company's share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

## SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made to enable the Shares to be admitted 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 on the Stock Exchange 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 advisors for details of the settlement arrangements as such arrangements may affect their rights and interests.

#### DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, November 16, 2017, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, November 16, 2017. The Shares will be traded on the Main Board of the Stock Exchange in board lots of 500 Shares each and the stock code of the Shares will be 3358.

## 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the White Form eIPO service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

#### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** 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 the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering;
- an associate or close associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

## 3. APPLYING FOR HONG KONG OFFER SHARES

## Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, November 6, 2017 until 12:00 noon on Thursday, November 9, 2017:

(i) any of the following offices of the Hong Kong Underwriters:

## Morgan Stanley Asia Limited

46/F, International Commerce Centre 1 Austin Road West Kowloon Hong Kong

#### **CMB International Capital Limited**

45/F, Champion Tower 3 Garden Road Central Hong Kong

(ii) any of the following branches of the receiving bank:

## Bank of China (Hong Kong) Limited

	Branch name	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road Hong Kong
	Wan Chai (Wu Chung House) Branch	213 Queen's Road East Wan Chai Hong Kong
Kowloon	Mong Kok Branch	589 Nathan Road Mong Kok Kowloon
	Jordan Road Branch	1/F, Sino Cheer Plaza 23-29 Jordan Road Kowloon
	Telford Plaza Branch	Shop Unit, P2–P7 Telford Plaza No.33 Wai Yip Street Kowloon Bay Kowloon
	Hoi Yuen Road Branch	55 Hoi Yuen Road Kwun Tong Kowloon
New Territories	Kau Yuk Road Branch	18–24 Kau Yuk Road Yuen Long New Territories
	Tai Po Plaza Branch	Unit 4, Level 1 Tai Po Plaza 1 On Tai Road, Tai Po New Territories

## Standard Chartered Bank (Hong Kong) Limited

	Branch name	Address
Hong Kong Island	Des Voeux Road Branch	Standard Chartered Bank Building 4–4A, Des Voeux Road Central Central Hong Kong
	Hennessy Road Branch	399 Hennessy Road Wanchai Hong Kong
Kowloon	Kwun Tong Branch	G/F & 1/F One Pacific Centre 414 Kwun Tong Road Kwun Tong Kowloon
	Mei Foo Stage I Branch	G/F, 1C Broadway Mei Foo Sun Chuen Stage I Lai Chi Kok Kowloon
New Territories	Maritime Square Branch	Shop 308E, Level 3 Maritime Square Tsing Yi New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, November 6, 2017 until 12:00 noon on Thursday, November 9, 2017 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

## **Time for Lodging Application Forms**

Your completed WHITE or YELLOW Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED—BESTWAY GLOBAL 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:

- Monday, November 6, 2017—9:00 a.m. to 5:00 p.m.
- Tuesday, November 7, 2017—9:00 a.m. to 5:00 p.m.
- Wednesday, November 8, 2017—9:00 a.m. to 5:00 p.m.
- Thursday, November 9, 2017—9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, November 9, 2017, the last application day or such later time as described in "How to Apply for Hong Kong Offer Shares—10. Effect of Bad Weather on the Opening of the Application Lists."

#### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Forms carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the White Form eIPO service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of the 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 as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Forms 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 the Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to the Company, the Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisors 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 the Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisors 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 Forms;
- (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) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in the paragraph headed "Personal Collection" in this section 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 the 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 **White Form eIPO** Service Provider by you or by any one as your agent or by any other person;

(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 the YELLOW Application Form

You may refer to the YELLOW Application Form for details.

## 5. APPLYING THROUGH WHITE FORM eIPO SERVICE

#### General

Individuals who meet the criteria in "How to Apply for Hong Kong Offer Shares—2. Who Can Apply" may apply through the **White Form eIPO** service for the Hong Kong Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

## Time for Submitting Applications under the White Form eIPO Service

You may submit your application to the **White Form eIPO** Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, November 6, 2017 until 11:30 a.m. on Thursday, November 9, 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, November 9, 2017 or such later time under "How to Apply for Hong Kong Offer Shares—10. Effect of Bad Weather on the Opening of the Application Lists."

#### No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** 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 **White Form eIPO** service 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 **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

#### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

#### **Environmental Protection**

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2.0 for each "Bestway Global Holding Inc." **White Form eIPO** application submitted via the website **www.eipo.com.hk** to support the funding of "Source of Dong Jiang—Hong Kong Forest" project initiated by Friends of the Earth (HK).

# 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

#### General

CCASS Participants may give electronic application instructions to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (https://ip.ccass.com) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

#### Hong Kong Securities Clearing Company Limited

Customer Service
Center 1/F One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a 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 authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Sole Global Coordinator and the Hong Kong Share Registrar.

## Giving Electronic Application Instructions to HKSCC Via CCASS

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name
    of HKSCC Nominees and deposited directly into CCASS for the credit of the
    CCASS Participant's stock account on your behalf or your CCASS Investor
    Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated:
  - undertake and confirm that you have not applied for or taken up, will not apply
    for or take up, have not indicated or will not indicate an interest for, any Offer
    Shares under the International Offering nor otherwise participate in the
    International Offering;
  - (if the electronic application instruction 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
    authorized to give those instructions as their agent;
  - confirm that you understand that the 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 if you make a false declaration;
  - authorize the Company to place HKSCC Nominees' name on the 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 the Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, the Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or its respective advisors and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that
  application nor your electronic application instructions can be revoked, and that
  acceptance of that application will be evidenced by the Company's announcement
  of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each

of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and Articles of Association; and

• agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

#### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized 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 authorized 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 authorized 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 500 Hong Kong Offer Shares. Instructions for more than 500 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:

- Monday, November 6, 2017—9:00 a.m. to 8:30 p.m. (1)
- Tuesday, November 7, 2017—8:00 a.m. to 8:30 p.m. (1)
- Wednesday, November 8, 2017—8:00 a.m. to 8:30 p.m. (1)
- Thursday, November 9, 2017—8:00 a.m. (1) to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Monday, November 6, 2017 until 12:00 noon on Thursday, November 9, 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 Thursday, November 9, 2017, the last application day or such later time as described in "How to Apply for Hong Kong Offer Shares—10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

# No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

# Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

#### Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving banks, the Sole Global Coordinator, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

# 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Bookrunners, the Joint Lead

Managers, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Thursday, November 9, 2017.

# 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company.

Then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it
  which carries no right to participate beyond a specified amount in a distribution of either
  profits or capital).

# 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The WHITE and YELLOW Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 500 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.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please see "Structure of the Global Offering—Pricing and Allocation."

# 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, November 9, 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 Thursday, November 9, 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 "Expected Timetable" an announcement will be made in such event.

# 11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Wednesday, November 15, 2017 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the Company's website at <a href="http://www.bestwaycorp.com">http://www.bestwaycorp.com</a> and the website of the Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a>.

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 the Company's website at http://www.bestwaycorp.com and the Stock Exchange's website at www.hkexnews.hk by no later than 8:00 a.m. on Wednesday, November 15, 2017;
- from the designated results of allocations website at **www.iporesults.com.hk** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Wednesday, November 15, 2017 to 12:00 midnight on Tuesday, November 21, 2017;
- by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, November 15, 2017 to Saturday, November 18, 2017;
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, November 15, 2017 to Friday, November 17, 2017 at all the receiving banks' designated branches and sub-branches.

If the 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. For further details, please see "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.

# 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

# (i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to White Form eIPO Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

# (ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

# (iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee 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 the Company of that longer period within three weeks of the closing date of the application lists.

# (iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares:
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the White Form eIPO 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 dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;

- the Company or the Sole Global Coordinator believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

#### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$5.80 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Global Offering are not fulfilled in accordance with "Structure of the Global Offering—Conditions of the Global 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 or before Wednesday, November 15, 2017.

# 14. DISPATCH/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 favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Wednesday, November 15, 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 order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, November 16, 2017 provided that the Global Offering has become unconditional and the right of termination described in "Underwriting" 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 Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, November 15, 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 authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized 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 dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, November 15, 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 or before Wednesday, November 15, 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 Wednesday, November 15, 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

• If you apply through a designated CCASS Participant (other than a CCASS investor participant)

For Hong Kong 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

The 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 "How to Apply for Hong Kong Offer Shares—11. Publication of Results." You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, November 15, 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 White Form eIPO 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 Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, November 15, 2017, or such other date as notified by the Company in the newspapers as the date of dispatch/collection of share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, November 15, 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 dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

# (iv) If you apply via electronic application instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be
  issued in the name of HKSCC Nominees and deposited into CCASS for the credit of
  your designated CCASS Participant's stock account or your CCASS Investor Participant
  stock account on Wednesday, November 15, 2017, or, on any other date determined by
  HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the 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 "How to Apply for Hong Kong Offer Shares—11. Publication of Results" on Wednesday, November 15, 2017. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, November 15, 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 Wednesday, November 15, 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.

Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, November 15, 2017.

# 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

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

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

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

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF BESTWAY GLOBAL HOLDING INC. AND MORGAN STANLEY ASIA LIMITED

#### Introduction

We report on the historical financial information of Bestway Global Holding Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-78, which comprises the consolidated statements of financial position as at December 31, 2014, 2015 and 2016 and June 30, 2017, the company statements of financial position as at December 31, 2014, 2015 and 2016 and June 30, 2017, and the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years/periods then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-78 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated November 6, 2017 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

# Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

# Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong T: +852 2289 8888, F: +852 2810 9888 Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at December 31, 2014, 2015 and 2016 and June 30, 2017 and the consolidated financial position of the Group as at December 31, 2014, 2015 and 2016 and June 30, 2017 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

# Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six months ended 30 June 2016 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "LISTING RULES") AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

# Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

#### Dividends

We refer to note 14 to the Historical Financial Information which contains information about the dividends paid by Bestway Global Holding Inc. in respect of the Track Record Period.

# No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

# **PricewaterhouseCoopers**

Certified Public Accountants Hong Kong November 6, 2017

# I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

#### **Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in United States Dollars ("USD") except when otherwise indicated.

# **Consolidated Statements of Profit or Loss**

		Year	ended Decemb	er 31	Six months en	nded June 30
	Note	2014	2015	2016	2016	2017
		USD	USD	USD	USD	USD
					(Unaudited)	
Revenue	6	467,913,702	513,531,678	584,529,415	353,415,230	421,625,518
Cost of sales	6,9	(371,065,671)	(401,486,876)	(419,992,751)	(253,651,339)	(304,202,444)
Gross profit		96,848,031	112,044,802	164,536,664	99,763,891	117,423,074
Selling and distribution expenses	9	(44,384,298)	(48,002,896)	(60,703,611)	(36,529,837)	(43,326,856)
Administrative expenses	9	(35,135,256)	(41,799,682)	(48,625,082)	(23,723,783)	(27,703,475)
Other income	7	1,837,656	5,428,026	2,101,390	431,054	2,445,237
Other (losses)/gains—net	8	(4,431,125)	919,967	4,667,495	3,113,176	(2,721,327)
Operating profit		14,735,008	28,590,217	61,976,856	43,054,501	46,116,653
Finance income	11	660,496	1,344,500	491,698	233,021	49,976
Finance expenses	11	(3,527,747)	(8,080,740)	(5,426,968)	(2,673,001)	(1,899,828)
Finance (expenses)/income—net	11	(2,867,251)	(6,736,240)	(4,935,27)	(2,439,980)	(1,849,852)
Profit before income tax		11,867,757	21,853,977	57,041,586	40,614,521	44,266,801
Income tax expense	12	(3,437,385)	(6,664,013)	(14,021,928)	(10,335,497)	(9,661,870)
Profit for the year/period		8,430,372	15,189,964	43,019,658	30,279,024	34,604,931
Profit attributable to:						
Owner of the Company		8,174,598	16,459,544	43,339,569	30,433,239	34,955,056
Non-controlling interests		255,774	(1,269,580)	(319,911)	(154,215)	(350,125)
		8,430,372	15,189,964	43,019,658	30,279,024	34,604,931
Earnings per share for profit attributable to owner of the Company for the year/period						
—Basic and diluted (Note)	13	8,166	16,443	43,296	30,403	34,920

*Note:* The earnings per share presented above has not taken into account the proposed capitalisation issue of 793,791,999 shares pursuant to the shareholders' resolution dated October 18, 2017 (note 41) because the proposed capitalisation issue has not become effective as at the date of this report.

# **Consolidated Statements of Comprehensive Income**

	Year o	Year ended December 31 Six months en			
	2014	2015	2016	2016	2017
	USD	USD	USD	USD (Unaudited)	USD
Profit for the year/period	8,430,372	15,189,964	43,019,658	30,279,024	34,604,931
Other comprehensive income:  Items that may be subsequently reclassified to profit or loss					
Currency translation differences	(1,225,468)	(13,141,755)	(15,402,105)	(3,518,199)	6,333,522
Other comprehensive income for the year/period, net of tax	(1,225,468)	(13,141,755)	(15,402,105)	(3,518,199)	6,333,522
Total comprehensive income for the year/period	7,204,904	2,048,209	27,617,553	26,760,825	40,938,453
Attributable to:					
—Owner of the Company	7,195,844	3,418,083	27,891,111	26,868,750	41,336,541
-Non-controlling interests	9,060	(1,369,874)	(273,558)	(107,925)	(398,088)
Total comprehensive income					
for the year/period	7,204,904	2,048,209	27,617,553	26,760,825	40,938,453

# **Consolidated Statements of Financial Position**

		As	As at December 31				
	Note	2014	2015	2016	2017		
		USD	USD	USD	USD		
Assets							
Non-current assets							
Land use rights	16	11,024,264	14,869,509	15,695,242	21,789,233		
Property, plant and equipment	17	111,112,691	126,681,196	139,402,105	179,959,774		
Intangible assets	18	164,621	144,714	420,112	437,365		
Deferred tax assets	34	4,590,901	5,632,901	3,867,306	3,297,296		
Available-for-sale financial assets	20	457,636	457,636	457,636	457,636		
Prepayments and other receivables	23	1,207,531	993,621	1,020,230	453,928		
		128,557,644	148,779,577	160,862,631	206,395,232		
Current assets							
Inventories	21	188,056,250	189,260,185	162,364,536	141,017,315		
Trade receivables	22	69,862,291	70,530,419	94,586,512	118,863,460		
Prepayments and other receivables	23	37,905,077	23,655,675	14,151,374	15,941,660		
Financial assets at fair value through							
profit or loss	24	2,708,560	8,203,569	3,415,050	979,755		
Derivative financial instruments	33	_	_	1,482,284	873,113		
Cash and cash equivalents	25	16,325,524	23,455,236	22,964,807	85,208,125		
Restricted cash	25	25,327,882	8,726,336	3,153,921	4,573,494		
		340,185,584	323,831,420	302,118,484	367,456,922		
Total assets		468,743,228	472,610,997	462,981,115	573,852,154		
Equity and liabilities							
Equity attributable to owner of the Company							
Share capital	26	1	1	1	1		
Other reserves	27	173,454,957	179,840,122	204,494,563	245,481,104		
		173,454,958	179,840,123	204,494,564	245,481,105		
Non-controlling interests		1,086,426	(323,083)	(586,515)	(1,329,615)		
Total equity		174,541,384	179,517,040	203,908,049	244,151,490		

		As	As at June 30		
	Note	2014	2015	2016	2017
		USD	USD	USD	USD
Liabilities					
Non-current liabilities					
Bank borrowings	29	3,803,004	41,807	51,204	55,610
Deferred tax liabilities	34	1,352,091	677,279	1,825,273	1,172,412
Other payables and accruals	32	2,873,549	1,170,561	107,756	3,273,670
Loans from related parties	30,39	2,667,973	2,667,973	_	_
Retirement benefit obligations	35	29,957	91,333	155,932	197,423
Deferred income on government grants	36			<u> </u>	280,468
		10,726,574	4,648,953	2,140,165	4,979,583
Current liabilities					
Trade payables	31	113,280,321	96,033,433	90,423,019	97,336,933
Other payables and accruals	32	53,249,833	47,007,419	54,596,047	75,326,147
Current income tax liabilities		3,671,323	6,046,576	7,707,101	7,477,861
Bank borrowings	29	110,415,236	131,534,853	94,603,239	136,389,970
Derivative financial instruments	33	1,558,557	6,522,723	2,815,522	1,402,196
Loans from related parties	30,39	1,300,000	1,300,000	6,787,973	6,787,973
		283,475,270	288,445,004	256,932,901	324,721,081
Total liabilities		294,201,844	293,093,957	259,073,066	329,700,664
Total equity and liabilities		468,743,228	472,610,997	462,981,115	573,852,154
Net current assets		56,710,314	35,386,416	45,185,583	42,735,841
Total assets less current liabilities		185,267,958	184,165,993	206,048,214	249,131,073

# The Company Statements of Financial Position

		As	s at December 3	1	As at June 30	
	Note	2014	2015	2016	2017	
		USD	USD	USD	USD	
ASSETS						
Non-current assets						
Investments in subsidiaries	15	24,308,467	24,308,467	24,308,467	24,308,467	
		24,308,467	24,308,467	24,308,467	24,308,467	
Current assets						
Prepayments and other receivables	23	26,426	26,510	709,451	4,552,832	
Cash and cash equivalents	25	1,418	1,406	1,122	199,788	
		27,844	27,916	710,573	4,752,620	
Total assets		24 226 211	24 226 292	25 010 040	20 061 097	
Total assets		24,336,311	24,336,383	25,019,040	29,061,087	
EQUITY						
Share capital	26	1	1	1	1	
Other reserves	27	24,308,466	24,305,780	24,308,466	24,308,466	
Total equity		24,308,467	24,305,781	24,308,467	24,308,467	
LIABILITIES						
Current liabilities Other payables and accruals	32	27,844	30,602	710,573	4,752,620	
Other payables and accruais	32	21,044	30,002	710,373	4,732,020	
Total liabilities		27,844	30,602	710,573	4,752,620	
Total equity and liabilities		24,336,311	24 336 383	25,019,040	29,061,087	
rour equity and natimites		27,330,311	27,330,303	25,017,040	27,001,007	
Net current liabilities			(2,686)			
Total assets less current liabilities		24,308,467	24,305,781	24,308,467	24,308,467	

# **Consolidated Statements of Changes in Equity**

			the company				
	Note	Share capital	Other	Total	Non- controlling interests	Total equity	
		USD (Note 26)	USD (Note 27)	USD	USD	USD	
Balance at January 1, 2014		1	169,082,048	169,082,049	1,438,879	170,520,928	
Comprehensive income Profit for the year			8,174,598	8,174,598	255,774	8,430,372	
Other comprehensive income Currency translation difference			(978,754)	(978,754)	(246,714)	(1,225,468)	
Total other comprehensive income, net of tax			(978,754)	(978,754)	(246,714)	(1,225,468)	
Total comprehensive income			7,195,844	7,195,844	9,060	7,204,904	
<b>Transactions with owners</b> Dividends Liquidation of a subsidiary	14		(2,822,935)	(2,822,935)	(56,613) (304,900)	(2,879,548) (304,900)	
Transactions with owners in total			(2,822,935)	(2,822,935)	(361,513)	(3,184,448)	
Balance at December 31, 2014		1	173,454,957	173,454,958	1,086,426	174,541,384	

	<u>Note</u>	Share capital USD (Note 26)	Other reserves USD (Note 27)	Total USD	Non- controlling interests USD	Total equity USD
Balance at January 1, 2015		1	173,454,957	173,454,958	1,086,426	174,541,384
Comprehensive income Profit for the year		<u>_</u>	16,459,544	16,459,544	(1,269,580)	15,189,964
Other comprehensive income Currency translation difference			_(13,041,461)	(13,041,461)	(100,294)	(13,141,755)
Total other comprehensive income, net of tax			(13,041,461)	(13,041,461)	(100,294)	(13,141,755)
Total comprehensive income			3,418,083	3,418,083	(1,369,874)	2,048,209
Transactions with owners Value of employee services Proceeds from shares issued Dividends		_ _ 	2,967,082 ————	2,967,082 — —	6,094 (45,729)	2,967,082 6,094 (45,729)
Transactions with owners in total			2,967,082	2,967,082	(39,635)	(2,927,447)
Balance at December 31, 2015		1	179,840,122	179,840,123	(323,083)	179,517,040

			the company			
	Note	Share capital	Other	Total	Non- controlling interests	Total equity
		USD (Note 26)	USD (Note 27)	USD	USD	USD
Balance at January 1, 2016		1	179,840,122	179,840,123	(323,083)	179,517,040
Comprehensive income Profit for the year			43,339,569	43,339,569	(319,911)	43,019,658
Other comprehensive income Currency translation difference			(15,448,458)	(15,448,458)	46,353	(15,402,105)
Total other comprehensive income, net of tax			(15,448,458)	(15,448,458)	46,353	(15,402,105)
Total comprehensive income			27,891,111	27,891,111	(273,558)	27,617,553
Transactions with owners Proceeds from shares issued Dividends	14		(3,236,670)	(3,236,670)	10,126	10,126 (3,236,670)
Transactions with owners in total		=	(3,236,670)	(3,236,670)	10,126	(3,226,544)
Balance at December 31, 2016		1	204,494,563	204,494,564	(586,515)	203,908,049

	<u>Note</u>	Share capital	Other reserves	Total	Non- controlling interests	Total equity
		USD	USD	USD	USD	USD
		(Note 26)	(Note 27)			
Balance at January 1, 2017		1	204,494,563	204,494,564	(586,515)	203,908,049
Comprehensive income						
Profit for the period			34,955,056	34,955,056	(350,125)	34,604,931
Other comprehensive income						
Currency translation difference			6,381,485	6,381,485	(47,963)	6,333,522
Total other communication						
Total other comprehensive income, net of tax			6,381,485	6,381,485	(47,963)	6,333,522
Total comprehensive income			41,336,541	41,336,541	(398,088)	40,938,453
Transactions with owners						
Proceeds from shares issued	1.4	_	(250,000)	(250,000)	275	275
Dividends	14		(350,000)	(350,000)	(345,287)	(695,287)
Transactions with owners						
in total			(350,000)	(350,000)	(345,012)	(695,012)
Balance at June 30, 2017		1	245,481,104	245,481,105	(1,329,615)	244,151,490

	Note	Share capital USD (Note 26)	Other reserves USD (Note 27)	Total USD	Non- controlling interests USD	Total equity USD
(Unaudited) Balance at January 1, 2016		1	179,840,122	179,840,123	(323,083)	179,517,040
Comprehensive income Profit for the period			30,433,239	30,433,239	(154,215)	30,279,024
Other comprehensive income Currency translation difference			(3,564,489)	(3,564,489)	46,290	(3,518,199)
Total other comprehensive income, net of tax		=	(3,564,489)	(3,564,489)	46,290	(3,518,199)
Total comprehensive income			26,868,750	26,868,750	(107,925)	26,760,825
Transactions with owners Proceeds from shares issued Dividends	14		(3,236,670)	(3,236,670)	10,126	10,126 (3,236,670)
Transactions with owners in total			(3,236,670)	(3,236,670)	10,126	(3,226,544)
Balance at June 30, 2016		1	203,472,202	203,472,203	(420,882)	203,051,321

# **Consolidated Statements of Cash Flows**

		Year e	ended Decembe	Six months ended June 30		
		2014	2015	2016	2016	2017
	Note	USD	USD	USD	USD	USD
					(Unaudited)	
Cash flows from operating activities						
Cash (used in)/generated from						
operations	37(a)	(15,524,766)	39,482,661	79,639,670	96,045,625	68,950,759
Interest paid		(3,004,745)	(6,130,082)	(4,740,038)	(2,720,847)	(2,431,405)
Income tax paid		(3,051,096)	(6,005,572)	(9,533,303)	(7,690,729)	(10,114,334)
Net cash (used in)/generated from						
operating activities		(21,580,607)	27,347,007	65,366,329	85,634,049	56,405,020
Cash flows from investing activities						
Purchases of property, plant and						
equipment		(23,470,897)	(33,504,038)	(34,347,827)	(26,044,592)	(29,098,268)
Proceeds from disposal of property,						
plant and equipment	<i>37(b)</i>	697,657	597,471	108,260	31,289	16,811
Purchases of land use rights		_	(4,766,480)	(2,193,597)	_	(5,858,951)
Purchase of intangible assets		(54,656)	(62,629)	(331,962)	(58,953)	(38,175)
Proceeds/(payments) of derivative						
financial instruments		560,871	(2,697,768)	(4,784,728)	(4,183,986)	(11,114)
Loans granted to a related party	39(a)	_	_	(150,000)	(150,000)	_
Loans granted to third parties		(10,295,800)	_	_	_	_
Purchase of financial assets at fair						
value through profit or loss		(2,598,624)	(8,199,194)	(3,414,315)	(700,219)	(979,136)
Proceeds from financial assets at fair						
value through profit or loss		_	2,708,560	8,203,569	8,203,569	3,415,050
Liquidation of a subsidiary and payment to a non-controlling						
shareholder		(304,900)	_	_	_	_
Interest received		660,496	1,344,500	491,698	233,021	49,976
						<del></del> _
Net cash used in investing activities		(34,805,853)	(44,579,578)	(36,418,902)	(22,669,871)	(32,503,807)

		Year	ended Decemb	Six months ended June 30		
		2014	2015	2016	2016	2017
	Note	USD	USD	USD	USD	USD
					(Unaudited)	
Cash flows from financing activities						
Proceeds from borrowings		134,343,801	142,796,235	103,587,758	56,551,021	96,808,898
Repayments of borrowings		(75,828,318)	(119,096,272)	(133,531,203)	(92,456,965)	(57,473,954)
Loans from related parties	39(a)	513,973	_	2,820,000	2,820,000	_
Dividends paid to owner of the		(2.022.025)		(2.226.670)	(2.226.670)	(250,000)
Company		(2,822,935)	_	(3,236,670)	(3,236,670)	(350,000)
Dividends paid to non-controlling interests		(56,613)	(45,729)			(345,287)
Net cash generated from/(used in) financing activities		56,149,908	23,654,234	(30,360,115)	(36,322,614)	38,639,657
Net (decrease)/increase in cash and cash equivalents		(236,552)	6,421,663	(1,412,688)	26,641,564	62,540,870
Cash and cash equivalents at the beginning of year/period	25	16,723,363	16,325,524	23,455,236	23,455,236	22,964,807
Exchange (loss)/gain on cash and cash equivalent		(161,287)	708,049	922,259	546,995	(297,552)
Cash and cash equivalents at the						
end of year/period	25	16,325,524	23,455,236	22,964,807	50,643,795	85,208,125

The reconciliation of liabilities arising from financial activities is as follows:

			Loans from related	Loans from related	
	Borrowings	Borrowings	parties	parties	
	(Current)	(Non-current)	(Current)		<u>Total</u>
	USD	USD	USD	USD	USD
As of 31 December 2013	46,076,741	10,114,658	1,300,000	2,154,000	59,645,399
Currency translations Cash flows —inflow from financing activities —outflow from financing activities Non-cash changes —reclassification	(488,642)	_	_	_	(488,642)
	130,540,797 (75,828,318)	3,803,004	_ _	513,973	134,857,774 (75,828,318)
	10,114,658	(10,114,658)			
As of 31 December 2014	110,415,236	3,803,004	1,300,000	2,667,973	118,186,213
Currency translations Cash flows	(6,341,543)	_	_	_	(6,341,543)
<ul> <li>inflow from financing activities</li> <li>outflow from financing activities</li> <li>Non-cash changes</li> <li>reclassification</li> </ul>	142,754,428 (119,096,272)	41,807	_	_	142,796,235 (119,096,272)
	3,803,004	(3,803,004)			
As of 31 December 2015	131,534,853	41,807	1,300,000	2,667,973	135,544,633
Currency translations Cash flows	(6,977,063)	(1,709)	_	_	(6,978,772)
—inflow from financing activities —outflow from financing activities Non-cash changes —reclassification	103,576,652 (133,531,203)	11,106	2,820,000	_ _	106,407,758 (133,531,203)
			2,667,973	(2,667,973)	
As of 31 December 2016	94,603,239	51,204	6,787,973		101,442,416
Currency translations Cash flows	2,451,787	4,406	_	_	2,456,193
<ul><li>inflow from financing activities</li><li>outflow from financing activities</li></ul>	96,808,898 (57,473,954)		_ 		96,808,898 (57,473,954)
As of 30 June 2017	136,389,970	55,610	6,787,973		143,233,553
(Unaudited)					
As of 31 December 2015	131,534,853	41,807	1,300,000	2,667,973	135,544,633
Currency translations Cash flows —inflow from financing activities —outflow from financing activities Non-cash changes —reclassification	(554,645)	747	_	_	(553,898)
	56,551,021 (92,456,965)	_ _	2,820,000		59,371,021 (92,456,965)
			2,667,973	(2,667,973)	
As of 30 June 2016	95,074,264	42,554	6,787,973		101,904,791

### II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

#### 1 GENERAL INFORMATION

Bestway Global Holding Inc. (the "Company") was incorporated on June 25, 2012 in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company, an investment holding company, and its subsidiaries (together "the Group") are principally engaged in the manufacturing and sales of high quality and innovative PVC sporting and leisure products in Europe, North America, People's Republic of China (the "PRC") and other markets.

The immediate holding company of the Group is Great Success Enterprises Holdings Limited ("Great Success") which is owned by Great Access Industry Inc. ("Great Access"), Outland Enterprise Company Limited ("Outland Enterprise"), Mr. Bogdan Nowak and Mr. Patrizio Fumagalli. The Group is ultimately controlled by Mr. Zhu Qiang together with his immediate family members through Great Access and Great Success.

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

### 2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA are set out below. The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets at fair value through profit or loss (including derivative financial instruments), which are carried at fair value.

The preparation of the Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

Up to the date of issuance of this accountant's report, the HKICPA has issued the following new standards, amendments and interpretation which are not yet effective for the Track Record Period and have not been early adopted the Group:

		Effective for accounting year	
		beginning on or after	Note
HKFRS 1 (Amendment)	First time adoption of HKFRS	January 1, 2018	i
HKFRS 2 (Amendments)	Classification and Measurement of Share-based	January 1, 2018	ii
	Payment Transactions		
HKFRS 4 (Amendments)	Insurance contracts	January 1, 2018	iii
HKFRS 9	Financial Instruments	January 1, 2018	iv
HKFRS 15	Revenue from Contracts with Customers	January 1, 2018	V
HK (IFRIC) 22	Foreign currency transactions and advance consideration	January 1, 2018	vi
HKAS 28 (Amendment)	Investments in associates and joint ventures	January 1, 2018	vii
HKFRS 16	Leases	January 1, 2019	viii
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined	ix

The Group has already commenced an assessment of the impact of these new or revised standards and amendment, certain of which are relevant to the Group's operation. According to the preliminary assessment made by the Directors, no significant impact on the financial performance and positions of the Group is expected when they become effective.

Note i:

Amendment to HKFRS 1, "First time adoption of HKFRS", is part of the annual improvements to HKFRSs 2014–2016 cycle. This amendment deletes the short-term exemptions covering transition provisions of HKFRS 7, HKAS 19, and HKFRS 10. These transition provisions were available to entities for passed reporting periods and are therefore no longer applicable.

As it is not the first time for the Group to adopt HKFRS, the amendments will not have any impact on the financial position or performance of the Group.

Note ii:

The HKICPA has issued amendments to HKFRS 2. "Classification and Measurement of Share-based Payment Transactions". These amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception to the principles in HKFRS 2 that requires an award to be treated as if it is wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

The amendments do not have to be applied until reporting periods commencing on or after 1 January 2018. And the Group does not intend to adopt amendments before its mandatory date. The amendments to HKFRS 2 do not have retrospective impact and the Group does not plan to introduce any share -base payment plans in the foreseeable future. The amendments will not have any impact on the financial position or performance of the Group.

Note iii:

Amendments to HKFRS 4, "Insurance Contracts", provide two optional approaches to deal with the mismatched effective dates of HKFRS 9 and the new insurance contracts standard to replace HKFRS 4:

- (a) The overlay approach: all companies that issue insurance contracts have the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when HKFRS 9 is applied before the new insurance contracts standard is issued; and
- (b) The deferral approach: companies whose activities are predominantly connected with insurance have an optional temporary exemption from applying HKFRS 9 until 2021. Entities that defer the application of HKFRS 9 will continue to apply HKAS 39 "Financial Instruments: Recognition and Measurement".

As the Group is not engaged in insurance business, the amendments will not have any impact on the financial position or performance of the Group.

Note iv:

HKFRS 9 "Financial instruments", replaces the whole of HKAS 39. HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognized in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in consolidated statements of comprehensive income.

HKFRS 9 introduces a new model for the recognition of impairment losses, the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in HKAS 39.

HKFRS 9 contains a "three stage" approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-

credit impaired financial asset carried at amortised cost, a day-1 loss equal to the 12-month ECL is recognized in profit or loss. In the case of accounts receivables, this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. HKFRS 9 also applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk.

We understand that the standard is effective for accounting periods beginning on or after January 1, 2018. The new standard addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group does not expect the new guidance to have significant impact on the classification and measurement of its financial assets or financial liability.

The Group does not have hedge instruments. The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. The historical credit losses are immaterial. While the Group is still assessing the actual impact affected by the new model, it may result in an earlier recognition of credit losses with no material financial impact. The Group does not intend to adopt HKFRS 9 before its mandatory date.

Note v:

HKFRS 15 replaces the previous revenue standards: HKAS 18 Revenue and HKAS 11 Construction Contracts, and the related interpretations on revenue recognition. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognise revenue when (or as) performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an earnings processes to an "asset-liability" approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. HKFRS 15 is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted.

The Group engaged in manufacturing and sales of sporting and leisure products. The Group didn't introduce any customer loyalty programme which is likely to be affected by the new HKFRS 15.

Management has identified the following areas that are likely to be affected:

- bundle sales the application of HKFRS 15 may result in the identification of separate performance obligations
  which could affect the timing of the recognition of revenue. But bundle sales is not the usual business model and the
  Group did not have large volume of bundle sales. The impact of this new standard is limited;
- rights of return HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation. Due to the low value and rapid consumption of the Group's products, the historical goods return rate is very low. The financial impact of applying new HKFRS 15 is not material.

Based on the preliminary assessment result, the Group does not expect a material impact on the adoption of new HKFRS 15.

The Group does not intend to adopt HKFRS 15 before its mandatory date.

Note vi:

HK (IFRIC) 22, "Foreign Currency Transactions and Advance Consideration", clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.

As the Group has no advance consideration in a foreign currency, no significant impact on the financial performance and positions of the Group is expected when they become effective.

Note vii:

Amendment to HKAS 28, "Investments in associates and joint ventures", is part of the annual improvements to HKFRSs 2014–2016 cycle. HKAS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL). This election should be made separately for each associate or joint venture at initial recognition.

As the Group is not a venture capital organisation, or mutual fund, or unit trust, or other similar entity, no impact on the financial performance and positions of the Group is expected when they become effective.

Note viii:

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

As at 30 June 2017, the Group has non-cancellable operating lease commitments of USD3.2 million. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

Management is still assessing the financial impact. Based on the preliminary assessment result, the Group does not expect a material impact to the financial statements during the Track Record Period on the adoption of new HKFRS 16. The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

Note ix:

The amendments to HKFRS 10 and HKAS 28 address an inconsistency between HKFRS 10 and HKAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

The Group has already commenced a preliminary assessment of the impact of these amendments. According to the preliminary assessment made by the Directors, as the Group has no associates or joint ventures, no significant impact on the financial performance and positions of the Group is expected when they become effective.

#### 2.2 Subsidiaries

# 2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

#### (i) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

#### (ii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRS.

# 2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets.

#### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

# 2.4 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in USD, which is the Company's functional and the Group's presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss within "finance (expenses)/income — net". All other foreign exchange gains and losses are presented in statement of profit or loss within "other (losses)/gains — net".

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

# (c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting currency translation differences are recognised in other comprehensive income.

## 2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their estimated residual values of 10% over their estimated useful lives, as follows:

Buildings
 Machinery and factory equipment
 Vehicles
 Other equipment and fixtures
 20 years
 10 years
 4 years
 3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other (losses)/gains" in the statement of profit or loss.

#### 2.6 Land use rights

All land in the PRC is state-owned or collectively-owned, and no individual land ownership right exists. The Group's interests in land use rights represent prepaid operating lease payments, which are amortised over the useful terms of 44–50 years using the straight-line method.

#### 2.7 Intangible assets

#### (a) Licences

Separately acquired licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives of 10 years.

#### (b) Computer software

Acquired computer software is capitalised on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of 3–10 years.

#### 2.8 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### 2.9 Financial assets

#### 2.9.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### (a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

#### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet (Notes 2.14 and 2.15).

#### (c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

#### 2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date—the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets includes investment in equity instruments that does not have a quoted market price in an active market and whose fair value cannot be reliably measured and must be settled by delivery of such unquoted equity instruments. These investments are measured at cost.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the statement of profit or loss within "Other (losses)/gains—net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of profit or loss as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of profit or loss as "Other (losses)/gains—net".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of profit or loss as part of other income when the Group's right to receive payments is established.

#### 2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

# 2.11 Impairment of financial assets

# (a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan or held-to-maturity investment has

a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss.

#### (b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss—is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

#### 2.12 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value into "other (losses)/gains—net". The trading derivatives are classified as a current asset or liability.

#### 2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

#### 2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.11 for a description of the Group's impairment policies.

#### 2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

#### 2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

# 2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### 2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

#### 2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### 2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### (a) Current income tax

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

### (b) Deferred income tax

#### Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

## ACCOUNTANT'S REPORT

#### Outside basis differences

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

#### (c) Offsetting

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

## 2.21 Employee benefits

#### (a) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

## (b) Other employee benefits

In addition to pension obligation, all PRC employees of the Group participate in various employee social security plans, including medical, housing and other welfare benefits, organised and administered by the governmental authorities. According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Group are calculated based on percentages of the total salary of employees (or on other basis), subject to a certain ceiling, and are paid to the labour and social welfare authorities.

The Group has no further payment obligations once the contributions have been paid. The Group's contributions to these plans are charged to the consolidated statements of profit or loss as incurred.

## (c) Other post-employment obligations

Some group companies provide post-retirement benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age, the employee's job title and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment based on the present value of the post-retirement benefits, which is determined by discounting the estimated future cash outflows using interest rates of the government bonds that are demoninated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation.

The current service cost of the post-retirement benefits recognised in the statement of profit or loss in employee benefit expense, reflects the increase in the post-retirement benefits results from employee service in the current year, benefit changes, curtailments and settlements.

## 2.22 Share-based payments

Equity-settled share-based payments

Our controlling shareholder, Great Access transferred some of its interests in the immediate shareholder of the Company, Great Success, to one of the senior management of the Group, and to Outland Enterprise, a company established to implement the Pre-IPO share incentive award through issuing shares in Outland Enterprise to the employees of the Group in return for their services to the Group (Note 28). The fair value of the shares of Great Success granted to one of the senior management of the Group with no consideration for his services provided is deemed as a contribution from shareholder to our subsidiary and is fully expensed immediately by reference to the appraisal value of Great Success. In respect of shares of Outland Enterprise transferred to Directors and employees, the amount to be expensed is determined by reference to the fair value of the shares granted minus the consideration received, if any.

## 2.23 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised as other income in the consolidated statements of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to the consolidated statements of profit or loss on a straight-line basis over the expected useful lives of the related asset.

#### 2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes ("VAT"). The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for the Group's activity, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Sales of products

Revenue from the sales and distribution of products is recognised when significant risks and rewards of ownership of the products are transferred to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assumed.

## 2.25 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

#### 2.26 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

## ACCOUNTANT'S REPORT

## 2.27 Research and development costs

Research costs are expensed as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique products are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated how the product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development of the product are available; and
- the expenditure attributable to the product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the product cost includes employee costs for new manufacture technology development and an appropriate portion of relevant overheads. Costs associated with maintaining new manufacture technology programmes are recognised as an expense as incurred.

Other development costs that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

#### 2.28 Dividend distribution

Dividend distribution to the Company's shareholder is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

#### 3 FINANCIAL RISK MANAGEMENT

## 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

## (a) Market risk

## (i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD for certain PRC subsidiaries whose functional currency are Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts, transacted by group treasury. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

As at December 31, 2014, 2015 and 2016 and June 30, 2017, if RMB had weakened/strengthened by 5% against USD, with all other variables held constant, post-tax profit for each year/period would have changed mainly as a result of foreign exchange gains/losses on translation of USD denominated cash and cash equivalent, trade receivables, trade payables and bank borrowings in RMB functional currency subsidiaries. Details of the changes are as follows:

	Year	ended Decembe	r 31	Six months ended June 30
	2014	2015	2016	2017
	USD	USD	USD	USD
Year/period ended: Post-tax profit increase/(decrease)				
—Weakened 5% against USD	734,539	2,491,919	3,578,257	4,945,770
—Strengthened 5% against USD	(734,539)	(2,491,919)	(3,578,257)	(4,945,770)

As at December 31, 2014, 2015 and 2016 and June 30, 2017, if RMB had weakened/strengthened by 5% against USD, with all other variables held constant, other comprehensive income for each year/period would have changed mainly as a result of the translation of financial statements of RMB functional currency subsidiaries to USD. Details of the changes are as follows:

	Year o	ended December	31	Six months ended June 30
	2014	2015	2016	2017
	USD	USD	USD	USD
Year/period ended: Other comprehensive income increase/ (decrease)				
—Weakened 5% against USD	(5,985,283)	(7,996,431)	(7,517,468)	(8,166,299)
—Strengthened 5% against USD	5,985,283	7,996,431	7,517,468	8,166,299

## (ii) Cash flow and fair value interest rate risk

The Group's interest-rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk, and if at fixed rates expose the Group to fair value interest-rate risk. The interest rates and terms of loans from related parties and bank borrowings are disclosed in Note 29 and Note 30.

As at December 31, 2014, 2015 and 2016 and June 30, 2017, if interest rates on long-term borrowings had been 100 basis points higher/lower with all other variables held constant, the post-tax profit for the year/period would have been approximately USD4,853 lower/higher, USD2,032 lower/higher, USD38 lower/higher and USD42 lower/higher, respectively, mainly as a result of higher/lower interest expenses on borrowings.

#### (b) Credit risk

Credit risk arises from pledged bank deposits, cash and cash equivalents and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the risk with respect to cash and cash equivalents, bank deposits are placed with highly reputable financial institutions. See Note 19b for further disclosure on credit risk.

The Group's trade receivables at the end of each reporting period were mainly due from retailers, importers and ecommerce consumers. For trade receivables, the Group performs ongoing credit evaluations of its debtors' financial condition and does not require collateral from the debtors on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for doubtful accounts and actual losses incurred have been within management's expectations.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivable.

## (c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by the Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements—for example, currency restrictions.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than	Between 1 and		
	1 year	2 years	5 years	Total
	USD	USD	USD	USD
At December 31, 2014				
Bank borrowings	110,415,236	3,803,004	_	114,218,240
Loans from related parties	1,300,000	_	2,667,973	3,967,973
Interest payables for bank borrowings and				
loans from related parties	3,312,166	88,642	410,397	3,811,205
Trade payables	113,280,321	_	_	113,280,321
Other payables	16,734,365			16,734,365
	245,042,088	3,891,646	3,078,370	252,012,104
At December 31, 2015				
Bank borrowings	131,534,853	41,807	_	131,576,660
Loans from related parties	1,300,000	2,667,973	_	3,967,973
Interest payables for bank borrowings and	-,,	_,~~,,		-,,
loans from related parties	2,122,199	280,476	_	2,402,675
Trade payables	96,033,433	_	_	96,033,433
Other payables	16,188,897			16,188,897
	247,179,382	2,990,256	_	250,169,638
At December 31, 2016				
Bank borrowings	94,603,239	51,204	_	94,654,443
Loans from related parties	6,787,973	_	_	6,787,973
Interest payables for bank borrowings and				
loans from related parties	1,614,554	1,280	_	1,615,834
Trade payables	90,423,019	_	_	90,423,019
Other payables	14,155,975			14,155,975
	207,584,760	52,484		207,637,244

	Less than	Between 1 and	Between 2 and	
	1 year	2 years	5 years	Total
	USD	USD	USD	USD
At June 30, 2017				
Bank borrowings	136,389,970	55,610	_	136,445,580
Loans from related parties	6,787,973	_	_	6,787,973
Interest payables for bank borrowings and				
loans from related parties	2,855,967	695	_	2,856,662
Trade payables	97,336,933	_	_	97,336,933
Other payables	19,115,001	3,130,630		22,245,631
	262,485,844	3,186,935		265,672,779

#### 3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total equity. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheets) plus loan from related parties, and less cash and cash equivalents and restricted cash. Total equity is 'equity' as shown in the consolidated balance sheets.

The gearing ratios as at December 31, 2014, 2015 and 2016 and June 30, 2017 were as follows:

	As	As at June 30		
	2014	2015	2016	2017
	USD	USD	USD	USD
Bank borrowings (Note 29)	114,218,240	131,576,660	94,654,443	136,445,580
Loan from related parties (Note 30)	3,967,973	3,967,973	6,787,973	6,787,973
Less: Cash and cash equivalents (Note 25)	(16,325,524)	(23,455,236)	(22,964,807)	(85,208,125)
Restricted cash (Note 25)	(25,327,882)	(8,726,336)	(3,153,921)	(4,573,494)
Net debt	76,532,807	103,363,061	75,323,688	53,451,934
Total equity	174,541,384	179,517,040	203,908,049	244,151,490
Gearing ratio	44%	58%	37%	22%

#### 3.3 Fair value estimation

The Group adopts the amendment to HKFRS 13 for financial instruments that are measured in the consolidated balance sheets at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value as at December 31, 2014, 2015 and 2016 and June 30, 2017.

	A	As at December 31				
	2014	2015	2016	2017		
	USD	USD	USD	USD		
Assets						
Financial assets at fair value through profit or loss						
(Note 24)						
—Financial products	2,708,560	8,203,569	3,415,050	979,755		
Derivative financial instruments ( <i>Note 33</i> )						
—Forward foreign exchange contracts			1,482,184	873,113		
—Forward foreign exchange contracts			1,462,164	673,113		
	2,708,560	8,203,569	4,897,234	1,852,868		
Liabilities						
Derivative financial instruments (Note 33)						
—Forward foreign exchange contracts	868,506	1,651,142	2,815,522	1,402,196		
—Foreign exchange—related options	690,051	4,871,581				
	1,558,557	6,522,723	2,815,522	1,402,196		
	1,330,337	0,322,123	2,013,322	1,702,190		

The Group's assets and liabilities that are measured at fair value are level 2 financial instruments. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

During the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, there were no transfers among levels of the fair value hierarchy used in measuring the fair value of financial instruments, and also no changes in the classification of financial assets as a result of a change in the purpose or use of those assets.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

# (a) Useful lives of property, plant and equipments

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management reassesses the useful lives on a regular basis. Management will increase the depreciation charge where useful lives are shorter than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

#### (b) Income taxes and deferred tax assets/liabilities

The Group is subject to income taxes in several jurisdictions. Judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

## (c) Provision for impairment of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables based on the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Management reassesses the provision at each balance sheet date.

#### (d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to industry cycles. Management reassesses the estimates at each balance sheet date.

#### 5 SEGMENT INFORMATION

The executive directors are the Group's chief operating decision-maker. The executive directors review the Group's internal reporting in order to assess performance and allocate resources.

The production bases are all located in mainland China, while products are sold to many countries in the world. The raw materials used for all product lines are identical and their production process is similar. Executive directors review business and operating results taking all products and all territories as a whole, and analyse revenues by territory. The executive directors therefore have determined that no geographical or product group segment information for operating results is presented.

Revenue from external customers by country, based on the destination of the customers:

	Year	Year ended December 31			Six months ended June 30		
	2014	2015	2016	2016	2017		
	USD	USD	USD	USD (Unaudited)	USD		
Europe (i)	259,837,620	259,388,869	310,417,622	198,272,145	217,920,572		
North America (ii)	77,273,556	124,284,917	161,238,104	120,240,267	141,480,626		
Mainland China	8,830,760	7,683,613	9,418,247	3,437,658	10,521,500		
Rest of the world (iii)	121,971,766	122,174,279	103,455,442	31,465,160	51,702,820		
Total	467,913,702	513,531,678	584,529,415	353,415,230	421,625,518		

Notes:

- (i) Europe refers to countries in the European Economic Area, Russia, Georgia, Switzerland, Turkey, Kazakhstan, Kyrgyzstan, Albania, Andorra, Bosnia and Hercegovina, Macedonia, Moldavia, Serbia, Montenegro and Ukraine.
- (ii) North America is comprised of the United States, Canada and Puerto Rico.

(iii) Rest of the world refers to Asia, Australia, Africa and Latin America.

No individual customer's revenue exceeds 10% of the Group's total revenue for each of the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017.

Non-current assets, other than financial instruments and deferred tax assets, by territory:

	A	As at June 30		
	2014	2015	2016	2017
	USD	USD	USD	USD
Europe	190,205	264,849	325,881	351,935
North America	29,581	1,219,390	3,204,056	3,249,630
Mainland China	121,958,694	140,113,951	151,871,288	198,470,969
Rest of the world	123,096	97,229	116,234	113,838
Total	122,301,576	141,695,419	155,517,459	202,186,372

# 6 REVENUE AND COST OF SALES

	Year ended December 31					Six months er	nded June 30				
	201	14	20	15	20	16	20:	16	201	2017	
		Cost of		Cost of		Cost of		Cost of		Cost of	
	Revenue	sales	Revenue	sales	Revenue	sales	Revenue	sales	Revenue	sales	
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	
							(Unaudited)	(Unaudited)			
Above-ground pools and portable spas	193,601,246	159,479,066	236,250,805	194,782,187	274,341,404	205,436,140	168,061,659	126,885,746	201,241,041	150,416,221	
Recreation products	113,397,578	85,136,130	119,734,605	89,911,246	125,656,192	86,842,147	75,832,654	52,154,860	82,246,456	58,697,466	
Sporting goods	43,651,986	31,934,206	49,728,697	36,252,548	76,035,612	52,448,138	49,387,194	33,435,430	62,151,295	41,044,042	
Camping products	117,262,892	94,516,269	107,817,571	80,540,895	108,496,207	75,266,326	60,133,723	41,175,303	75,986,726	54,044,715	
	467,913,702	371,065,671	513,531,678	401,486,876	584,529,415	419,992,751	353,415,230	253,651,339	421,625,518	304,202,444	

# 7 OTHER INCOME

	Year ended December 31			Six months ended June 30		
	2014	2015	2016	2016	2017	
	USD	USD	USD	USD (Unaudited)	USD	
Government grants Amortisation of deferred government	1,090,530	5,209,260	1,487,520	271,189	2,221,507	
grants (Note 36)	_	_	_	_	14,588	
Sales of raw materials and scraps	747,126	218,766	613,870	159,865	209,142	
	1,837,656	5,428,026	2,101,390	431,054	2,445,237	

# 8 OTHER (LOSSES)/GAINS — NET

_	Year ended December 31			Six months ended June 30		
_	2014	2015	2016	2016	2017	
	USD	USD	USD	USD (Unaudited)	USD	
Financial assets at fair value						
through profit or loss						
— Fair value gains	109,936	4,375	735	451	619	
Derivative financial instruments						
<ul> <li>Unrealised fair value changes</li> </ul>						
on derivative financial						
instruments	(1,558,557)	(6,522,723)	(1,333,238)	(518,826)	(529,083)	
- Realised (losses)/gains on						
derivative financial instruments	(1,729,934)	(1,139,211)	1,737,995	2,338,737	1,353,415	
Losses on disposal of property, plant						
and equipment	(2,668,237)	(81,942)	(735,096)	(60,926)	(377,050)	
Net foreign exchange gains/(losses)	1,131,701	8,182,415	4,990,126	1,468,021	(2,749,748)	
Others	283,966	477,053	6,973	(114,281)	(419,480)	
<u>-</u>	(4,431,125)	919,967	4,667,495	3,113,176	(2,721,327)	

## 9 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses and administrative expenses are analysed as follows:

	Year	ended December	· 31	Six months en	ded June 30
	2014	2015	2016	2016	2017
	USD	USD	USD	USD	USD
				(Unaudited)	
Raw materials and consumables used	294,035,565	315,460,041	322,874,646	195,419,296	232,996,679
Wages and salaries, social welfare and benefits, including director's					
emoluments (Note 10)	63,872,414	78,830,529	86,106,314	49,787,942	62,978,860
Service fees and commissions	14,257,006	10,520,607	13,368,760	8,012,976	9,188,702
Transportation expenses	14,119,961	14,782,559	17,000,599	10,136,627	12,041,134
Utility fee	11,496,512	11,194,338	12,284,185	6,472,311	7,655,558
Depreciation and amortisation	8,408,676	9,879,262	11,260,516	5,540,975	6,172,688
Processing fee	8,294,196	8,747,772	12,999,958	9,936,977	11,506,750
Maintenance and repair	6,541,273	6,766,471	6,996,930	3,849,078	3,554,490
Research and development expenses	4,913,768	6,253,607	7,333,226	3,152,398	3,179,556
Royalty expenses	4,025,728	5,263,372	5,491,888	3,733,612	3,609,330
After-sale services	2,272,701	2,359,483	2,463,826	1,448,320	1,716,466
Provision for/(reversal of)					
write-down of inventories	1,911,830	1,583,094	1,386,578	428,244	(480,431)
Advertising and promotion expenses	1,848,748	3,978,094	7,794,275	4,843,503	5,654,006
Provision for impairment of trade					
and other receivables	484,158	98,275	570,134	38,542	155,216
Audit services	189,917	190,454	178,891	91,440	87,531
Listing expenses	_	_	673,706	_	2,640,870
Other expenses	13,912,772	15,381,496	20,537,012	11,012,718	12,575,370
	450,585,225	491,289,454	529,321,444	313,904,959	375,232,775

Pension,

## 10 EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTOR'S EMOLUMENTS

	Year	ended December	Six months ended June 30			
	2014	2015	2016	2016	2017	
	USD	USD	USD	USD (Unaudited)	USD	
Salaries, wages and bonuses	52,402,091	61,984,623	70,741,356	40,779,376	52,519,285	
Pension, housing fund, medical insurance and other welfare						
benefits	11,440,312	13,815,220	15,296,532	8,974,445	10,425,281	
Share-based payments (Note 28)	_	2,967,082	_	_	_	
Post-retirement benefits (Note 35)	30,011	63,604	68,426	34,121	34,294	
Total employee benefit expenses	63,872,414	78,830,529	86,106,314	49,787,942	62,978,860	

# (a) Pension costs—defined contribution plans

The employees of the Group's subsidiaries established in the PRC participate in defined contribution retirement benefit plans organised by the relevant provincial governments under which the Group is required to make monthly contributions to these plans at certain percentages of the employees' monthly salaries and wages, subject to certain ceilings. The non-PRC employees also participate in various defined contribution pension plans according to relevant local requirements.

## (b) Benefits and interests of directors

The remuneration of every director and the chief executive is set out below:

For the year ended December 31, 2014

				housing fund, medical insurance and other welfare	
Name of Director	Fees	Salaries	Bonus	benefits	Total
	USD	USD	USD	USD	USD
Executive directors					
Zhu Qiang (i)	_	50,697	56,231	3,083	110,011
Liu Feng (ii)	_	34,848	28,071	3,101	66,020
Tan Guozheng (iii)		35,155	14,497	2,792	52,444
		120,700	98,799	8,976	228,475

For the year ended December 31, 2015

Name of Director	Fees	Salaries	Bonus	Pension, housing fund, medical insurance and other welfare benefits	Total
14110 01 2110001	USD	USD	USD	USD	USD
	CSD	OSE	OSD	CSD	CSD
Executive directors					
Zhu Qiang	49,542	48,731	59,977	3,104	161,354
Liu Feng	_	33,702	32,249	3,104	69,055
Tan Guozheng		34,443	21,591	6,548	62,582
	49,542	116,876	113,817	12,756	292,991
For the year ended December	31, 2016				
				Pension, housing fund, medical insurance and other welfare	
Name of Director	Fees	Salaries	Bonus	benefits	Total
	USD	USD	USD	USD	USD
Executive directors					
Zhu Qiang	49,516	45,765	56,865	2,845	154,991
Liu Feng	_	34,113	29,336	2,845	66,294
Tan Guozheng	<del></del> _	35,571	22,099	6,424	64,094
	49,516	115,449	108,300	12,114	285,379
For the six months ended June	e 30, 2016 (Unaudite	ed)			
				Pension, housing fund, medical insurance and other welfare	
Name of Director	Fees	Salaries	Bonus	benefits	Total
	USD	USD	USD	USD	USD
Executive directors					
Zhu Qiang	24,747	25,776	27,489	1,503	79,515
Liu Feng		18,695	13,701	1,503	33,899
Tan Guozheng		17,584	8,531	3,500	29,615
	24,747				

For the six months ended June 30, 2017

Name of Director	Fees	Salaries	Bonus	Pension, housing fund, medical insurance and other welfare benefits	Total
Name of Director					
	USD	USD	USD	USD	USD
Executive directors					
Zhu Qiang	24,598	25,259	26,908	1,470	78,235
Liu Feng	_	20,896	13,411	1,470	35,777
Tan Guozheng		21,861	13,411	2,325	37,597
	24,598	68,016	53,730	5,265	151,609

- (i) Mr. Zhu Qiang was the chairman and chief executive officer of the Company during the Track Record Period.
- (ii) Mr. Liu Feng was the executive vice president of the Company during the Track Record Period.
- (iii) Mr. Tan Guozheng was appointed as a director and vice president of the Company on March 31, 2014, and was re-designated as the executive director on May 15, 2017.
- (iv) Mr. Duan Kaifeng was appointed as the chief financial officer of the Company on May 10, 2017.
- (v) Mr. Dai Guoqiang, Mr. Lam Yiu Kin and Mr. Yao Zhixian were appointed as the Company's independent non-executive directors on October 18, 2017 and received no payments during the Track Record Period.

Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the Company or its subsidiary undertaking

Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking

	ns sun	sidialy diff	iertaking		of the Company of its substituting for the company of its substituting									
			Six months	ended				Six months	ended				Six months	ended
Year o	ended Decem	ber 31	June 3	30	Year en	ded Decem	iber 31	June	30	Year er	nded Decem	iber 31	June	30
2014	2015	2016	2016	2017	2014	2015	2016	2016	2017	2014	2015	2016	2016	2017
USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
			(Unaudited)					(Unaudited)					(Unaudited)	
	49,542	49,516	24,747	24,598	228,475	243,449	235,863	118,282	127,011	228,475	292,991	285,379	143,029	151,609

## (c) Directors' retirement benefits

There were no retirement benefits paid to any director during the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, or at any time during the Track Record Period.

## (d) Directors' termination benefits

There were no termination benefits paid to any director during the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, or at any time during the Track Record Period.

# (e) Consideration provided to third parties for making available directors' services

During the Track Record Period, the Company provided no consideration to third parties for making available director's services.

## (f) Information about loans, quasi-loans and other dealings in favour of directors

There were no loans, quasi-loans and other dealings entered into between the Group and the directors and in favour of the directors as at December 31, 2014, 2015 and 2016 and June 30, 2017, or at any time during the Track Record Period.

## (g) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as at December 31, 2014, 2015 and 2016 and June 30, 2017 or at any time during the Track Record Period.

## (h) Five highest paid individuals

The five highest paid employees of the Group during the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017 include 1, 1, 1, 1 and 1 director, respectively, details of whose emoluments are reflected in the analysis shown in Note10(b). Details of the total emoluments paid to the remaining 4 highest paid employees during the Track Record Period were as follows:

	Year	ended Decembe	Six months ended June 30		
	2014	2015	2016	2016	2017
	USD	USD	USD	USD (Unaudited)	USD
Salaries, wages and bonuses Share-based payment Pension, housing fund,	937,291	1,434,657 2,967,082	1,711,386	1,013,469	1,043,582 —
medical insurance and other welfare benefits	63,137	93,061	89,551	74,562	74,090
Total employee benefit expense	1,000,428	4,494,800	1,800,937	1,088,031	1,117,672

The number of highest paid non-director individuals, whose remuneration for the Track Record Period fell within the following bands:

	Year	ended Decembe	Six months ended June 30		
	2014	2014 2015		2016	2017
				(Unaudited)	
Emolument bands					
Within HKD1,000,000	2	1	1	2	2
HKD1,000,001 to					
HKD1,500,000	1	2	1	1	1
Above HKD2,000,000	1	1	2	1	1
	4	4	4	4	4

During the Track Record Period, no emoluments have been paid to the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 11 FINANCE (EXPENSES)/INCOME — NET

	Year e	ended December	Six months ended June 30		
	2014	2015	2016	2016	2017
	USD	USD	USD	USD (Unaudited)	USD
Finance expenses:					
- Interest expenses on bank					
borrowings	(3,534,979)	(5,792,691)	(4,524,233)	(2,506,295)	(2,545,461)
- Interest expenses on retirement					
benefit obligations	_	(1,432)	(4,415)	(2,745)	(3,012)
— Foreign exchange (losses)/gains					
on financing activities	(146,530)	(2,556,622)	(1,128,555)	(358,544)	212,556
Less: amounts capitalised on qualifying assets	153,762	270,005	230,235	194,583	436,089
1 7 8				,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	
	(3,527,747)	(8,080,740)	(5,426,968)	(2,673,001)	(1,899,828)
Finance income:					
—Interest income derived from					
bank deposits	660,496	1,344,500	491,698	233,021	49,976
•					
Finance (expenses)/income — net	(2,867,251)	(6,736,240)	(4,935,270)	(2,439,980)	(1,849,852)

# 12 INCOME TAX EXPENSE

The amounts of tax expense charged to the consolidated statements of profit or loss represent:

	Year e	ended December	Six months ended June 30			
	2014	2015 201		2016	2017	
	USD	USD	USD	USD	USD	
				(Unaudited)		
Current income tax	5,087,805	8,523,800	11,234,575	7,389,503	9,716,841	
Deferred income tax (Note 34)	(1,650,420)	(1,859,787)	2,787,353	2,945,994	(54,971)	
Income tax expenses	3,437,385	6,664,013	14,021,928	10,335,497	9,661,870	

## (i) Cayman Islands profit tax

The Company is not subject to any taxation in the Cayman Islands.

# (ii) British Virgin Islands ("BVI") profits tax

Bestway Resources Group Company Limited, one of the Company's subsidiaries, which was incorporated in the BVI is exempted from BVI income tax, as it is incorporated under the International Business Companies Act of the BVI. The Company's another subsidiary incorporated in the BVI, Bestway Enterprises Company Limited, is subject to Hong Kong profits tax, as its main operations are in Hong Kong and is therefore a Hong Kong tax resident.

## (iii) Hong Kong profits tax

The Company's subsidiaries Bestway Enterprise Company Limited and Bestway (Hong Kong) International Limited are subject to Hong Kong profits tax. The applicable Hong Kong profit tax rate is 16.5% for the Track Record Period.

## (iv) PRC corporate income tax ("CIT")

CIT is provided on the assessable income of entities within the Group incorporated in the PRC. The applicable CIT tax rate is 25% except for a subsidiary which is qualified as High and New Technology Enterprises ("HNTE") and entitled to enjoy a beneficial tax rate of 15% since 2016.

## (v) Other overseas tax

Overseas profits tax has been provided at the rates of taxation prevailing in the countries in which the Group operates, with the range from 20% to 41%, during the Track Record Period.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate to profits of the consolidated entities as follows:

_	Year e	ended December	Six months ended June 30		
	2014	2015	2016	2016	2017
	USD	USD	USD	USD	USD
				(Unaudited)	
Profit before income tax	11,867,757	21,853,977	57,041,586	40,614,521	44,266,801
Tax calculated at applicable					
tax rates	3,449,957	5,679,849	14,089,272	9,774,189	10,022,534
Income not subject to profits					
tax	(34,983)	(10,139)	(9,369)	(186)	(1,979)
Expenses not deductible for					
tax purpose	133,440	1,163,705	634,073	235,255	408,068
Tax benefit from HNTE					
qualification	_	_	(1,728,115)	(936,500)	(647,938)
Additional deduction of					
research and development					
expenses	(487,052)	(627,737)	(422,664)	(195,860)	(224,946)
Unrecognised tax losses					
carried forward	13,607	62,481	_	_	58,572
Withholding income tax on					
dividends from subsidiaries	362,416	395,854	1,458,731	1,458,599	47,559
Tax charge	3,437,385	6,664,013	14,021,928	10,335,497	9,661,870

## 13 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to the owner of the Company by the weighted average number of ordinary shares in issue for each year during the Track Record Period. The diluted earnings per share are same as the basic earnings per share as there was no dilutive potential shares existed during the Track Record Period.

	Year	ended December 3	Six months ended June 30			
	2014	2015	2016	2016	2017	
	USD	USD	USD	USD (Unaudited)	USD	
Profit attributable to the owner of the Company	8,174,598	16,459,544	43,339,569	30,433,239	34,955,056	
Weighted average number of ordinary shares in issue	1,001	1,001	1,001	1,001	1,001	
Basic and diluted earnings per share	8,166	16,443	43,296	30,403	34,920	

The basic and diluted earnings per share presented above has not taken into account the proposed capitalisation issue of 793,791,999 shares pursuant to the shareholders' resolution dated October 18, 2017 (note 41) because the proposed capitalisation issue has not become effective as at the date of this report.

## 14 DIVIDENDS

	Year	ended Decembe	Six months ended June 30			
	2014	2015	2016	2016	2017	
	USD	USD	USD	USD	USD	
Dividends declared by the Group	2,822,935	<u> </u>	3,236,670	3,236,670	350,000	

The dividend of USD2,820.11 per share, amounting to a total dividend of USD2,822,935 was approved at the Company's shareholder's meeting on May 31, 2014. It has been reflected as an appropriation of retained earnings for the year ended December 31, 2014 and has been paid out in June 2014.

The dividend of USD3,233.44 per share, amounting to a total dividend of USD3,236,670 was approved at the Company's shareholder's meeting on April 30, 2016. It has been reflected as an appropriation of retained earnings for the year ended December 31, 2016 and has been paid out in June 2016.

The dividend of USD349.65 per share, amounting to a total dividend of USD350,000 was approved at the meeting of the Board of Directors of the Company on May 9, 2017. It has been reflected as an appropriation of retained earnings for the period ended June 30, 2017 and has been paid out in May 2017.

# 15 SUBSIDIARIES

The investment in subsidiaries are stated at cost. The following sets out the details of the principal subsidiaries of the Company as at December 31, 2014, 2015 and 2016 and June 30, 2017:

		Country/Place of				Directly and i	ndirectly held			
Company name	Date of incorporation	incorporation, legal status	Registered share capital	Paid share capital	December 31, 2014	December 31, 2015	December 31, 2016	June 30, 2017	Principal activities	Note
Bestway Resources Group Company Limited	June 26, 2012	British Virgin Islands	Hong Kong Dollar ("HKD")10,000	HKD2	100%	100%	100%	100%	Investment holding company	(i), (vi)
Bestway Enterprise Company Limited	April 3, 2003	British Virgin Islands	USD50,000	USD50,000	100%	100%	100%	100%	Investment holding company and trading of inflatable products and related products	(ii)
Bestway (Hong Kong) International Limited	June 2, 2004	Hong Kong	HKD50,000	HKD50,000	100%	100%	100%	100%	Investment holding company and trading of inflatable products and related products	(ii)
Bestway (USA) Holdings, LLC	April 29, 2015	United States	USD3,284,058	USD3,284,058	_	99.5%	99.5%	99.5%	Investment management	(i)
Bestway (Nantong) Recreation Corp.	February 2, 2007	Jiangsu, China	USD182,350,000	USD101,927,830	100%	100%	100%	100%	Manufacturing and trading of inflatable products and related products	(ii)
Bestway (Jiangsu) Recreation Corp.	April 5, 2004	Jiangsu, China	USD22,700,000	USD20,616,460	100%	100%	100%	100%	Manufacturing and trading of inflatable products and related products	(ii)
Bestway Inflatables & Material Corp.	June 25, 1999	Shanghai, China	USD16,526,700	USD16,526,700	100%	100%	100%	100%	Manufacturing and trading of inflatable products and related products	(ii)
Bestway (Shanghai) Investment Management Co., Ltd.	May 28, 2015	Shanghai, China	RMB5,000,000	RMB2,000,000	-	100%	100%	100%	Investment management	(ii)
Bestway (Shanghai) Enterprise Corp.	May 18, 2009	Shanghai, China	RMB72,728,600	RMB72,728,600	100%	100%	100%	100%	Trading of inflatable products and related products	(ii)
Bestway (Dongtai) Recreation Co., Ltd.	June 16, 2011	Jiangsu, China	USD8,000,000	USD8,000,000	100%	100%	100%	_	Trading of inflatable products and related products	(ii), (v)
Bestway (Europe) S.R.L.	January 10, 2001	Milan, Italy	Euro ("EUR")10,200	EUR10,200	51%	51%	51%	51%	Trading of inflatable products and related products and aftersales service	(i)
Bestway (USA), Inc.	June 1, 2001	United States	USD200,000	USD200,000	51%	51%	51%	51%	Trading of inflatable products and related products and aftersales service	(i)
Bestway Central&South America Ltd.	July 26, 2005	Santiago, Chile	Chilean Peso ("CLP")1,393,420	CLP1,393,420	51%	51%	51%	51%	Aftersales service	(i)
Bestway Deutschland GmbH	August 31, 2011	Neumünster, Germany	EUR25,000	EUR25,000	75%	75%	75%	70%	Trading of inflatable products and related products and aftersales service	(i)
Bestway France S.R.L	August 4, 2011	Valbonne, France	EUR300,000	EUR300,000	75%	75%	75%	75%	Trading of inflatable products and related products and aftersales service	(i)
Bestway Italy S.R.L	August 1, 2011	Milan, Italy	EUR100,000	EUR100,000	100%	100%	100%	100%	Trading of inflatable products and related products and aftersales service	(i)
Bestway Russia Ltd.	September 27, 2013	Saint-Petersburg, Russia	Russian Ruble ("SUR")30,650	SUR30,650	51%	51%	51%	51%	Trading of inflatable products and related products and aftersales service	(i)

		Country/Place of			Directly and indirectly held					
Company name	Date of incorporation	incorporation, legal status	Registered share capital	Paid share capital	December 31, 2014	December 31, 2015	December 31, 2016	June 30, 2017	Principal activities	Note
Bestway Australia Pty Limited	November 15, 2013	Silverwater, Australia	Australian Dollar ("AUD")1,200	AUD1,200	51%	51%	51%	51%	Trading of inflatable products and related products and aftersales service	(i)
Bestway (Nantong) Resources Limited	March 22, 2013	Jiangsu, China	USD1,500,000	USD1,139,101	-	-	-	-	Trading of cleansing and disinfectant products	(iii)
Bestway (Nantong) Technology Corp.	November 29, 2012	Jiangsu, China	USD5,000,000	USD3,000,000	100%	-	-	-	Trading of pumps and capacitors	(ii), (iv)
Great Channel Investment Limited	October 10, 2013	British Virgin Islands	USD1	_	100%	100%	100%	100%	Investment holding company	(i)
Bestway Enterprise Company Limited	May 4, 2017	Brazil	USD1	-	-	-	_	100%	Trading of inflatable and related products	

- (i) No audited financial statements were prepared for these companies as they are either newly incorporated or not required to issue audited financial statements under the local statutory requirements.
- (ii) These companies' financial statements including statutory financial statements for the years ended December 31, 2014, 2015 and 2016, where appropriate, were audited by PricewaterhouseCoopers Zhong Tian LLP or PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.
- (iii) In 2014, the directors of the Company resolved to liquidate the subsidiary. The liquidation was completed on December 24, 2014.
- (iv) In 2015, the directors of the Company resolved to liquidate the subsidiary. The liquidation was completed on November 30, 2015.
- (v) On October 10, 2016, the directors of the Company resolved to liquidate the subsidiary. The liquidation was completed on January 6, 2017.
- (vi) Bestway Resources Group Company Limited is directly held by the Company. Other subsidiaries are indirectly held by the Company.

## 16 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	Year o	ended December	31	Six months ended June 30
	2014	2015	2016	2017
	USD	USD	USD	USD
Opening net book value	11,351,134	11,024,264	14,869,509	15,695,242
Additions	_	4,766,480	2,193,597	5,858,951
Amortisation	(286,390)	(293,745)	(356,792)	(208,684)
Currency translation differences	(40,480)	(627,490)	(1,011,072)	443,724
Closing net book value	11,024,264	14,869,509	15,695,242	21,789,233

As at December 31, 2014, 2015 and 2016 and June 30, 2017, land use rights of the Group, all located in mainland China, with a total net book value of RMB67,457,471 (equivalent to USD11,024,264), RMB65,708,214 (equivalent to USD10,118,919), RMB14,508,149 (equivalent to USD2,091,416) and RMB14,326,797 (equivalent to USD2,114,844) respectively, were pledged to secure short-term borrowings (Note 29).

# **ACCOUNTANT'S REPORT**

As at June 30, 2017, the Group had a collectively-owned land use right with a net book value of RMB9,533,862 (equivalent to USD1,407,337).

During the Track Record Period, the amounts of amortisation charges of land use rights charged to administrative expenses are as follows:

	Year	Year ended December 31			Six months ended June 30		
	2014	2015	2016	2016	2017		
	USD	USD	USD	USD (Unaudited)	USD		
Administrative expenses	286,390	293,745	356,792	180,464	208,684		

# 17 PROPERTY, PLANT AND EQUIPMENT

		Machinery		Other		
	<b>Buildings</b> and	and factory		equipment	Construction	
	freehold land	equipment	Vehicles	and fixtures	in progress	Total
	USD	USD	USD	USD	USD	USD
At January 1, 2014						
Cost	82,477,691	34,467,785	2,248,074	9,771,286	4,800,895	133,765,731
Accumulated depreciation	(21,443,907)	(15,725,517)	(1,543,417)	(5,935,036)		(44,647,877)
Net book amount	61,033,784	18,742,268	704,657	3,836,250	4,800,895	89,117,854
Year ended December 31, 2014						
Opening net book amount	61,033,784	18,742,268	704,657	3,836,250	4,800,895	89,117,854
Currency translation differences	(224,035)	(77,374)	(3,587)	(24,974)	(44,606)	(374,576)
Transferred from construction in						
progress	8,451,881	3,471,288	236,312	386,540	(12,546,021)	_
Other additions	319,600	4,760,089	717,391	1,114,319	26,917,364	33,828,763
Disposals	(2,174,933)	(976,068)	(91,692)	(123,201)	_	(3,365,894)
Depreciation charge	(3,641,494)	(2,840,515)	(286,363)	(1,325,084)		(8,093,456)
Closing net book amount	63,764,803	23,079,688	1,276,718	3,863,850	19,127,632	111,112,691
At December 31, 2014						
Cost	86,847,844	40,163,430	2,954,050	10,348,696	19,127,632	159,441,652
Accumulated depreciation	(23,083,041)	(17,083,742)	(1,677,332)	(6,484,846)		(48,328,961)
Net book amount	63,764,803	23,079,688	1,276,718	3,863,850	19,127,632	111,112,691

	Buildings and freehold land	Machinery and factory equipment	Vehicles	Other equipment and fixtures	Construction in progress	Total
	USD	USD	USD	USD	USD	USD
Year ended December 31, 2015						
Opening net book amount	63,764,803	23,079,688	1,276,718	3,863,850	19,127,632	111,112,691
Currency translation differences	(4,112,414)	(1,645,219)	(78,389)	(269,489)	(957,644)	(7,063,155)
Transferred from construction in						
progress	18,693,022	10,648,735	416,763	1,855,978	(31,614,498)	_
Other additions	2,680,883	3,092,660	90,478	1,085,759	25,875,417	32,825,197
Disposals	(334,398)	(238,448)	(21,959)	(84,608)	_	(679,413)
Depreciation charge	(4,329,589)	(3,448,920)	(325,777)	(1,409,838)		(9,514,124)
Closing net book amount	76,362,307	31,488,496	1,357,834	5,041,652	12,430,907	126,681,196
At December 31, 2015						
Cost	102,213,525	49,487,789	3,054,522	12,389,424	12,430,907	179,576,167
Accumulated depreciation	(25,851,218)	(17,999,293)	(1,696,688)	(7,347,772)		(52,894,971)
Net book amount	76,362,307	31,488,496	1,357,834	5,041,652	12,430,907	126,681,196
Year ended December 31, 2016						
Opening net book amount	76,362,307	31,488,496	1,357,834	5,041,652	12,430,907	126,681,196
Currency translation differences	(5,306,366)	(1,692,178)	(97,565)	(367,963)	(859,226)	(8,323,298)
Transferred from construction in						
progress	20,485,715	2,270,693	455,728	1,299,311	(24,511,447)	_
Other additions	2,441,578	1,470,725	392,444	1,974,808	26,470,151	32,749,706
Disposals	(706,436)	(90,465)	(27,361)	(19,094)	_	(843,356)
Depreciation charge	(4,934,410)	(3,811,950)	(494,338)	(1,621,445)		(10,862,143)
Closing net book amount	88,342,388	29,635,321	1,586,742	6,307,269	13,530,385	139,402,105
At December 31, 2016						
Cost	123,483,279	52,787,582	3,715,157	15,445,022	13,530,385	208,961,425
Accumulated depreciation	(35,140,891)	(23,152,261)	(2,128,415)	(9,137,753)		(69,559,320)
Net book amount	88,342,388	29,635,321	1,586,742	6,307,269	13,530,385	139,402,105

		Machinery		Other		
	<b>Buildings</b> and	and factory		equipment	Construction	
	freehold land	equipment	Vehicles	and fixtures	in progress	Total
	USD	USD	USD	USD	USD	USD
Six months ended June 30, 2017						
Opening net book amount	88,342,388	29,635,321	1,586,742	6,307,269	13,530,385	139,402,105
Currency translation differences	2,168,388	746,606	45,594	164,250	605,510	3,730,348
Transferred from construction in						
progress	11,197,664	2,042,385	686,458	337,869	(14,264,376)	_
Other additions	2,361,905	1,839,015	269,224	741,422	37,939,107	43,150,673
Disposals	(351,685)	(37,015)	(2,144)	(3,017)	_	(393,861)
Depreciation charge	(2,621,669)	(2,052,820)	(320,297)	(934,705)		(5,929,491)
Closing net book amount	101,096,991	32,173,492	2,265,577	6,613,088	37,810,626	179,959,774
At June 30, 2017						
Cost	135,956,908	56,575,910	4,651,025	16,494,211	37,810,626	251,488,680
Accumulated depreciation	(34,859,917)	(24,402,418)	(2,385,448)	(9,881,123)		(71,528,906)
Net book amount	101,096,991	32,173,492	2,265,577	6,613,088	37,810,626	179,959,774

During the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, the Group has capitalised borrowing costs amounting to USD153,762, USD270,005, USD230,235, USD194,583 and USD436,089, respectively, on qualifying assets. Borrowing costs were capitalised at the weighted average rate of 5.33%, 4.36%, 4.26%, 4.26% and 4.36% per annum, respectively.

During the Track Record Period, the amounts of depreciation expense charged to cost of sales, selling and distribution expenses and administrative expenses are as follows:

	Year ended December 31			Six months ended June 30	
	2014	2015	2016	2016	2017
	USD	USD	USD	USD	USD
				(Unaudited)	
Cost of sales	4,951,039	5,874,148	6,603,960	3,514,823	3,667,840
Selling and distribution expenses	22,192	28,443	103,434	13,949	86,990
Administrative expenses	3,120,225	3,611,533	4,154,749	1,816,314	2,174,661
At end of year/period	8,093,456	9,514,124	10,862,143	5,345,086	5,929,491

As at December 31, 2014, 2015 and 2016 and June 30, 2017, buildings of the Group with a total net book value of RMB231,696,238 (equivalent to USD37,865,050), RMB215,297,398 (equivalent to USD33,155,322), RMB96,909,423 (equivalent to USD13,969,933) and RMB96,232,119 (equivalent to USD14,205,261) respectively, were pledged to secure short-term bank borrowings (Note 29).

As at December 31, 2014, 2015 and 2016 and June 30, 2017, machinery and factory equipment of the Group with a total net book value of RMB19,129,497 (equivalent to USD3,126,246), RMB15,388,603 (equivalent to USD2,369,811), RMB13,116,889 (equivalent to USD1,890,859) and RMB11,976,306 (equivalent to USD1,767,877) respectively, were pledged to secure short-term borrowings (Note 29).

# 18 INTANGIBLE ASSETS

		Computer	m 1
	Licences	software	Total
	USD	USD	USD
At January 1, 2014			
Cost	96,496	144,465	240,961
Accumulated amortisation	(51,616)	(41,680)	(93,296)
Net book amount	44,880	102,785	147,665
Year ended December 31, 2014	44.000	100 705	1.47.665
Opening net book amount	44,880	102,785	147,665
Currency translation differences Additions	(669) 16,136	(8,201) 38,520	(8,870) 54,656
Amortisation charge	(14,585)	(14,245)	(28,830)
Amortisation charge	(14,365)	(14,243)	(28,830)
Closing net book amount	45,762	118,859	164,621
At December 31, 2014			
Cost	107,658	170,952	278,610
Accumulated amortisation	(61,896)	(52,093)	(113,989)
			_
Net book amount	45,762	118,859	164,621
Year ended December 31, 2015			
Opening net book amount	45,762	118,859	164,621
Currency translation differences	(772)	(10,371)	(11,143)
Additions	10,849	51,780	62,629
Amortisation charge	(18,605)	(52,788)	(71,393)
Closing net book amount	37,234	107,480	144,714
		<u> </u>	<u> </u>
At December 31, 2015			
Cost	113,282	205,197	318,479
Accumulated amortisation	(76,048)	(97,717)	(173,765)
Net book amount	37,234	107,480	144,714
Year ended December 31, 2016			
Opening net book amount	37,234	107,480	144,714
Currency translation differences	(174)	(14,809)	(14,983)
Additions	2,430	329,532	331,962
Amortisation charge	(12,703)	(28,878)	(41,581)
Closing net book amount	26,787	393,325	420,112
At December 31, 2016			
Cost	115,768	528,720	644,488
Accumulated amortisation	(88,981)	(135,395)	(224,376)
Net book amount	26,787	393,325	420,112

		Computer		
	Licences	software	Total	
	USD	USD	USD	
Six months ended June 30, 2017				
Opening net book amount	26,787	393,325	420,112	
Currency translation differences	44	13,547	13,591	
Additions	_	38,175	38,175	
Amortisation charge	(6,406)	(28,107)	(34,513)	
Closing net book amount	20,425	416,940	437,365	
At June 30, 2017				
Cost	113,905	548,755	662,660	
Accumulated amortisation	(93,480)	(131,815)	(225,295)	
Net book amount	20,425	416,940	437,365	

During the Track Record Period, the amounts of amortisation charges of intangible assets charged to administrative expenses are as follows:

	Year	Year ended December 31			Six months ended June 30	
	2014	2015	2016	2016	2017	
	USD	USD	USD	USD (Unaudited)	USD	
Administrative expenses	28,830	71,393	41,581	15,425	34,513	

# 19a FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables	assets at fair value through profit or loss	Available- for-sale	Total
	USD	USD	USD	USD
December 31, 2014				
Assets as per balance sheet				
Financial assets at fair value through profit or loss	_	2,708,560	_	2,708,560
Available-for-sale financial assets	_	_	457,636	457,636
Trade receivables	69,862,291	_	_	69,862,291
Other receivables excluding prepayments	17,320,083	_	_	17,320,083
Cash and cash equivalents	16,325,524	_	_	16,325,524
Restricted cash	25,327,882		<u>_</u>	25,327,882
Total	128,835,780	2,708,560	457,636	132,001,976

		Liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
		USD	USD	USD
December 31, 2014				
Liabilities as per balance sheet			114 210 240	114 210 240
Borrowings		1.550.557	114,218,240	114,218,240
Derivative financial instruments		1,558,557	112 220 221	1,558,557
Trade payables Other payables		_	113,280,321 16,734,365	113,280,321
		_		16,734,365
Loans from related parties			3,967,973	3,967,973
Total		1,558,557	248,200,899	249,759,456
	Loans and	Financial assets at fair value through	Available-	
	receivables	profit or loss	for-sale	Total
	USD	USD	USD	USD
December 31, 2015				
Assets as per balance sheet				
Financial assets at fair value through				
profit or loss	_	8,203,569	_	8,203,569
Available-for-sale financial assets		_	457,636	457,636
Trade receivables	70,530,419	_	_	70,530,419
Other receivables excluding prepayments	11,237,666	_	_	11,237,666
Cash and cash equivalents	23,455,236	_	_	23,455,236
Restricted cash	8,726,336			8,726,336
Total	113,949,657	8,203,569	457,636	122,610,862
		*******	0.4	
		Liabilities at	Other	
		fair value through	financial liabilities at	
		profit or loss	amortised cost	Total
		USD	USD	USD
		USD	OSD	USD
December 31, 2015				
Liabilities as per balance sheet				
Borrowings		_	131,576,660	131,576,660
Derivative financial instruments		6,522,723	_	6,522,723
Trade payables		_	96,033,433	96,033,433
Other payables		_	16,188,897	16,188,897
Loans from related parties			3,967,973	3,967,973
Total		6,522,723	247,766,963	254,289,686

	Loans and receivables	Financial assets at fair value through profit or loss	Available- for-sale	Total
	USD	USD	USD	USD
December 31, 2016 Assets as per balance sheet Financial assets at fair value through profit or loss		3,415,050	032	3,415,050
Available-for-sale financial assets	_	3,413,030	457,636	457,636
Derivative financial instruments		1,482,284	437,030	1,482,284
Trade receivables	94,586,512		_	94,586,512
Other receivables excluding prepayments	1,318,862	_	_	1,318,862
Cash and cash equivalents	22,964,807	_	_	22,964,807
Restricted cash	3,153,921	_	_	3,153,921
Total		4 807 224	157 626	
Total	122,024,102	4,897,334	457,636	127,379,072
		Liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
				·
		USD	USD	USD
December 31, 2016 Liabilities as per balance sheet				
Borrowings		_	94,654,443	94,654,443
Derivative financial instruments		2,815,522		2,815,522
Trade payables		_	90,423,019	90,423,019
Other payables		_	14,155,975	14,155,975
Loans from related parties			6,787,973	6,787,973
Total		2,815,522	206,021,410	208,836,932
	Loans and	Financial assets at fair value through	Available-	
	receivables	profit or loss	for-sale	Total
	USD	USD	USD	USD
June 30, 2017				
Assets as per balance sheet				
Financial assets at fair value through profit or loss	_	979,755	_	979,755
Available-for-sale financial assets	_	_	457,636	457,636
Derivative financial instruments	_	873,113	_	873,113
Trade receivables	118,863,460	_	_	118,863,460
Other receivables excluding prepayments	935,236	_	_	935,236
Cash and cash equivalents	85,208,125	_	_	85,208,125
Restricted cash	4,573,494			4,573,494
Total	209,580,315	1,852,868	457,636	211,890,819

	Liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
	USD	USD	USD
June 30, 2017 Liabilities as per balance sheet			
Borrowings	_	136,445,580	136,445,580
Derivative financial instruments	1,402,196	_	1,402,196
Trade payables	_	97,336,933	97,336,933
Other payables	_	22,245,631	22,245,631
Loans from related parties		6,787,973	6,787,973
Total	1,402,196	262,816,117	264,218,313

#### 19b CREDIT QUALITY OF FINANCIAL ASSETS

## Trade receivables

The Group has policies in place to ensure credit sales are made to customers with an appropriate credit history. The credit quality of trade receivables that are neither past due nor further impaired being assessed by reference to the reputation, credit history and management judgement about counterparty.

# Bank deposits

The management considers the credit risks in respect of bank deposits are relatively minimal as each counter party is either a state-controlled PRC bank or has a high credit rating commercial bank. The management believes the PRC government is able to support the state-controlled PRC banks in the event of a liquidity difficulty.

The Group categorises its bank balances and restricted bank deposits into the following:

Group 1	_	Major international banks (Citibank (China) Co., Ltd, Hong Kong and Shanghai Bank (China)
		Company Limited, Development Bank of Singapore (China) Limited), etc.

Group 2 — Top 4 banks in the PRC (China Construction Bank, Bank of China Limited, Agricultural Bank of

China and Industrial and Commercial Bank of China)

Group 3 — Other state-controlled banks in the PRC

	As at December 31			As at June 30
	2014	2015	2016	2017
	USD	USD	USD	USD
Group 1	12,764,805	11,749,247	12,984,061	30,567,797
Group 2	21,619,734	10,315,458	6,463,918	26,967,775
Group 3	7,226,298	10,072,010	6,598,207	32,136,338
Total	41,610,837	32,136,715	26,046,186	89,671,910

#### 20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As	As at December 31		
	2014	2015	2016	2017
	USD	USD	USD	USD
Unlisted equity interests	457,636	457,636	457,636	457,636

The above available-for-sale financial assets were measured at cost, which refer to the 0.85% equity investments in Rural Cooperative Bank of Funing County, held by the Group.

#### 21 INVENTORIES

	A	As at December 31		
	2014	2015	2016	2017
	USD	USD	USD	USD
Raw materials	24,618,403	42,663,040	27,757,869	58,516,169
Work-in-progress	48,136,385	50,587,260	52,817,511	40,423,769
Finished goods	115,301,462	96,009,885	81,789,156	42,077,377
	188,056,250	189,260,185	162,364,536	141,017,315

During the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, the cost of inventories recognised as an expense and included in "Cost of sales" was USD308,149,272, USD331,863,963 and USD340,632,752 and USD250,264,888, respectively. Inventory write-down of USD1,305,518, USD1,783,097, USD2,292,049 and USD1,411,225 were made as at December 31, 2014, 2015 and 2016 and June 30, 2017, respectively.

#### 22 TRADE RECEIVABLES

	As at December 31			As at June 30	
	2014	2015	2016	2017	
	USD	USD	USD	USD	
Trade receivables	70,653,581	71,474,079	95,814,928	120,235,053	
Less: allowance for impairment of trade receivables	(791,290)	(943,660)	(1,228,416)	(1,371,593)	
Trade receivables—net	69,862,291	70,530,419	94,586,512	118,863,460	

(i) During the Track Record Period, the trade receivables pledged as securities to the banking facility and borrowings were as follows:

As at December 31, 2014, the Group pledged trade receivables of USD62,967,355 and EUR195,399 (equivalent to USD238,081) as securities to the banking facility and borrowings, as disclosed in Note 29.

As at December 31, 2015, the Group pledged trade receivables of USD60,201,922 and EUR448,663 (equivalent to USD490,229) as securities to the banking facility and borrowings, as disclosed in Note 29.

As at December 31, 2016, the Group pledged trade receivables of USD83,144,102 and EUR1,633,959 (equivalent to USD1,721,062) as securities to the banking facility and borrowings, as disclosed in Note 29.

As at June 30, 2017, the Group pledged trade receivables of USD82,970,605, RMB30,000,000 (equivalent to USD4,428,436) and EUR3,760,181 (equivalent to USD4,301,473) as securities to the banking facility and borrowings, as disclosed in Note 29.

The carrying amounts of trade receivables approximated their fair values as at the respective balance sheet dates during the Track Record Period.

As at December 31, 2014, 2015 and 2016 and June 30, 2017, the aging analysis of the trade receivables based on invoice date is as follows:

	As at December 31			As at June 30
	2014	2015	2016	2017
	USD	USD	USD	USD
Up to 3 months	65,717,521	63,097,079	91,863,891	117,188,714
4 to 6 months	4,225,117	6,824,453	2,104,417	2,915,239
7 to 12 months	537,279	911,451	1,725,844	130,600
Over 1 year	173,664	641,096	120,776	500
	70,653,581	71,474,079	95,814,928	120,235,053

The credit terms granted to customers by the Group are usually 30 to 90 days.

# **ACCOUNTANT'S REPORT**

As at December 31, 2014, 2015 and 2016 and June 30, 2017, trade receivables of USD4,884,078, USD8,189,303, USD3,761,193 and USD 2,846,633 were past due but not impaired. These balances relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables based on invoice date is as follows:

	As at December 31			As at June 30
	2014	2015	2016	2017
	USD	USD	USD	USD
4 to 6 months	4,187,557	6,753,704	2,076,815	2,724,128
7 to 12 months	531,540	858,361	1,640,505	122,038
Over 1 year	164,981	577,238	43,873	467
	4,884,078	8,189,303	3,761,193	2,846,633

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As at December 31			As at June 30
	2014	2015	2016	2017
	USD	USD	USD	USD
USD	67,942,937	68,414,346	90,489,491	93,481,756
EUR	1,301,055	2,230,440	3,965,193	22,883,919
RMB	292,798	207,873	183,683	3,039,718
Other currencies	1,116,791	621,420	1,176,561	829,660
	70,653,581	71,474,079	95,814,928	120,235,053

Movements on the Group's allowance for impairment of trade receivables are as follows:

	Year ended December 31			Six months ended June 30
	2014	2015	2016	2017
	USD	USD	USD	USD
At beginning of the year/period	(551,129)	(791,290)	(943,660)	(1,228,416)
Provision for impairment of trade receivables	(417,677)	(196,802)	(285,465)	(142,754)
Trade receivables written off during the year/period				
as uncollectible	177,502	44,261	_	_
Currency translation differences	14	171	709	(423)
At the end of the year/period	(791,290)	(943,660)	(1,228,416)	(1,371,593)

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the consolidated statements of profit or loss. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

#### 23 PREPAYMENTS AND OTHER RECEIVABLES

	A	As at June 30		
Group	2014	2015	2016	2017
	USD	USD	USD	USD
Prepayments and other receivables	4,341,494	5,256,948	4,709,289	7,883,428
Deductible input VAT and prepaid taxation	19,438,717	9,512,418	10,038,317	7,727,149
Due from related parties (Note 39)	5,311,546	5,389,925	168,035	543,544
Loans to third parties (i)	10,243,531	4,604,239	240,353	241,692
Loans to a related party (Note 39)	_	_	150,000	150,000
Less: allowance for impairment of other receivables	(222,680)	(114,234)	(134,390)	(150,225)
	39,112,608	24,649,296	15,171,604	16,395,588
Less:non-current portion:				
Loans to third parties (i)	(388,980)	(214,050)	(160,744)	(164,602)
Long-term receivables	(818,551)	(779,571)	(859,486)	(289,326)
	(1,207,531)	(993,621)	(1,020,230)	(453,928)
Current portion	37,905,077	23,655,675	14,151,374	15,941,660

All non-current receivables are due within five years from the end of the year/period.

The maximum exposure to credit risk at the reporting dates is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

- (i) The Group provides loans to certain third party suppliers, the balances comprises:
  - (a) One-year term loans amounting to RMB60,300,000 (equivalent to USD9,854,551), RMB28,000,000 (equivalent to USD4,311,938) and nil as at December 31, 2014, 2015 and 2016, respectively were granted to a supplier with the annual interest bearing at 7.2%. The loans were repaid by offsetting the purchase payments to this third party, amounting to USD5,542,613 and USD4,311,938 during 2015 and 2016 respectively. The loan was fully repaid as at December 31, 2016.
  - (b) Long-term loans amounting to RMB2,380,167 (equivalent to USD388,980), RMB1,898,091 (equivalent to USD292,301), RMB1,637,320 (equivalent to USD240,353) and RMB1,637,320 (equivalent to USD241,692) as at December 31, 2014, 2015 and 2016 and June 30, 2017 respectively were granted to two other suppliers with maturity dates from 4 to 5 years and interest free. The loans were repaid by offsetting the purchase payments to these two third parties. As at December 31, 2015 and 2016 and June 30, 2017, balances amounting to RMB508,133 (equivalent to USD78,251). RMB522,240 (equivalent to USD79,609) and RMB522,240 (equivalent to USD77,090) respectively became due within next 12 months and were included in current portion of the balances.

During the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, the Group wrote off other receivables from third parties and due from related parties amounting to nil, nil, USD253,987 and nil respectively.

	A	s at December 3	61	As at June 30
Company	2014	2015	2016	2017
	USD	USD	USD	USD
Prepayments and other receivables	_	64	_	1,212,846
Due from subsidiaries	26,426	26,426	709,451	3,339,986
	26,426	26,510	709,451	4,552,832

## 24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31			As at June 30
	2014	2015	2016	2017
	USD	USD	USD	USD
Financial products	2,708,560	8,203,569	3,415,050	979,755

Financial assets at fair value through profit or loss are RMB and EUR denominated financial products with floating interests ranging from 0.5% to 5.5% per annum and with maturity dates between 5 days and 90 days. None of these assets are either past due or impaired.

Changes in fair values of financial assets at fair value through profit or loss are recorded in "other (losses)/gains-net" in the consolidated statements of profit or loss (Note 8).

As at December 31, 2014, the financial assets at fair value through profit or loss amounting to USD1,725,137 were pledged to as security for a bank borrowing of USD2,300,000 (Note 29).

## 25 CASH AND CASH EQUIVALENTS

As at December 31				As at June 30	
Group	2014	2015	2016	2017	
	USD	USD	USD	USD	
Cash on hand	42,569	44,857	72,542	109,709	
Cash at bank	41,610,837	32,136,715	26,046,186	89,671,910	
	41,653,406	32,181,572	26,118,728	89,781,619	
Less: Restricted cash (note)	(25,327,882)	(8,726,336)	(3,153,921)	(4,573,494)	
	16,325,524	23,455,236	22,964,807	85,208,125	

Cash at bank and on hand are denominated in the following currencies:

	As at December 31			
Group	2014	2015	2016	2017
	USD	USD	USD	USD
RMB	25,366,028	16,647,703	10,049,589	29,924,759
USD	13,256,584	12,925,905	10,640,257	55,053,771
EUR	2,505,014	1,903,450	144,989	443,980
HKD	407,043	118,980	4,675,459	4,181,329
Other currencies	118,737	585,534	608,434	177,780
	41,653,406	32,181,572	26,118,728	89,781,619

Note:

The restricted cash represented the following balances:

- (i) Deposits at bank of RMB101,971,349 (equivalent to USD16,664,708) and USD4,546,000, and RMB30,857,813 (equivalent to USD4,752,035) as at December 31, 2014 and 2015 respectively were pledged as security for bank borrowings (Note 29);
- (ii) The remaining restricted bank deposits were mainly pledged as security for insurance of letter of credit and custom deposits.

			As at December 31		As at June 30
	Company	2014	2015	2016	2017
		USD	USD	USD	USD
	Cash at bank — USD	1,418	1,406	1,122	199,788
26	SHARE CAPITAL				
				Number of	Ordinary
	Group and Company			issued shares	shares
					USD
	As at January 1, 2014 and December 31, 2014, 20	015 and 2016 and June	e 30, 2017	1,001	1
27	OTHER RESERVES				
			Retained		
	Group		earnings <sup>(i)</sup>	Other Reserves	Total
			USD	USD	USD
	Balance at January 1, 2014		150,282,875	18,799,173	169,082,048
	Profit for the year		8,174,598	_	8,174,598
	Dividends (Note 14)		(2,822,935)	_	(2,822,935)
	Currency translation differences			(978,754)	(978,754)
	Balance at December 31, 2014		155,634,538	17,820,419	173,454,957
	Profit for the year		16,459,544	_	16,459,544
	Value of employee services (note 28)		_	2,967,082	2,967,082
	Currency translation differences	-		(13,041,461)	(13,041,461)
	Balance at December 31, 2015	:	172,094,082	7,746,040	179,840,122
	Profit for the year		43,339,569	_	43,339,569
	Dividends (Note 14)		(3,236,670)	_	(3,236,670)
	Currency translation differences	-		(15,448,458)	(15,448,458)
	Balance at December 31, 2016		212,196,981	(7,702,418)	204,494,563
	Profit for the period		34,955,056	_	34,955,056
	Dividends (Note 14)		(350,000)	_	(350,000)
	Currency translation differences	-		6,333,522	6,333,522
	Balance at June 30, 2017		246,802,037	(1,368,896)	245,433,141
	(Unaudited)				
	Balance at January 1, 2016		172,094,082	7,746,040	179,840,122
	Profit for the period		30,433,239	_	30,433,239
	Dividends (Note 14)		(3,236,670)	_	(3,236,670)
	Currency translation differences			(3,564,489)	(3,564,489)
	Balance at June 30, 2016		199,290,651	4,181,551	203,472,202

# **ACCOUNTANT'S REPORT**

(i) In accordance with the PRC Company Law and the articles of association of the PRC subsidiaries of the Group (the "PRC subsidiaries"), the PRC subsidiaries are required to allocate 10% of their profits attributable to the respective owners of the PRC subsidiaries as set out in their statutory financial statements, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the respective PRC subsidiaries.

For the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30 2017, PRC subsidiaries set aside after-tax profit of USD960,424, USD1,259,565, USD2,361,813 and USD2,105,052, respectively, to their statutory reserve funds. As at December 31, 2014, 2015 and 2016 and June 30, 2017, the accumulated amount of such statutory reserve funds was USD25,836,851, USD27,096,416, USD29,458,229 and USD31,563,281, respectively.

Company	Retained earnings USD
Balance at January 1, 2014	24,295,297
Profit for the year Dividends (Note 14)	2,836,104 (2,822,935)
Balance at December 31, 2014	24,308,466
Loss for the year	(2,686)
Balance at December 31, 2015	24,305,780
Profit for the year Dividends (Note 14)	3,239,356 (3,236,670)
Balance at December 31, 2016	24,308,466
Profit for the period Dividends (Note 14)	350,000 (350,000)
Balance at June 30, 2017	24,308,466
(Unaudited) Balance at December 31, 2015	24,305,780
Profit for the period Dividends (Note 14)	3,239,356 (3,236,670)
Balance at June 30, 2016	24,308,466

#### 28 EMPLOYEE SHARE INCENTIVE

## (a) Share-base award to Mr. Patrizio Fumagalli

On 20 March 2015, Great Access, the ultimate controlling company of the Group and Mr. Patrizio Fumagalli, the Chief Strategic Officer of the Group who's employed by Bestway (USA), Inc., entered into an instrument of transfer, pursuant to which Great Access agreed to transfer 15 shares in Great Success, representing approximately 1.5% of its issued share capital, to Mr. Patrizio Fumagalli for nil consideration in recognition for his contribution to the Group. Yinxin Assets Appraisal Co., Ltd., an independent valuer used the discounted cash flow method to determine the underlying equity fair value of the Great Success. These calculations used cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the whole Great Success Group. Based on the valuation report, the fair value of the shares transferred was USD2,967,082. The transfer was completed on 20 March 2015. The required services were fully provided and the share-based awards were fully vested. The fair value of the share-based award was fully charged to the profit or loss for the year ended December 31, 2015. Key assumptions used in the valuation were illustrated as below:

Sales amount (% annual growth rate) 13.5%-20.0%

Pre-tax discount rate 16.5%

Long-term average growth rate 2%

#### (b) Transfer of shares of Outland Enterprise to Directors and employees

One of our ultimate shareholders, Outland Enterprise was established in 2013 by Mr. Zhu Qiang to implement the Pre-IPO share incentive scheme. On January 5, 2015, Mr. Zhu Qiang transferred his interest in Outland Enterprise to one of the Directors of the Group, Mr. Tan Guozheng. On the same day, Great Success allotted and issued approximately 8.1% of its enlarged issued share capital to Outland Enterprise for a consideration of US\$15,687,800. Such consideration was determined based on the appraisal value of Great Success and was settled in cash on the same day by 34 shareholders of Outland Enterprise who subscribed for a total of 19,999 shares of Outland Enterprise, representing approximately 99.9% of its issued share capital. In 2015 and 2016, Outland Enterprise repurchased 1,750 shares from a retired employee and allotted and issued 1,990 shares to Mr. Zhu Qiang, 1 Director and 5 employees of the Group to reward their contribution to the Group. And then Mr. Zhu Qiang transferred 300 shares to 4 employees and received 2,000 shares transferred back from a resigned employee in late 2016.

The share issue/allotment/transfer prices were determined based on the appraisal value of Great Success from the report carried out by an independent valuer, Yinxin Assets Appraisal Co., Ltd. Yinxin Assets Appraisal Co., Ltd. used the discounted cash flow method to determine the underlying equity fair value of the Great Success. These calculations used cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the whole Great Success Group. As a result, no expense was charged to the Group's profit or loss. Key assumptions used in the valuation were illustrated as below:

Sales amount (% annual growth rate)

Pre-tax discount rate

13.5%-20.0%

Long-term average growth rate

2%

## 29 BANK BORROWINGS

	As at December 31			As at June 30
	2014	2015	2016	2017
	USD	USD	USD	USD
Non-current				
Bank borrowings (a)				
—Secured	13,996,072	3,803,004	51,204	55,610
—Unsecured	_	41,807	_	_
Less: current portion of long-term bank borrowings (a)	(10,193,068)	(3,803,004)		
	3,803,004	41,807	51,204	55,610
Current				
Short-term bank borrowings (a)				
—Secured	30,867,258	41,458,290	60,927,668	79,720,122
—Unsecured	69,354,910	86,273,559	33,675,571	56,669,848
Add: current portion of long-term bank borrowings (a)	10,193,068	3,803,004		
	110,415,236	131,534,853	94,603,239	136,389,970
Total bank borrowings	114,218,240	131,576,660	94,654,443	136,445,580

The carrying amounts of the Group's bank borrowings were denominated in the following currencies:

	A	As at December 31		
	2014	2015	2016	2017
	USD	USD	USD	USD
RMB	63,688,361	93,847,192	80,565,078	113,618,918
USD	49,533,355	36,465,020	12,563,888	19,357,594
Other Currencies	996,524	1,264,448	1,525,477	3,469,068
	114,218,240	131,576,660	94,654,443	136,445,580

As at December 31, 2014, the secured bank borrowings were secured as follows:

- the bank borrowing amounting to USD6,000,000 was secured by trade receivables amounting to USD62,967,355; the bank borrowing amounting to EUR156,319 (equivalent to USD190,464) was secured by trade receivables amounting to EUR195,399 (equivalent to USD238,081);
- the bank borrowings amounting to USD13,996,072 were secured by deposits at bank amounting to USD4,546,000, and deposits at bank amounting to RMB101,971,349 (equivalent to USD16,664,708);
- the bank borrowings amounting to RMB110,000,000 (equivalent to USD17,976,794), were secured by buildings, land use rights and machinery and factory equipment with net book value of RMB231,696,238 (equivalent to USD37,865,050), RMB67,457,471 (equivalent to USD11,024,264) and RMB19,129,497 (equivalent to USD3,126,246), respectively;
- the bank borrowings amounting to USD4,400,000 were guaranteed by ultimate controlling shareholder Mr. Zhu Qiang;
- the bank borrowing of USD2,300,000 was secured by the financial assets at fair value through profit or loss of USD1,725,137 (Note 24).

As at December 31, 2015, the secured bank borrowings were secured as follows:

- the bank borrowing amounting to USD8,000,000 was secured by trade receivables amounting to equivalent to USD60,201,922; the bank borrowing amounting to EUR358,930 (equivalent to USD392,183) was secured by trade receivables amounting to EUR448,663 (equivalent to USD490,229);
- the bank borrowings amounting to USD3,803,004 were secured by deposits at bank amounting to RMB30,857,813 (equivalent to USD4,752,035);
- the bank borrowings amounting to RMB186,000,000 (equivalent to USD28,643,588), were secured by buildings, land use rights and machinery and factory equipment with net book value of RMB215,297,398 (equivalent to USD33,155,322), RMB65,708,214 (equivalent to USD10,118,919), RMB15,388,603 (equivalent to USD2,369,811), respectively;
- 4 the bank borrowings amounting to USD4,422,519 were guaranteed by ultimate controlling shareholder Mr. Zhu Qiang;

As at December 31, 2016, the secured bank borrowings were secured as follows:

- the bank borrowing amounting to USD7,000,000 was secured by trade receivables amounting to USD83,144,102; the bank borrowing amounting to EUR1,307,167 (equivalent to USD1,376,850) was secured by trade receivables amounting to EUR1,633,959 (equivalent to USD1,721,062);
- the bank borrowings amounting to RMB189,180,000 (equivalent to USD27,271,155), were secured by buildings, land use rights and machinery and factory equipment with net book value of RMB96,909,423 (equivalent to USD13,969,933), RMB14,508,149 (equivalent to USD2,091,416) and RMB13,116,889 (equivalent to USD1,890,859), respectively;
- 3 the bank borrowings amounting to USD3,707,687 and RMB150,000,000 (equivalent to USD21,623,180) were guaranteed by ultimate controlling shareholder Mr. Zhu Qiang and Ms. Liu Xiamin, immediate family member of Mr. Zhu Qiang.

As at June 30, 2017, the secured bank borrowings were secured as follows:

- the bank borrowing amounting to USD7,000,000 was secured by trade receivables amounting to USD82,970,605; the bank borrowing amounting to EUR3,008,145 (equivalent to USD3,441,179) was secured by trade receivables amounting to EUR3,760,181 (equivalent to USD4,301,473); the bank borrowing amounting to RMB30,000,000 (approximately USD4,428,436) was secured by trade receivables amounting to RMB30,000,000 (equivalent to USD4,428,436);
- the bank borrowings amounting to RMB260,000,000 (equivalent to USD38,379,783), were secured by buildings, land use rights and machinery and factory equipment with net book value of RMB96,232,119 (equivalent to USD14,205,261), RMB14,326,797 (equivalent to USD2,114,844), RMB11,976,306 (equivalent to USD1,767,877), respectively.
- the bank borrowings amounting to RMB179,700,000 (equivalent to USD26,526,334) were guaranteed by ultimate controlling shareholder Mr. Zhu Qiang.

As at December 31, 2014, 2015 and 2016 and June 30, 2017 the weighted average effective interest rates on borrowings from banks were 4.77%, 4.83%, 4.55% and 4.29%, respectively.

The Group has the following undrawn borrowing facilities:

	A	As at June 30		
	2014	2015	2016	2017
	USD	USD	USD	USD
Floating rate: —Expiring within one year	8,475,919	18,151,604	23,697,285	15,428,436
Fixed rate:  —Expiring within one year	28,123,063	20,715,028	21,971,759	35,940,009
	36,598,982	38,866,632	45,669,044	51,368,445

The exposure of the bank borrowings to interest rate changes and the contractual repricing dates or maturity date whichever is earlier are as follows:

	As at December 31				
Group	2014	2015	2016	2017	
	USD	USD	USD	USD	
6 months or less	47,907,589	91,415,395	51,719,302	55,129,138	
Between 6 and 12 months	62,507,647	40,119,458	42,883,937	81,260,832	
Between 1 and 2 years	3,803,004	41,807	51,204	55,610	
	114,218,240	131,576,660	94,654,443	136,445,580	

The maturity of bank borrowings as of the balance sheet dates is as follows:

	Bank borrowings				
	A	As at June 30			
	2014	2015	2016	2017	
	USD	USD	USD	USD	
Portion of loans due for repayment within 1 year: Loans due for repayment after 1 year:	110,415,236	131,534,853	94,603,239	36,389,970	
Between 1 and 2 years	3,803,004	41,807	51,204	55,610	
	114,218,240	131,576,660	94,654,443	136,445,580	

### 30 LOANS FROM RELATED PARTIES

	As	As at December 31			
	2014	2015	2016	2017	
	USD	USD	USD	USD	
Non-current					
Loans from related parties (a)	3,967,973	3,967,973	6,787,973	6,787,973	
Less: current portion of loans from related parties (a)	(1,300,000)	(1,300,000)	(6,787,973)	(6,787,973)	
	2,667,973	2,667,973	_	_	
Current					
Loans from related parties (a)	1,300,000	1,300,000	6,787,973	6,787,973	
Total loans from related parties	3,967,973	3,967,973	6,787,973	6,787,973	

# ACCOUNTANT'S REPORT

The carrying amounts of the Group's loans from related parties were denominated in the following currencies:

	A	As at December 31			
	2014	2015	2016	2017	
	USD	USD	USD	USD	
USD	3,967,973	3,967,973	6,787,973	6,787,973	

The loans from related parties include:

- (i) loans from Scrindale Limited, which amount to USD2,167,973, USD2,167,973, USD2,167,973 and USD2,167,973 as at December 31, 2014, 2015 and 2016 and June 30, 2017, respectively. The annual interest rate for loans are 6.31%. The loans are due on December 31, 2017 and were reclassified as current portion as at December 31, 2016;
- (ii) loan from Mr. Zhu Qiang, which amount to USD500,000, USD500,000, USD500,000, and USD500,000 as at December 31, 2014, 2015 and 2016 and June 30, 2017, respectively. The loan is interest-free. The loan is due on December 31, 2017 and was reclassified as current portion as at December 31, 2016;
- (iii) loan from Scrindale Limited, which amount to USD1,300,000, USD1,300,000, USD1,300,000 and USD1,300,000 as at December 31, 2014, 2015 and 2016 and June 30, 2017, respectively. The annual interest rate for the loan is 3%. The loan was due on December 31, 2015 and was extended to December 31, 2016 and December 31, 2017 respectively.
- (iv) loans from Scrindale Limited, which amount to USD2,820,000 and USD2,820,000 as at December 31, 2016 and June 30, 2017, respectively. The annual interest rate for the loan is 3%. The loans were granted on January 1, 2016 and February 1, 2016, respectively. The loans are due on December 31, 2017.

The exposure of loans for related parties to interest rate changes and the contractual repricing dates or maturity date whichever is earlier are as follows:

	As at December 31				
Group	2014	2015	2016	2017	
	USD	USD	USD	USD	
6 months or less	_	_	_	6,787,973	
Between 6 and 12 months	1,300,000	1,300,000	6,787,973	_	
Between 1 and 2 years	_	2,667,973	_	_	
Between 2 and 5 years	2,667,973				
	3,967,973	3,967,973	6,787,973	6,787,973	

# **ACCOUNTANT'S REPORT**

The maturity of loans from related parties as of the balance sheet dates is as follows:

	As	As at December 31		
	2014	2015	2016	2017
	USD	USD	USD	USD
Portion of loans due for repayment				
within 1 year:	1,300,000	1,300,000	6,787,973	6,787,973
Loans due for repayment after 1 year:				
Between 1 and 2 years	_	2,667,973	_	_
Between 2 and 5 years	2,667,973			
	3,967,973	3,967,973	6,787,973	6,787,973

The carrying values of the borrowings approximate their fair values, as the market interest rates are relatively stable.

### 31 TRADE PAYABLES

	A	As at December 31			
	2014	2015	2016	2017	
	USD	USD	USD	USD	
Trade payables — third parties	113,280,321	96,033,433	90,423,019	97,336,933	

The Group's trade payables are denominated in the following currencies:

	A	As at June 30		
	2014 201		2015 2016	
	USD	USD	USD	USD
RMB	62,973,084	53,645,874	61,795,113	58,915,741
USD	48,120,001	40,215,157	25,822,040	34,928,218
Others	2,187,236	2,172,402	2,805,866	3,492,974
	113,280,321	96,033,433	90,423,019	97,336,933

As at December 31, 2014, 2015 and 2016 and June 30, 2017, the aging analysis of the trade payables based on invoice date was as follows:

	As	As at June 30		
	2014	2015	2015 2016	
	USD	USD	USD	USD
Within 3 months	109,593,679	88,878,278	75,418,166	89,277,087
4 to 6 months	2,916,829	4,484,221	8,971,751	4,876,500
7 to 12 months	62,424	2,276,402	5,368,450	2,717,082
1–2 years	707,389	394,532	664,652	466,264
	113,280,321	96,033,433	90,423,019	97,336,933

# 32 OTHER PAYABLES AND ACCRUALS

Group	As	1	As at June 30	
	2014	2015	2016	2017
	USD	USD	USD	USD
Current				
Accruals and other payables	24,562,810	25,968,896	34,507,018	56,707,356
Advances from customers — third parties	19,530,027	9,975,956	7,263,130	3,367,559
Payroll and employee benefit payables	8,378,371	8,685,456	9,960,413	14,186,147
Amounts due to related parties (Note 39)	2,448,211	2,756,522	2,159,558	2,064,964
Interest payables	772,799	376,560	124,713	235,756
Tax payables	431,164	414,590	688,971	2,038,035
Less: Long-term payables	(2,873,549)	(1,170,561)	(107,756)	(3,273,670)
	53,249,833	47,007,419	54,596,047	75,326,147
Company	As	at December 3	1	As at June 30
	2014	2015	2016	2017
	USD	USD	USD	USD
Accruals and other payables	_	206	673,836	3,332,161
Due to related parties	27,844	30,396	36,737	1,420,459
	27,844	30,602	710,573	4,752,620

# 33 DERIVATIVE FINANCIAL INSTRUMENTS

		As at December 31				ne 30
	2014	2014 2015		6	2017	
	Liabilities	Liabilities	Assets	Liabilities	Assets	Liabilities
	USD	USD	USD	USD		
Forward foreign exchange contracts (note (a))	868,506	1.651.142	1.482.284	2.815.522	873.113	1,402,196
Foreign exchange — related	808,300	1,031,142	1,402,204	2,613,322	075,115	1,402,190
options (note (b))	690,051	4,871,581				
	1,558,557	6,522,723	1,482,284	2,815,522	873,113	1,402,196

### Notes:

- (a) The notional principal amounts of the forward foreign exchange contracts at December 31, 2014, 2015 and 2016 and June 30, 2017 were USD81,200,000, USD58,500,000, USD92,000,000 and USD90,938,950, respectively.
- (b) The notional principal amounts of the foreign exchange related options at December 31, 2014 and 2015 were USD113,600,000 and USD101,700,000, respectively.

# 34 DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at December 31			As at June 30
	2014	2015	2016	2017
	USD	USD	USD	USD
Deferred tax assets:				
— Deferred tax asset to be recovered				
within 12 months	3,372,817	4,112,069	3,766,158	2,958,351
<ul> <li>Deferred tax asset to be recovered after more than 12 months</li> </ul>	1,218,084	1,520,832	101,148	338,945
	4,590,901	5,632,901	3,867,306	3,297,296
Deferred tax liabilities:				
Deferred tax liabilities to be recovered within 12 months     Deferred tax liabilities to be recovered after	(2,673)	_	(1,220,072)	(25,250)
more than 12 months	(1,349,418)	(677,279)	(605,201)	(1,147,162)
	(1,352,091)	(677,279)	(1,825,273)	(1,172,412)
Deferred tax assets, net	3,238,810	4,955,622	2,042,033	2,124,884

The gross movement of the deferred income tax account is as follows:

	Year e	Year ended December 31			Six months ended June 30	
	2014	2015	2016	2016	2017	
	USD	USD	USD	USD (Unaudited)	USD	
At beginning of year/period Currency translation differences	1,596,026 (7,636)	3,238,810 (142,975)	4,955,622 (126,236)	4,955,622 (53,445)	2,042,033 27,880	
Statements of profit or loss — (charge)/credit (Note 12)	1,650,420	1,859,787	(2,787,353)	(2,945,994)	54,971	
At end of year/period	3,238,810	4,955,622	2,042,033	1,956,183	2,124,884	

# **ACCOUNTANT'S REPORT**

The movement in deferred tax assets and liabilities during the Track Record Period, without taking consideration the offsetting of balances within the same tax jurisdiction, is as follows:

			Fair value	Unrealised	Deferred government	
Deferred tax assets	Provisions	Tax losses	losses	profits	grants	Total
	USD	USD	USD	USD	USD	USD
At January 1, 2014	2,439,825	25,449	_	741,841	_	3,207,115
(Charged)/credited to the consolidated						
statements of profit or loss	240,503	1,186,034	181,747	(215,930)	_	1,392,354
Currency translation differences	(8,155)	(207)	(182)	(24)		(8,568)
At December 31, 2014	2,672,173	1,211,276	181,565	525,887		4,590,901
(Charged)/credited to the consolidated						
statements of profit or loss	(460,434)	1,223,407	236,778	185,224	_	1,184,975
Currency translation differences	(132,217)		(10,481)	(277)		(142,975)
At December 31, 2015	2,079,522	2,434,683	407,862	710,834		5,632,901
(Charged)/credited to the consolidated						
statements of profit or loss	(75,691)	(1,222,239)	(394,827)	58,524	_	(1,634,233)
Currency translation differences	(117,090)	(969)	(13,035)	(268)		(131,362)
At December 31, 2016	1,886,741	1,211,475		769,090		3,867,306
(Charged)/credited to the consolidated						
statements of profit or loss	(205,558)	(1,207,482)	377,563	355,219	76,589	(603,669)
Currency translation differences	24,444	(3,926)	11,977	256	908	33,659
At June 30, 2017	1,705,627	67	389,540	1,124,565	77,497	3,297,296

Deferred tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at December 31, 2014, 2015 and 2016 and June 30, 2017, the Group did not recognise deferred tax assets of USD13,607, USD76,088, USD76,088 and USD210,986 in respect of losses amounting to USD21,879, USD161,451, USD161,451 and USD566,401 that can be carried forward against future taxable income.

#### Deferred tax liabilities

	Fair value gains	Withholding tax for dividend distribution	Others	Total
	USD	USD	USD	USD
At January 1, 2014 (Charged/(credited) to the consolidated statements of	516,134	1,091,130	3,825	1,611,089
profit or loss	(515,202)	258,288	(1,152)	(258,066)
Currency translation differences	(932)			(932)
At December 31, 2014		1,349,418	2,673	1,352,091
Credited to the consolidated statements of profit or loss		(672,139)	(2,673)	(674,812)
At December 31, 2015		677,279		677,279
Charged to the consolidated statements of				
profit or loss	292,734	860,386	_	1,153,120
Currency translation differences	(5,126)			(5,126)
At December 31, 2016	287,608	1,537,665		1,825,273
Charged/(credited) to the consolidated statements of				
profit or loss	(265,345)	(500,000)	106,705	(658,640)
Currency translation differences	4,514		1,265	5,779
At June 30, 2017	26,777	1,037,665	107,970	1,172,412

As at December 31, 2014, 2015 and 2016 and June 30, 2017, deferred tax liabilities of USD5,001,373, USD4,966,802, USD5,496,101 and USD6,644,535 have not been recognised for the withholding tax that would otherwise be payable on the unremitted earnings of certain subsidiaries. Management currently has no intention to remit those earnings in the foreseeable future. Such unremitted earnings totalled USD100,027,468, USD99,095,214, and USD109,922,018 USD132,890,703, as at December 31, 2014, 2015 and 2016 and June 30, 2017, respectively.

### 35 RETIREMENT BENEFIT OBLIGATIONS

The table below outlines where the Group's post-retirement benefit obligations amounts and activity are included in the financial statements.

	A	As at December 31		
	2014	2015	2016	2017
	USD	USD	USD	USD
Liability for: —post-retirement benefit obligations	29,957	91,333	155,932	197,423
Statement of profit or loss charge included in operating profit for:				
-post-retirement benefit obligations	30,011	65,036	72,842	37,306

The Group operates post-retirement benefit obligations in the PRC. The level of benefits provided depends on members' length of service and their job titles.

# **ACCOUNTANT'S REPORT**

The current service cost of the post-retirement benefits recognised in the statement of profit or loss in employee benefit expense, reflects the increase in the post-retirement benefits results from employee service in the current year, benefit changes, curtailments and settlements.

The movement in the post-retirement benefit obligations during the Track Record Period is as follows:

				Present value of obligation
			·	USD
At January 1, 2014				_
Current service cost				30,011
Interest expense				_
Currency translation differences			-	(54)
At December 31, 2014				29,957
Current service cost				63,604
Interest expense				1,432
Currency translation differences			-	(3,660)
At December 31, 2015				91,333
Current service cost				68,426
Interest expense				4,415
Currency translation differences			-	(8,242)
At December 31, 2016			:	155,932
Current service cost				34,294
Interest expense				3,012
Currency translation difference				4,185
At June 30, 2017			:	197,423
The significant assumptions were as follows:				
		As at December 31		As at June 30
	2014	2015	2016	2017
Discount rate	5%	5%	5%	5%

36

The sensitivity of the post-retirement benefit obligations to changes in the weighted principle assumptions is:

	Impact on post-	retirement benef	its obligation
	Change in	Increase in	Decrease in
2014	assumption	assumption	assumption
		Decrease by	Increase by
Discount rate	0.5%	0.6%	0.6%
	-		
	Impact on post-	retirement benef	its obligation
	Change in	Increase in	Decrease in
2015	assumption	assumption	assumption
		Decrease by	Imamaga hy
Discount rate	0.5%	0.6%	Increase by 0.6%
	=======================================		
	Impact on post-	retirement benef	its obligation
	Change in	Increase in	Decrease in
2016	assumption	assumption	assumption
		D 1	
Discount rate	0.5%	Decrease by 0.6%	Increase by 0.6%
Discount rate	0.5 70	0.076	0.070
	Impact on post-	retirement benef	its obligation
	Change in	Increase in	Decrease in
2017	assumption	assumption	assumption
Discount rate	0.5%	Decrease by 0.6%	Increase by 0.6%
Discount rate	0.5%	0.0%	0.0%
DEFERRED INCOME ON GOVERNMENT GRANTS			
			Deferred income on
			government
		_	grants
			USD
Six months ended 30 June 2017			
Opening net book amount			_
Government grants received during the period			291,769
Credited to the consolidated statements of profit or loss (Note 7)			(14,588)
Currency translation differences		_	3,287
Closing net book amount			280,468
		=	200,100
At 30 June 2017			
Cost			295,229
Accumulated amortisation		_	(14,761)
Net book amount			280 160
INCLUOOR AIRIOURE		=	280,468

In 2017, certain subsidiaries of the Group received government grants with total amount of RMB2,000,000 (equivalent to USD291,769). The government grant was recorded as deferred government grants and credited to the consolidated statement of profit or loss on a straight-line basis over the expected useful lives of the corresponding property, plant and equipment.

# 37 CASH GENERATED FROM OPERATIONS

# (a) Reconciliation of profit before income tax to cash (used in)/generated from operations

	Year ended December 31			Six months ended June 30	
	2014	2015	2016	2016	2017
	USD	USD	USD	USD (Unaudited)	USD
Profit before income tax Adjustments for:	11,867,757	21,853,977	57,041,586	40,614,521	44,266,801
<ul> <li>—Depreciation of property, plant and equipment (Note 17)</li> <li>—Amortisation of land use right</li> </ul>	8,093,456	9,514,124	10,862,143	5,345,086	5,929,491
(Note 16)	286,390	293,745	356,792	180,464	208,684
Amortisation of intangible assets (Note 18) Losses on disposal of property,	28,830	71,393	41,581	15,425	34,513
plant and equipment ( <i>Note 8</i> )  —Fair value losses/(gains) on	2,668,237	81,942	735,096	60,926	377,050
derivative financial instruments (Note 8) —Fair value gains on financial assets	3,288,491	7,661,934	(404,757)	(1,819,911)	(824,332)
at fair value through profit or loss ( <i>Note 8</i> ) —Provision for impairment of	(109,936)	(4,375)	(735)	(451)	(619)
receivables (Note 9)  —Provision for/(reversal of)	484,158	98,275	570,134	38,542	155,216
write-down of inventories (Note 9) —Finance (expenses)/income	1,911,830	1,583,094	1,386,578	428,244	(480,431)
— net ( <i>Note 11</i> )	2,867,251	6,736,240	4,935,270	2,439,980	1,849,852
—Foreign exchange gains/losses on operating activities Changes in working capital	(970,414)	(8,890,464)	(5,912,385)	(2,015,016)	3,047,300
(excluding the effects of acquisition and currency translation differences on consolidation):  —(Increase)/decrease in pledged					
bank deposits	(7,330,048)	16,601,546	5,572,415	6,199,388	(1,419,573)
—(Increase)/decrease in inventories	(58,824,969)	(2,787,029)	25,509,071	60,255,091	21,827,652
-Increase in trade receivables	(25,169,088)	(766,403)	(24,626,227)	(2,731,409)	(24,420,125)
—Increase/(decrease) in prepayments and other receivables	(8,053,159)	8,830,114	5,359,421	2,194,464	(1,071,291)
—Increase/(decrease) in trade payables —Increase/(decrease) in	41,055,865	(11,586,421)	(1,159,276)	(32,983,704)	6,913,914
other payables and accruals	12,380,583	(9,809,031)	(627,037)	17,823,985	12,556,657
Cash (used in)/generated from					
operations	(15,524,766)	39,482,661	79,639,670	96,045,625	68,950,759

(b) In the consolidated cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	Year ended December 31			Six months ended June	
	2014	2015	2016	2016	2017
	USD	USD	USD	USD (Unaudited)	USD
Net book value ( <i>Note 17</i> ) Losses on disposal of property,	3,365,894	679,413	843,356	92,215	393,861
plant and equipment (Note 8)	(2,668,237)	(81,942)	(735,096)	(60,926)	(377,050)
Proceeds from disposal of property, plant and equipment	697,657	597,471	108,260	31,289	16,811

#### 38 COMMITMENTS

#### (a) Capital commitments

The capital commitments of the Group as at the respectively balance sheet dates during the Track Record Period were as follows:

	As at December 31			As at June 30
	2014	2015	2016	2017
	USD	USD	USD	USD
Contracted but not provided for Property,				
plant and equipment	6,844,950	758,267	7,186,750	17,491,549

#### (b) Commitments under operating leases

As at December 31, 2014, 2015 and 2016 and June 30, 2017, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	A	As at June 30		
	2014	2015	2016	2017
	USD	USD	USD	USD
No later than 1 year	353,544	290,030	478,836	1,783,783
Later than 1 year and no later than 2 years	289,817	_	443,786	992,413
Later than 2 years and less than 3 years			381,427	454,756
	643,361	290,030	1,304,049	3,230,952

#### 39 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the Track Record Period, and balances arising from related party transactions as at the respective balance sheet dates.

Name and relationship with related parties are set out below:

Related party	Relationship
Great Access	Ultimate holding company
Mr. Zhu Qiang	One of the controlling shareholders
Ms. Liu Xiamin	Immediate family member of Mr. Zhu Qiang
Outland Enterprise	One of the shareholders
Patrizio Fumagalli	One of the shareholders
Scrindale Limited	Entity controlled by ultimate controlling shareholder
Great Success	Immediate holding company
Pavillo Holding Inc	Entity controlled by ultimate controlling shareholder
Hong Kong Greatwall Enterprises Limited ("Greatwall")	Entity controlled by ultimate controlling shareholder
Glory & Brilliance Investment Company Limited ("Glory &	Entity controlled by one of the directors
Brilliance")	
Shanghai Baiwei Enterprise Limited ("Shanghai Baiwei")	Entity controlled by ultimate controlling shareholder
Hong Kong Anson Enterprise Limited ("Anson Enterprise")	Entity controlled by ultimate controlling shareholder
Sellitri Libero Stefano	A Non-controlling shareholder of a subsidiary
Malte Ohnesseit	A Non-controlling shareholder of a subsidiary
Edmond Enterprise Pty Limited ("Edmond Enterprise")	A Non-controlling shareholder of a subsidiary
Shanghai Shitong Plastic Production Factory	Entity controlled by a relative of the ultimate controlling
("Shanghai Shitong")	shareholder
Shanghai Yaming Plastic Production Factory	Entity controlled by a relative of the ultimate controlling
("Shanghai Yaming")	shareholder
Shanghai Mingwei Printing Company Limited	Entity controlled by a relative of the ultimate controlling
("Shanghai Mingwei")	shareholder
Shanghai Jiufeng Plastic Production Company Limited	Entity controlled by a relative of the ultimate controlling
("Shanghai Jiufeng")	shareholder
Shanghai Kailiang Plastic Production Company Limited	Entity controlled by a relative of the ultimate controlling
("Shanghai Kailiang")	shareholder
Shanghai Jiemao Plastic Company Limited	Entity controlled by a relative of the ultimate controlling
("Shanghai Jiemao")	shareholder

# (a) Transactions with related parties

Continuing transactions		Year e	Year ended December 31		Six months ended June 30	
		2014	2015	2016	2016	2017
		USD	USD	USD	USD	USD
					(Unaudited)	
(i)	Purchases					
	—Shanghai Shitong	1,563,119	1,316,714	1,356,574	608,873	751,380
	—Shanghai Mingwei	951,900	955,735	1,069,715	385,585	371,018
	-Shanghai Jiufeng	920,000	824,360	701,345	572,100	497,718
	-Shanghai Yaming	802,768	711,969	971,672	323,429	352,603
	—Shanghai Kailiang	636,764	793,864	694,574	352,234	364,077
	—Shanghai Jiemao	341,533	548,724	728,982	387,310	226,509
		5,216,084	5,151,366	5,522,862	2,629,531	2,563,305

The related party transactions above were carried out on terms mutually agreed between the parties. In the opinion of the directors of the Company, these transactions are in the ordinary courses of business of the Group and in accordance with the terms of the underlying agreements.

#### (ii) Key management compensation:

Loans from related parties

-Scrindale Limited

_	Year ended December 31			Six months ended June 30	
_	2014	2015	2016	2016	2017
	USD	USD	USD	USD (Unaudited)	USD
Salaries, bonus and other welfares	1,215,522	4,756,062	2,069,680	1,250,270	1,305,968
Discontinued transactions	Year ended December 31			Six months ended June 30	
	2014	2015	2016	2016	2017
	USD	USD	USD	USD (Unaudited)	USD
(iii) Commission					
—Great Access		<u> </u>	489,968	172,088	126,156

In accordance with the agreement signed on January 1, 2016, in return for the publicity and brand marketing service Great Access provided in Central and South America, Asia and Australia, Bestway Shanghai agreed to pay certain commission charges to Great Access.

June 30	Six months ended	Year ended December 31			
2017	2016	2016	2015	2014	
USD	USD (Unaudited)	USD	USD	USD	
_	2,820,000	2,820,000	_	513,973	

On June 1, 2014, Bestway Enterprise and Schrindale Limited entered into a loan agreement, whereby Scrindale Limited agreed to grant loan amounting to USD513,973 at the annual interest rate of 3% from June 19, 2014. The maturity date of the loan is December 31, 2017.

On December 30, 2015, Bestway Hong Kong and Scrindale Limited entered into a loan agreement, whereby Scrindale Limited agreed to grant loan amounting to USD230,000 at the annual interest rate of 3% from January 1, 2016. The maturity date of the loan is December 31, 2017.

On January 31, 2016, Bestway Hong Kong and Scrindale Limited entered into a loan agreement, whereby Scrindale Limited agreed to grant loan amounting to USD2,590,000 at the annual interest rate of 3% from February 1, 2016. The maturity date of the loan is December 31, 2017.

		Year ended December 31		Six months ended June 30		
		2014	2015	2016	2016	2017
		USD	USD	USD	USD (Unaudited)	USD
(v)	Loans to a related party					
	—Great Success			150,000	150,000	

On January 1, 2016, Bestway Enterprise entered into a loan agreement with Great Success, whereby Bestway Enterprise granted loan amounting to USD150,000 to Great Success with the term of one year period. As at December 31, 2016, the loan agreement was renewed and the repayment date was extended to December 31, 2017. The loan is interest free.

# (b) Balances with related parties

# (i) Amount due from related parties

As at December 31			As at June 30	
2014	2015	2016	2017	
USD	USD	USD	USD	
3,704,208	3,764,965	_	_	
1,314,998	1,315,966	_	_	
152,924	153,629	_	231,210	
95,984	100,801	112,151	246,733	
32,157	34,298	44,793	50,385	
8,164	8,448	_	_	
1,524	1,525	_	_	
1,466	5,502	6,703	9,025	
121	243	242	242	
_	4,548	4,146	4,146	
			1,803	
5,311,546	5,389,925	168,035	543,544	
	2014 USD  3,704,208 1,314,998 152,924 95,984 32,157 8,164 1,524 1,466 121 —————	USD         USD           3,704,208         3,764,965           1,314,998         1,315,966           152,924         153,629           95,984         100,801           32,157         34,298           8,164         8,448           1,524         1,525           1,466         5,502           121         243           —         4,548           —         4,548	2014         2015         2016           USD         USD         USD           3,704,208         3,764,965         —           1,314,998         1,315,966         —           152,924         153,629         —           95,984         100,801         112,151           32,157         34,298         44,793           8,164         8,448         —           1,524         1,525         —           1,466         5,502         6,703           121         243         242           —         4,548         4,146           —         —         —	

The amounts due from related parties were non-trade in nature, unsecured, non-interest bearing and had no fixed repayment term as at December 31, 2014, 2015 and 2016 and June 30, 2017.

# (ii) Amount due to related parties

	As at December 31			As at June 30
	2014	2015	2016	2017
	USD	USD	USD	USD
Dividend payables				
—Scrindale Limited	162,811	153,425	164,660	164,660
Interest payables				
—Scrindale Limited	443,333	633,333	92,958	171,000
Trade payables				
—Shanghai Yaming	401,280	427,841	542,160	392,358
—Shanghai Shitong	381,106	315,847	286,725	293,950
—Shanghai Kailiang	306,862	366,650	280,675	299,532
—Shanghai Jiemao	230,639	296,678	254,625	204,154
—Shanghai Jiufeng	222,004	234,343	210,788	198,329
—Shanghai Mingwei	189,917	224,539	222,415	236,428
	1,731,808	1,865,898	1,797,388	1,624,751
Other payables				
—Anson Enterprise	103,790	103,866	104,552	104,553
—Edmond Enterprise	6,469			
	110,259	103,866	104,552	104,553
	2,448,211	2,756,522	2,159,558	2,064,964

As at December 31, 2014, 2015 and 2016 and June 30, 2017, the aging analysis of the above trade payables due to related parties based on invoice date was as follows:

		As at December 31			As at June 30	
		2014	2015	2016	2017	
		USD	USD	USD	USD	
	Within 3 months	1,731,808	1,793,263	1,608,582	1,541,409	
	4 to 6 months	_	72,635	96,050	5,324	
	7 to 12 months	_	_	64,076	57,235	
	1–2 years			28,680	20,783	
		1,731,808	1,865,898	1,797,388	1,624,751	
(iii)	Loans from related parties					
		As	at December 31		As at June 30	
		2014	2015	2016	2017	
		USD	USD	USD	USD	
	Loan from related parties—current portion (Note 30)					
	—Scrindale Limited	1,300,000	1,300,000	6,287,973	6,287,973	
	—Mr. Zhu Qiang			500,000	500,000	
		1,300,000	1,300,000	6,787,973	6,787,973	
	Loan from related parties—non- current (Note 30)					
	—Scrindale Limited	2,167,973	2,167,973	_	_	
	—Mr. Zhu Qiang	500,000	500,000			
		2,667,973	2,667,973			
		3,967,973	3,967,973	6,787,973	6,787,973	
(iv)	Loans to related parties					
		As	at December 31		As at June 30	
		2014	2015	2016	2017	
		USD	USD	USD	USD	
	Loan to a related party—current portion					
	—Great Success		<u> </u>	150,000	150,000	

The loan balance as at December 31, 2016 and June 30, 2017 represented short term loans to Great Success with principal of USD150,000 which is interest free and repayable within one year.

### ACCOUNTANT'S REPORT

#### (c) Guarantees

As at December 31, 2014, the bank borrowings amounting to USD4,400,000 were guaranteed by Mr. Zhu Qiang.

As at December 31, 2015, the bank borrowings amounting to USD4,422,519 were guaranteed by Mr. Zhu Qiang.

As at December 31, 2016, the bank borrowings amounting to USD3,707,687, RMB150,000,000 (equivalent to USD21,623,180) were guaranteed by Mr. Zhu Qiang and Ms. Liu Xiamin.

As at June 30, 2017, the bank borrowings amounting to RMB179,700,000 (equivalent to USD26,526,334) were guaranteed by Mr. Zhu Qiang.

#### 40 CONTINGENCIES

As at June 30, 2017, there are 3 outstanding intellectual property rights claims against some of our subsidiaries. According to McDermott Will & Emery, the legal advisors of the Group for these claims, the Group could potentially face liability not exceeding the value of reasonable royalty or such competitor's lost profits for the use of the alleged invention plus potential legal fees and costs, and interest, which are not expected to be significant. As such, these legal proceedings individually or in aggregate would not have material financial or operational adverse impact on the Group.

#### 41 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed elsewhere in this report, the following significant events took place subsequent to June 30, 2017:

- (a) On September 18, 2017, the dividend of USD4,615 per share, amounting to a total dividend of USD4,620,000 was approved at the meeting of the Board of Directors of the Company. This dividend was fully paid.
- (b) On October 4, 2017, the dividend of USD6,625 per share, amounting to a total dividend of USD6,632,000 was approved at the meeting of the Board of Directors of the Company. This dividend was fully paid.
- (c) Pursuant to a written shareholders' resolution of the Company dated October 18, 2017,
  - the authorized share capital of the Company was increased to HK\$100,000,000 divided into 10,000,000,000
     Shares of HK\$0.01 each, by the creation of 9,999,000,000 Shares; and
  - subject to share premium account of the Company having sufficient balance, or otherwise being credited as a result of the issue of the offer shares by the Company pursuant to the global offering, the directors were authorized to allot and issue 793,791,999 Shares to the persons whose names appear on the register of members of the Company at the close of business on the date immediately preceding the date on which the global offering becoming unconditional in proportion to their respective shareholdings (as nearly as possible without involving fractions) in the Company by way of capitalisation of an amount of HK\$7,937,919.99 standing to the credit of the share premium account of the Company.

### III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to December 31, 2016 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or any companies now comprising the Group in respect of any period subsequent to June 30, 2017.

# APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I to this prospectus, and is included herein for information purposes only.

The unaudited pro forma financial information should be read in conjunction with "Financial Information" and "Appendix I—Accountant's Report."

# A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to the owners of the Company as at June 30, 2017 as if Global Offering had taken place on June 30, 2017.

This unaudited pro forms statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at June 30, 2017 or at any future date.

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	Audited consolidated net tangible assets of the Group attributable to the owners of the	Estimated net	Unaudited pro forma adjusted consolidated net tangible assets of the Group	Unaudited pro forma adjusted consolidated	Unaudited pro forma adjusted consolidated
	Company as	proceeds from	attributable	net tangible	net tangible
	at June 30,	the Global	to owners of	assets per	assets per
	2017	Offering	the Company	share	share
	US\$	US\$	US\$	US\$	HK\$
	(Note 1)	(Note 2)		( <i>Note 3</i> )	( <i>Note 4</i> )
Based on an offer price of	245 042 740	120 042 280	294 094 020	0.26	2.94
HK\$4.38 per Share	245,043,740	139,942,289	384,986,029	0.36	2.84
Based on an offer price of					
HK\$5.80 per Share	245,043,740	185,925,214	430,968,954	0.41	3.18

# APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- 1. The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at June 30, 2017 is extracted from the financial information contained in the Accountant's Report set out in Appendix I to this prospectus which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as at June 30, 2017 of US\$245,481,105 less intangible assets of US\$437,365.
- 2. The estimated net proceeds from the Global Offering are based on the offering price of HK\$4.38 and HK\$5.80 per Share respectively, after deduction of relevant estimated underwriting fees and other related fees and expenses payable by the Group (excluding approximately US\$4,527,423 listing-related expenses which have been accounted for prior to June 30, 2017) but takes no accounts of any Shares which may be issued upon the exercise of the Overallotment Option.
- 3. The unaudited pro forma adjusted consolidated net tangible assets per share is arrived at after the adjustments as described in note 2 above and is based on that 1,058,391,000 shares were in issue immediately prior to the Listing (assuming that the Capitalization Issue and the Global Offering had been completed on June 30, 2017), without taking into account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- 4. For the purpose of this unaudited pro forma adjusted consolidated net tangible assets per share, the amounts stated in US dollars are converted into Hong Kong dollar at a rate of US\$1.00 to HK\$7.80. No representation is made that US dollars has been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- 5. No adjustments have been made to the unaudited pro forma adjusted net tangible assets of the Group to reflect any trading result or other transactions of the Group entered into subsequent to June 30, 2017. In particular, the unaudited pro forma net adjusted tangible assets of our Group has not taken into account the cash dividends of approximately RMB31 million (equivalent to US\$4.62 million) and RMB44 million (equivalent to US\$6.63 million) approved at the meeting of the Board of Directors of the Company on September 18, 2017 and October 4, 2017, respectively. The unaudited pro forma net tangible assets per share would have been HK\$2.76 per share based on the Offer Price of HK\$4.38 and HK\$3.09 per share based on the Offer Price of HK\$5.80, respectively, if these dividends of approximately RMB75 million had been accounted for.

# B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

# INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

## To the Directors of Bestway Global Holding Inc.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Bestway Global Holding Inc. (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at June 30, 2017, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated November 6, 2017, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at June 30, 2017 as if the proposed initial public offering had taken place at June 30, 2017. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the period ended June 30, 2017, on which an accountant's report has been published.

#### Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### Our Independence and Quality Control

We have complied with the independence and other ethical 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.

 $\label{eq:pricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong \\ T: +852\ 2289\ 8888, F: +852\ 2810\ 9888$ 

# APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at June 30, 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

# APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

## **Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

# ${\bf Price water house Coopers}$

Certified Public Accountants Hong Kong, November 6, 2017

#### 1 MEMORANDUM OF ASSOCIATION

The Memorandum of Association of the Company was conditionally adopted on October 18, 2017 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in "Appendix V—Documents Delivered to the Registrar of Companies and Available for Inspection."

#### 2 ARTICLES OF ASSOCIATION

The Articles of Association of the Company were conditionally adopted on October 18, 2017 and include provisions to the following effect:

#### 2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is HK\$100,000,000 divided into 10,000,000,000 shares of HK\$0.01 each.

#### 2.2 Directors

### (a) Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) 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 and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

# (b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised

or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

#### (c) Compensation or payment for loss of office

Payment 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 first be approved by the Company in general meeting.

#### (d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

# (e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

#### (f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
  - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
  - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

#### (g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for 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. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the 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 agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed 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 share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

#### (h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so

appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company 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, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

### (i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

#### (i) Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

## 2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

### 2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that 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 meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

## 2.5 Alteration of capital

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each 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 rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) 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 subject to the provisions of the Companies Law; and
- (c) 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 provisions of the Companies Law, and so that the resolution whereby any share is 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 the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

#### 2.6 Special resolution — majority required

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the

resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

#### 2.7 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 each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

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 allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

# 2.8 Annual general meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

#### 2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of

the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

## 2.10 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

## 2.11 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, 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 of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

## 2.12 Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

#### 2.13 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

# 2.14 Dividends and other methods of distribution

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the 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 also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company 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 of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

#### 2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The

instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

#### 2.16 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

# 2.17 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

#### 2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

## 2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

#### 2.20 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the

like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

#### 2.21 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

#### SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

#### 1 Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

#### 2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on June 25, 2012 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

#### 3 Share Capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

#### 4 Dividends and Distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

## 5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in Foss v. Harbottle (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

# 6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

#### 7 Disposal of Assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

#### 8 Accounting and Auditing Requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

# 9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

#### 10 Inspection of Books and Records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

#### 11 Special Resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters

required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

#### 12 Subsidiary Owning Shares in Parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

# 13 Mergers and Consolidations

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

#### 14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

# 15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

#### 16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

#### 17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

#### 18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

#### 19 Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has applied for and is expected to receive an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
  - (i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking is for a period of twenty years from the date of the tax exemption certificate.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

### 20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

#### 21 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisor on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in "Appendix V—Documents Delivered to the Registrar of Companies and Available for Inspection." 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/she is more familiar is recommended to seek independent legal advice.

#### A. FURTHER INFORMATION ABOUT OUR GROUP

# 1. Incorporation of Our Company

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on June 25, 2012. As a result of the Reorganization, the Company became the holding company of our Group with our business conducted through Bestway Enterprise, our indirect wholly-owned subsidiary, which in turn owns our operating subsidiaries.

We have established a principal place of business in Hong Kong at Suite 713, 7/F., East Wing, Tsim Sha Tsui Centre, 66 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong and we have registered as a non-Hong Kong company under Part 16 of the Companies Ordinance under the same address. Ms. Wong Yik Han and Ms. Choy Yee Man were appointed as our authorized representative for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

The Company was incorporated in the Cayman Islands, our corporate structure and Memorandum of Association and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and the Memorandum of Association and Articles of Association is set out in "Appendix III—Summary of the Constitution of the Company and Cayman Companies Law."

## 2. Change in Share Capital

As of the date of incorporation of our Company in the Cayman Islands, the authorized share capital of our Company was HK\$10,000 divided into 1,000,000 shares with a par value of HK\$0.01. The following sets out the changes in our Company's share capital within the two years immediately preceding the issue of this prospectus.

On October 18, 2017, the authorized share capital of our Company was increased to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each, by the creation of 9,999,000,000 Shares.

Immediately following the Capitalization Issue and the completion of the Global Offering but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option, the issued share capital of our Company will be approximately HK\$10,583,910 divided into 1,058,391,000 Shares of HK\$0.01 each, all fully paid or credited as fully paid and 8,941,609,000 Shares of HK\$0.01 each will remain unissued.

Save as disclosed herein, there has been no alteration in our share capital and no redemption, repurchase or sale of any of our share capital since our incorporation.

#### 3. Resolutions of our Shareholders

Pursuant to a written shareholders' resolution of the Company dated October 18, 2017.

- (a) the Memorandum and Articles of Association were approved and adopted conditional upon Listing;
- (b) the authorized share capital of the Company was increased to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each, by the creation of 9,999,000,000 Shares;
- (c) subject to share premium account of the Company having sufficient balance, or otherwise being credited as a result of the issue of the Offer Shares by the Company pursuant to the Global Offering, our Directors were authorized to allot and issue 793,791,999 Shares to the persons whose names appear on the register of members of the Company at the close of business on the date immediately preceding the date on which the Global Offering becoming unconditional in proportion to their respective shareholdings (as nearly as possible without involving fractions) in the Company by way of capitalization of an amount of HK\$7,937,919.99 standing to the credit of the share premium account of the Company;
- (d) conditional upon all the conditions set out in "Structure of the Global Offering—Hong Kong Underwriting Agreement—Conditions of the Global Offering" being fulfilled:
  - (i) the Global Offering and the Over-allotment Option were approved and the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to make or effect such modifications as it thinks fit:
  - (ii) the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to allot, issue and approve the transfer of such number of Shares in connection with the Global Offering; and
  - (iii) the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to agree to the Offer Price per Offer Share with the Sole Global Coordinator;
- (e) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers or agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which might require Shares to be allotted, issued or dealt with, otherwise than pursuant to a right issue or pursuant to the exercise of any subscription rights attaching to any warrants which may be allotted and issued by our Company from time to time on a specific authority granted by the Shareholders in general meeting or, pursuant to the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, Shares not exceeding 20% of the aggregate nominal value of the Shares in issue immediately following completion of the Capitalization Issue and the Global Offering, such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the

expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever is the earliest;

- (f) a general unconditional mandate was given to the Directors authorizing them to exercise all the powers of our Company to repurchase its own Shares on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares will represent up to 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering, such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever occurs first; and
- (g) the general mandate mentioned in paragraph (e) above be extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted, or agreed conditionally or unconditionally to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by the Company pursuant to the mandate to purchase shares referred to in paragraph (f) above.

#### 4. Corporate Reorganization

The companies comprising our Group underwent the Reorganization in preparation for the listing of our Shares on the Stock Exchange. Please see "History, Development and Reorganization" for information relating to the Reorganization.

#### 5. Changes in the Share Capital of Subsidiaries

Our subsidiaries during the Track Record Period are referred to in the Accountant's Report set out in Appendix I to this prospectus. The following alterations in the share or registered capital of our subsidiaries have taken place within two years immediately preceding the date of this prospectus.

On December 14, 2015, pursuant to a shareholder's resolution of Bestway Nantong, the registered capital of Bestway Nantong was increased from US\$62.4 million to US\$82.4 million, as a result of capital injection by Bestway Enterprise.

On March 27, 2017, pursuant to a shareholder's resolution of Bestway Nantong, the registered capital of Bestway Nantong was increased from US\$82.4 million to US\$182.4 million, as a result of capital injection by Bestway Enterprise.

#### 6. Repurchase of Our Own Securities

# (a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

#### (i) Shareholders' approval

All proposed repurchases of shares (which must be fully paid up) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of its shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a written shareholder's resolution of the Company dated October 18, 2017, a general unconditional mandate (the "Repurchase Mandate") was given to the Directors authorizing any repurchase by our Company of Shares on the Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than 10% of the aggregate nominal value of our Company's share capital in issue immediately following the completion of the Capitalization Issue and the Global Offering until at the conclusion of our next annual general meeting, or the expiration of the period within which our Company's next annual general meeting is required to be held under any applicable laws or the Articles, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first, whichever is earliest.

# (ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with our Articles and the applicable laws and regulations of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

# (iii) Trading restrictions

The total number of Shares which our Company may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the Global Offering. Our Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of listed Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. Our Company is required to procure that the broker appointed by our Company to effect a repurchase of Shares discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require. As required by the prevailing

requirements of the Listing Rules, an issuer shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

#### (iv) Status of repurchased Shares

All repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those Shares must be cancelled and destroyed. Under Cayman Companies Law, a company's repurchased shares shall be treated as cancelled and the amount of the company's issued share capital shall be reduced by the aggregate par value of the repurchased shares accordingly although the authorized share capital of the company will not be reduced.

#### (v) Suspension of repurchase

Pursuant to the Listing Rules, our Company may not make any repurchases of Shares after inside information has come to its knowledge until the information is made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of our Company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional.

#### (vi) Procedural and reporting requirements

As required by the Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which our Company may make a purchase of Shares. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our Company is required to disclose in our annual report the details regarding repurchases of Shares made during the year, including a monthly analysis of the number of Shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

#### (vii) Connected parties

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person (as defined in the Listing Rules) and a core connected person shall not knowingly sell its securities to the company on the Stock Exchange.

# (b) Reasons for repurchases

The Directors believe that it is in the best interests of our Company and Shareholders for the Directors to have general authority from the Shareholders to enable the Directors 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 where the Directors believe that such repurchases will benefit our Company and our Shareholders.

## (c) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of the current financial position as disclosed in this prospectus and taking into account the 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 the working capital and/or the gearing position of our Company as compared with the position disclosed in this prospectus. The Directors, however, do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of our Company which in the opinion of the Directors are from time to time appropriate for our Company.

The exercise in full of the Repurchase Mandate, on the basis of 1,058,391,000 Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering, could accordingly result in 105,839,100 Shares being repurchased by our Company during the period until at the conclusion of our next annual general meeting, or the expiration of the period within which our next Company's annual general meeting is required to be held under any applicable laws of the Articles, or the revocation or variation of the repurchase mandate by an ordinary resolution of the Shareholders in general meeting, whichever is earliest (the "**Relevant Period**").

#### (d) General

None of the Directors or, 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 and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (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. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of our Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No core connected person has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

#### B. FURTHER INFORMATION ABOUT OUR BUSINESS

#### 1. Summary of Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this prospectus that are or may be material:

- (a) a deed of non-competition dated November 3, 2017 entered into among our Controlling Shareholders and our Company regarding non-competition undertakings given by our Controlling Shareholders in favor of our Company, details of which are set out in "Relationship with Controlling Shareholders—Non-competition Undertaking;"
- (b) a deed of indemnity dated November 3, 2017 entered into among the Major Controlling Shareholders and our Company pursuant to which each of the Major Controlling Shareholders agreed to give certain indemnities in our favor, details of which are set out in "Appendix IV—Statutory and General Information—F. Other Information—1. Indemnities;"
- (c) the Lock-up Undertakings; and
- (d) the Hong Kong Underwriting Agreement.

# 2. Intellectual Property Rights of Our Group

# **Trademarks**

As of the Latest Practicable Date, our Group had registered the following trademarks which are material to our Group's business:

	Place of				Registration
Trademark	registration	Registered Owner	Class	Expiry Date	No.
			_		
<b>荣威</b>	The PRC	Bestway Shanghai	7	February 13, 2020	5743851
<b>東京</b>	The PRC	Bestway Shanghai	20	December 27, 2019	5743847
荣威	The PRC	Bestway Shanghai	28	March 20, 2020	5743846
<b>Bestway</b>	The PRC	Bestway Shanghai	28	September 6, 2021	1629144
<b>Bestway</b>	The PRC	Bestway Shanghai	20	April 6, 2018	4486007
Bestway	The PRC	Bestway Shanghai	28	October 27, 2018	4486006
Bestway	The PRC	Bestway Shanghai	22	April 27, 2025	13991101
Bestway	The PRC	Bestway Shanghai	6	May 20, 2027	18863840
<b>Bestway</b>	The PRC	Bestway Shanghai	8	May 20, 2027	18863938
<b>Bestway</b>	The PRC	Bestway Shanghai	19	May 20, 2027	18864078
Bestway	Hong Kong	Bestway Shanghai	8, 9, 12, 20, 22, 28	November 11, 2024	300318186
<b>Bestway</b>	Korea	Bestway Shanghai	12, 20, 28	November 1, 2021	40-0887747
BESTWAY	United States	Bestway Shanghai	9, 12, 20, 28	August 4, 2023	2,748,177
BESTWAY	Argentina	Bestway Shanghai	28	April 14, 2023	1921933
BESTWAY	New Zealand	Bestway Shanghai	12, 20, 28	October 15, 2022	967157
BESTWAY	Australia	Bestway Shanghai	28	November 5, 2022	933080
BESTWAY	Brazil	Bestway Shanghai	28	August 13, 2027	824513614
BESTWAY	Mexico	Bestway Shanghai	20	May 30, 2025	892033
BESTWAY	Mexico	Bestway Shanghai	28	May 30, 2025	909550
<b>Bestway</b>	Thailand	Bestway Shanghai	20	August 5, 2020	TM344275
Bestway	Israel	Bestway Shanghai	20	July 26, 2020	231810
Bestway	Israel	Bestway Shanghai	12	July 26, 2020	231809
Bestway	Israel	Bestway Shanghai	28	July 26, 2020	231811
Bestway	Indonesia	Bestway Shanghai	12	September 29, 2020	IDM000338860
Bestway	Indonesia	Bestway Shanghai	20	September 29, 2020	IDM000338510
<b>Bestway</b>	Saudi Arabia	Bestway Shanghai	28	April 14, 2021	1469/84
Bestway	United Arab Emirates	Bestway Shanghai	28	June 12, 2021	158446
Bestway	Lebanon	Bestway Shanghai	28	June 11, 2026	136126
Bestway	South Africa	Bestway Shanghai	28	April 25, 2021	2011/09874
Bestway	Egypt	Bestway Shanghai	28	August 18, 2021	263888
Bestway	Uruguay	Bestway Shanghai	28	September 18, 2022	422565

	Place of				Registration
Trademark	registration	Registered Ow	vner Class	Expiry Date	No.
<b>Bestway</b>	Turkey	Bestway Shang	ghai 12, 20, 28	September 5, 2024	2014/48398
Bestway	Turkey	Bestway Shang	ghai 20, 28	March 31, 2021	2011/23085
Bestway	Turkey	Bestway Shang	ghai 12, 20, 28	September 2, 2022	2012 74848
Bestway	Panama	Bestway Shang	ghai 12	May 22, 2022	212503 01
<b>Bestway</b>	Panama	Bestway Shang	ghai 20	May 22, 2022	212504 01
<b>Bestway</b>	Panama	Bestway Shang	ghai 28	February 7, 2022	208847 01
Bestway	European countries (outside the EU) (Albania, Bosnia and Herzegovina, Belarus, Switzerland, Croatia, Iceland, Moldova, Montenegro, Macedonia, Norway, Serbia, Russia, Turkey, Ukraine)	Bestway Shang	thai 12, 20, 28	January 4, 2021	1 067 110
HYDRO-FORCE	The PRC	Bestway Shang	ghai 12	February 20, 2022	9122052
HYDRO FORCE	United States	Bestway Shang	,	July 11, 2025	2,967,876
HYDRO FORCE	Canada	Bestway Shang		November 1, 2030	TMA919067
			28		
HYDRO FORCE	The EU	Bestway Shang	ghai 9, 12, 28	December 10, 2024	013544044
HYDRO-FORCE	Mexico	Bestway Shang	ghai 12	July 14, 2024	1562960
FAST SET	The PRC	Bestway Shang	ghai 28	March 13, 2024	3334772
FAST SET	United States	Bestway Shang	ghai 28	July 28, 2023	2,743,728
FAST SET	United States	Bestway Shang	ghai 19	June 2, 2018	3,442,181
FAST SET	The EU	Bestway Shang	ghai 19	January 26, 2021	009687311
FAST SET	European countries (outside the EU) (Albania, Bosnia and Herzegovina, Belarus, Switzerland, Croatia, Iceland, Moldova, Montenegro, Macedonia, Norway, Serbia, Russia, Turkey, Ukraine)	Bestway Shang	thai 19	June 13, 2021	1 090 656
PAVILLO	The EU	Bestway Shang	ghai 18, 20, 22	September 17, 2023	012148003
PAVILLO	Argentina	Bestway Shang	ghai 18	October 2, 2025	2.757.003
PAVILLO	Argentina	Bestway Shang	ghai 22	October 2, 2025	2.757.005
	Chile	Bestway Shang		March 17, 2026	1199669
PAVILLO	Cimic	2000 maj onding	, 10, 20, 22		11//00/

<u>Trademark</u>	Place of registration	Registered Owner	Class	Expiry Date	Registration No.
PAVILLO Pavillo	Peru Mexico	Bestway Shanghai Bestway Shanghai	18, 20, 22 20	February 27, 2025 November 25, 2024	00010105 1529373
PAVILLO	Mexico	Bestway Shanghai	18	November 25, 2024	1529374
PAVILLO Pavillo	Australia  European countries  (outside the EU)	Bestway Shanghai Bestway Shanghai	18, 20, 22 18, 20, 22	July 21, 2026 September 20, 2023	1784829 1 181 476
PAVILLU	(outside the EU) (Albania, Bosnia and Herzegovina, Switzerland, Iceland, Moldova, Montenegro, Macedonia, Norway, Serbia, Russia, Turkey, Ukraine, Georgia,		18, 20, 22	2023	1 181 4/6
PAVILLO	Azerbaijan, Armenia) The PRC	Bestway Shanghai	20	January 27, 2027	14893719
PAVILLO	The PRC	Bestway Shanghai	18	March 13, 2027	14893610
PAVILLO	The PRC	Bestway Shanghai	22	January 27, 2027	14893774
PAVILLO	The PRC	Bestway Shanghai	22	March 13, 2027	14893750
PAVILLO	The PRC	Bestway Shanghai	20	January 27, 2027	14893700
PAVILLO	The PRC	Bestway Shanghai	18	March 13, 2027	14893565
FORTECH	Australia	Bestway Shanghai	20	March 8, 2026	1757300
FORTECH	The EU	Bestway Shanghai	20	March 18, 2026	015234602
FORTECH	European countries (outside the EU) Armenia, Azerbaijan, Bosnia and Herzegovina, Belarus, Switzerland, Georgia, Moldova, Montenegro, Macedonia, Norway, Serbia, Russia, Turkey, Ukraine		20	March 31, 2026	1 310 939
FORTECH	Chile	Bestway Shanghai	20	November 23, 2026	1228383
FORTECH	Peru	Bestway Shanghai	20	June 30, 2026	238646

	Place of				Registration
Trademark	registration	Registered Owner	Class	Expiry Date	No.
FORTECH	Mexico	Bestway Shanghai	20	March 8, 2026	1646300
FORTECH	Argentina	Bestway Shanghai	20	November 25, 2026	2852153
Lay-Z-Spa	Russia	Bestway Shanghai	11, 28	February 24, 2024	546505
Lay-Z-Spa	The EU	Bestway Shanghai	11, 28	February 18, 2020	008893927
Lay-Z-Spa	United Kingdom	Bestway Shanghai	11	September 26, 2026	2433788
Lay-Z-Spa	Turkey	Bestway Shanghai	11, 28	December 21, 2024	2014 106310
Lay-Z-Spa	New Zealand	Bestway Shanghai	11, 19, 28	October 15, 2022	967158
Lay-Z-Spa	Australia	Bestway Shanghai	11, 28	December 6, 2023	1595523
STEEL PRO	United States	Bestway Shanghai	6	October 10, 2025	3,006,426
STEEL PRO	The EU	Bestway Shanghai	6	January 26, 2021	009687252
STEEL PRO	European countries (outside the EU) (Albania, Bosnia and Herzegovina, Belarus, Switzerland, Croatia, Iceland, Moldova, Montenegro, Macedonia, Norway, Serbia, Russia, Turkey, Ukraine)	Bestway Shanghai	6	June 13, 2021	1081036
POWER STEEL	United States	Bestway Shanghai	6	October 5, 2025	4,827,864
POWER STEEL	The EU	Bestway Shanghai	6	February 12, 2024	012593381
POWER STEEL	European countries (outside the EU) (Albania, Bosnia and Herzegovina, Belarus, Switzerland, Iceland, Moldova, Montenegro, Macedonia, Norway, Serbia, Russia, Turkey, Ukraine, Georgia, Azerbaijan, Armenia)		6	February 20, 2024	1 195 593
POWER STEEL	Canada	Bestway Shanghai	6	September 28, 2030	TMA915452
POWER STEEL	Argentina	Bestway Shanghai	6	February 24, 2026	2.787.787
POWER STEEL	Chile	Bestway Shanghai	6	March 6, 2026	1198267
H2O GO	United States	Bestway Shanghai	9, 28	May 25, 2025	4,741,874
H2O GO	The EU	Bestway Shanghai	28	April 16, 2024	012798071

	Place of				Registration
Trademark	registration	Registered Owner	Class	Expiry Date	No.
H2O GO	European countries (outside the EU) (Albania, Bosnia and Herzegovina, Belarus, Switzerland, Iceland, Moldova, Montenegro, Macedonia, Norway, Serbia, Russia, Turkey, Ukraine, Georgia, Azerbaijan, Armenia)	Bestway Shanghai	28	April 16, 2024	1 216 396
H2O GO	Argentina	Bestway Shanghai	28	July 31, 2025	2.744.389
H2O GO	Australia	Bestway Shanghai	28	April 2, 2024	1614874
H2O GO	Chile	Bestway Shanghai	28	August 4, 2025	1174593
COOLERZ	The EU	Bestway Shanghai	9, 12, 21, 28	September 24, 2024	013294293
COOLERZ	Peru	Bestway Shanghai	28	August 3, 2025	00227642
COOLERZ	Argentina	Bestway Shanghai	28	January 11, 2026	2.779.550
COOLERZ	Australia	Bestway Shanghai	9, 12, 28	September 19, 2024	1647998
COOLERZ	Canada	Bestway Shanghai	6, 9, 12, 19, 20, 21, 28	June 6, 2031	TMA940139
COOLERZ	United States	Bestway Shanghai	12, 28	December 5, 2026	5,095,945
COOLERZ	Mexico	Bestway Shanghai	28	January 9, 2025	1597967
COOLERZ	European countries (outside the EU) (Albania, Bosnia and Herzegovina, Belarus, Switzerland, Iceland, Moldova, Montenegro, Macedonia, Norway, Serbia, Russia, Turkey, Ukraine, Georgia, Azerbaijan, Armenia)		9, 12, 28	September 25, 2024	1 239 711
U	Taiwan	Bestway Shanghai	20	April 30, 2020	01408047
Bestway					
Bestway	Russia	Bestway Shanghai	9, 12, 20, 28	October 10, 2020	430560
_00tHuj					

Trademark	Place of registration	Registered Owner	Class	Expiry Date	Registration No.
U	United States	Bestway Shanghai	28	August 25, 2023	2,756,976
Bestway	The EU	Bestway Shanghai	12, 20, 28	February 26, 2021	002106417
Bestway Bestway	European countries (outside the European Union) (Albania, Bosnia and Herzegovina, Belarus, Switzerland, Croatia, Montenegro, Macedonia, Norway, Serbia, Turkey, Ukraine)	Bestway Shanghai	12, 20, 28	February 24, 2020	1045931
U	Turkey	Bestway Shanghai	20, 28	February 23, 2020	2010/58449
Bestway Bestway	Indonesia	Bestway Shanghai	28	March 12, 2024	IDM000051283
Bestway	The EU	Bestway Shanghai	12, 20, 28	November 9, 2020	009508755
	The PRC	Bestway Shanghai	28	May 20, 2019	4485924
M	The PRC	Bestway Shanghai	20	May 13, 2018	4485928
Ы	The PRC	Bestway Shanghai	28	October 27, 2021	1657105
	The PRC	Bestway Shanghai	22	May 6, 2025	13991185
W	Hong Kong	Bestway Shanghai	8, 9, 12, 20, 22, 28	November 11, 2024	300318195

Trademark	Place of registration	Registered Owner	Class	Expiry Date	Registration No.
Ы	The EU	Bestway Shanghai	12, 20, 28	November 9, 2020	009508433
U	Chile	Bestway Shanghai	28	October 24, 2022	646.782
W	Mexico	Bestway Shanghai	20	May 30, 2025	896565
W	Mexico	Bestway Shanghai	28	May 30, 2025	908971
W	Panama	Bestway Shanghai	12	May 22, 2022	212500 01
W	Panama	Bestway Shanghai	20	May 22, 2022	212502 01
W	Panama	Bestway Shanghai	28	February 7, 2022	208846 01
<b>U</b>	Saudi Arabia	Bestway Shanghai	28	April 14, 2021	1479/94
W	United Arab Emirates	Bestway Shanghai	28	June 12, 2021	158447
<b>W</b>	Lebanon	Bestway Shanghai	28	June 11, 2026	136127
	South Africa	Bestway Shanghai	28	April 25, 2021	2011/09875
W	Egypt	Bestway Shanghai	28	August 18, 2021	263889
Ы	Uruguay	Bestway Shanghai	28	September 24, 2022	422566
Ы	Australia	Bestway Shanghai	28	November 5, 2022	933081
333	United States	Bestway Shanghai	28	July 19, 2024	2,864,108

Trademark	Place of registration	Registered Owner	Class	Expiry Date	Registration No.
Ы	Turkey	Bestway Shanghai	12, 20, 28	January 3, 2021	2011/23546
П	Turkey	Bestway Shanghai	12, 20, 28	January 8, 2023	2013/01639
<b>U</b>	European countries (outside the EU) (Albania, Bosnia and Herzegovina, Belarus, Switzerland, Croatia, Iceland, Moldova, Montenegro, Macedonia, Norway, Serbia, Russia, Turkey, Ukraine)	Bestway Shanghai	12 \cdot 20 \cdot 28	January 4, 2021	1 066 317
errtech <b>SalúSpa</b>	The EU United States	Bestway Shanghai Bestway Shanghai	11, 28 11	April 30, 2025 November 14, 2026	014020564 5,080,682

As of the Latest Practicable Date, our Group had applied for the registration of the following trademarks which are the subject of pending applications for registration and which are or may be material in relation to the Group's business:

				Date of	
Trademark	Place of Application	Applicant	Class	Application	Application No.
<b>Bestway</b>	India	Bestway Shanghai	12, 20, 28	May 15, 2012	2331484
<b>Bestway</b>	The PRC	Bestway Shanghai	18	October 21, 2015	18115253
<b>Bestway</b>	The PRC	Bestway Shanghai	12	January 19, 2016	18926403
Bestway	The EU	Bestway Shanghai	11, 19, 22, 6	March 31, 2015	013900055
Bestway	Turkey	Bestway Shanghai	12, 20, 28	June 9, 2014	2014/48398
<b>Bestway</b>	Hong Kong	Bestway Shanghai	16	May 18, 2017	304143320
<b>Bestway</b>					
BESTWAY					
bestway					
PAVILLO	Brazil	Bestway Shanghai	18	November 6, 2014	908559976
PAVILLO	Brazil	Bestway Shanghai	20	November 6, 2014	908560028
PAVILLO	Brazil	Bestway Shanghai	22	November 6, 2014	908560087
PAVILLO	Mexico	Bestway Shanghai	22	November 25,	1552020
				2014	

Trademark	Place of Application	Applicant	Class	Date of Application	Application No.
PAVILLO	The United States	Bestway Shanghai Bestway Shanghai	18, 20, 22 9, 18, 20,	July 14, 2016 July 13, 2016	87103800 1791300
PAVILLO	Canada	Destway Shanghar	22, 24	July 13, 2010	1771300
FORTECH	Brazil	Bestway Shanghai	20	March 9, 2016	910737843
FORTECH	Canada	Bestway Shanghai	20	March 8, 2016	1771345
H2O GO	Peru	Bestway Shanghai	28	September 15,	589245
				2014	
H2O GO	Mexico	Bestway Shanghai	28	July 17, 2014	0119851507123
COOLERZ	Brazil	Bestway Shanghai	28	January 15, 2015	908870370
COOLERZ	Chile	Bestway Shanghai	28	January 13, 2015	1138647
ALWAYZAIRE	The United States	Bestway Shanghai	20	July 20, 2017	87535685
STEEL PRO	The United States	Bestway Shanghai	19	July 20, 2017	87535693
MAX					
SWIM VISTA	The United States	Bestway Shanghai	19	July 20, 2017	87535733
FLOWCLEAR	The United States	Bestway Shanghai	1, 7, 11, 20,	August 8, 2017	87560114
			21, 22		
TRITECH	The United States	Bestway Shanghai	11, 12, 19, 28	August 10, 2017	87563440

# Domain Name

As of the Latest Practicable Date, our Group had registered the following domain names which are material to our Group's business:

Domain Name	Registered Owner	Expiry Date	
bestway-global.com	Bestway Shanghai	February 11, 2018	
lay-z-spa.com	Bestway Shanghai	February 11, 2018	
bestway-shanghai.com	Bestway Shanghai	March 18, 2018	
bestway-jiangsu.com	Bestway Shanghai	May 14, 2018	
bestway-service.com	Bestway Shanghai	January 23, 2021	
bestwaycorp.com	Bestway Shanghai	December 13, 2017	
bestwaycorp.cn	Bestway Shanghai	September 6, 2018	
pavillo.com	Bestway Shanghai	May 3, 2018	
colemanabovegroundpools.com	Bestway Shanghai	May 16, 2018	
colemanlayzspa.com	Bestway Shanghai	March 7, 2018	
pavillo.net	Bestway Shanghai	December 26, 2017	
bestway-nantong.com	Bestway Shanghai	October 27, 2018	

# C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

#### 1. Disclosure of Interests

(a) Interests and short positions of the Directors and the chief executive of our Company in the Shares, underlying shares and debentures of our Company and its associated corporations

Immediately following the completion of the Capitalization Issue and the Global Offering but taking no account of any Shares which may be issued pursuant to the exercise of the Overallotment Option, the interests or short positions of Directors or chief executives of our Company in the Shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required under Section 352 of the SFO to be entered in the register referred to in that section, or which will be required under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("Model Code") to be notified to our Company and the Stock Exchange, once the Shares are listed, will be as follows:

Interest in Shares or Underlying shares of our Company

			Approximate
		Number of	percentage of
		Shares	shareholding
		interested	interest in the
		immediately	Company
		after the	immediately
		Global	after the
		Offering upon	Global
Name of Director	Nature of Interest	Listing	Offering
Mr. Zhu Qiang	Interest in controlled corporation	793,793,000	75.0%

# (b) Interests and short positions of the Substantial Shareholders in the Shares and underlying shares of our Company

Save as disclosed in "Substantial Shareholders," our Directors or chief executive are not aware of any other person, not being a Director or chief executive of our Company, who has any an interest or short position in the Shares and underlying shares of our Company which, once the Shares are listed, would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, 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.

# (c) Interests of the substantial shareholder of any member of our Group (other than our Company)

So far as is known to our Directors, the following person, not being a Director or chief executive of our Company, is interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of our Group:

Name of shareholder of other members of our Group	Name of other members of our Group	Number of securities interested/ Registered share capital <sup>(1)</sup>	Approximate percentage of shareholding
Mr. Patrizio Fumagalli	Bestway Europe	2,958	29%
	Bestway USA	98,000	49%
Mr. Simone Zesi	Bestway Europe	2,040	20%
Inversiones Las Pircas Limitada	Bestway Central & South America	682,775	49%
Edmond Enterprises Pty Limited	Bestway Australia	588	49%
Mr. Denis Kurganskiy	Bestway Russia	15,000	49%
Mr. Malte Ohnesseit	Bestway Germany	7,500	30%
Mr. Sellitri Libero Stefano	Bestway France	75,000	25%

Note:

### 2. Particulars of Service Contracts

#### (a) Executive Director

The executive Director has entered into a service contract with our Company under which he agreed to act as executive Director for an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either the executive Director or our Company.

The appointment of the executive Director is subject to the provisions of retirement and rotation of Directors under the Articles.

#### (b) Independent Non-executive Directors

Each of the independent non-executive Directors has signed a letter of appointment with our Company for a term of one year with effect from their respective date of appointment. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

<sup>(1)</sup> Registered share capital represents the registered share capital contributed by the relevant shareholder.

#### (c) Others

- (i) Save as disclosed above, none of the Directors has entered into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).
- (ii) During the year ended December 31, 2016, the aggregate of the remuneration and benefits in kind payable to the Directors was approximately US\$0.3 million. Details of the Directors' remuneration are also set out in note 10 of Appendix I—Accountant's Report. Save as disclosed in this prospectus, no other emoluments have been paid or are payable in respect of the year ended December 31, 2016 by our Company to the Directors.
- (iii) Under the arrangements currently in force, the aggregate of the remuneration and benefits in kind payable to the Directors for the year ending December 31, 2017 is estimated to be approximately US\$0.37 million.
- (iv) None of the Directors or any past directors of any members of our Group has been paid any sum of money for the three years ended December 31, 2016 (i) as 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.
- (v) There has been no arrangement under which a Director has waived or agreed to waive any remuneration or benefits in kind for the three years ended December 31, 2016.
- (vi) None of the Directors has been or is interested in the promotion of, or in the property proposed to be acquired by, our Company, and no sum has been paid or agreed to be paid to any of them in cash or shares or otherwise by any person either to induce him to become, or to qualify him as, a Director, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

#### 3. Fees or commissions received

Save as disclosed in this prospectus, none of the Directors or any of the persons whose names are listed under "Appendix IV—Statutory and General Information—F. Other Information—10. Consents of Experts" had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

#### 4. Miscellaneous

Save as disclosed in this prospectus:

- (a) none of the Directors or chief executive of our Company has any interest or short positions in the Shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is 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 into the register referred to in that section, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code, in each case once our Shares are listed;
- (b) none of our Directors nor any of the parties listed "Appendix IV—Statutory and General Information—F. Other Information—10. Consents of Experts" below has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors nor any of the parties listed in "Appendix IV—Statutory and General Information—F. Other Information—10. Consents of Experts" below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) other than pursuant to the Underwriting Agreements, none of the parties listed in "Appendix IV—Statutory and General Information—F. Other Information—10. Consents of Experts" below:
  - (i) is interested legally or beneficially in any of our Shares or any shares of any of our subsidiaries; or
  - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe securities in any member of our Group.

#### D. PRE-IPO SHARE INCENTIVE SCHEME

# 1. Background

In order to reward the past contribution of, and to incentivize the employees of the Group, Mr. Zhu Qiang set up Outland Enterprise on November 27, 2013 to implement the Pre-IPO Share Incentive Scheme, pursuant to which Outland Enterprise would allot and issue or Mr. Zhu Qiang would transfer shares in Outland Enterprise to the employees of the Group.

As at the Latest Practicable Date, Outland Enterprise has issued 20,240 shares, among which 2,237.5 shares and 18,002.5 shares were held by Mr. Zhu Qiang and the Scheme Participants, respectively, representing approximately 11.0% and 89.0% of the issued share capital of Outland Enterprise, respectively.

The Pre-IPO Share Incentive Scheme does not involve the grant of options to subscribe for any new Shares. Therefore, it is not required to be subject to the provisions in Chapter 17 of the Listing Rules. It does not cause any effect to the total number of Shares outstanding and will not result in any dilution effect to the Shares.

## 2. Details of the Scheme Participant

During the period from January 2015 to August 2016, Outland Enterprise allotted and issued 21,115 shares to a total of 36 Scheme Participants, including three Directors, namely Mr. Tan Guozheng, Mr. Liu Feng and Mr. Duan Kaifeng and four members of the senior management of the Company, namely Mr. Huang Shuiyong, Mr. Yan Yu, Mr. Huang Yaoguang and Mr. Zhang Yong. Among these allotted and issued shares, 1,750 shares were repurchased by Outland Enterprise from a retired Scheme Participant. Subsequent to the above issuance and transfer, Mr. Zhu Qiang was (1) allotted 875 shares; and (2) transferred an aggregate of 2,275 shares from four Scheme Participants. Furthermore, during the period from November 2016 to April 2017, Mr. Zhu Qiang transferred a total of 912.5 shares in Outland Enterprise to 11 Scheme Participants, including transferring 300 shares to one member of the senior management of the Company, namely Mr. Simone Zesi. As at the Latest Practicable Date, Outland Enterprise has issued 20,240 shares, among which 2,237.5 shares and 18,002.5 shares were held by Mr. Zhu Qiang and 46 Scheme Participants, respectively.

#### 3. Terms of the Reorganization Agreement

Each of the Scheme Participants entered into a reorganization agreement (the "Reorganization Agreement") with Outland Enterprise (in case of allotment of shares in Outland Enterprise) or with Outland Enterprise and Mr. Zhu Qiang (in case of transfer of shares from Mr. Zhu Qiang to the Scheme Participants). Pursuant to the Reorganization Agreement:

- a. in the event of resignation by a Scheme Participant, the shares that he or she holds in Outland Enterprise shall be repurchased by Outland Enterprise. The repurchase price shall be 50% of the value of the indirect interest in the Shares, to be calculated based on the net asset value of the Company as at December 31 in the preceding financial year;
- b. in the event of termination of the employment contract between the Group and a Scheme Participant due to expiry of the contract or serving of jail sentence by such Scheme Participant, the shares that he or she holds in Outland Enterprise shall be repurchased by Outland Enterprise. The repurchase price shall be equivalent to the value of the indirect interest in the Shares, to be calculated based on the net asset value of the Company as at December 31 in the preceding financial year;
- c. in the event of an Scheme Participant's death or incapacity, the shares that he or she holds in Outland Enterprise shall be repurchased by Outland Enterprise. The repurchase price shall be equivalent to the value of the indirect interest in the Shares, to be calculated based on the net asset value of the Company as at December 31 in the preceding financial year; and
- d. in the event of reaching the statutory retirement age, a Scheme Participant may choose to keep the shares that he or she holds in Outland Enterprise or request Outland Enterprise to repurchase such shares. If the Scheme Participant chooses the latter option, the repurchase

price shall be equivalent to the value of the indirect interest in the Shares, to be calculated based on the net asset value of the Company as at December 31 in the preceding financial year.

#### E. SHARE OPTION SCHEME

#### Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by a written shareholder's resolution of our Company dated October 18, 2017. The terms of the Share Option Scheme comply with the provisions of Chapter 17 of the Listing Rules.

#### (a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide an incentive for the Qualified Participants (as defined in paragraph (b) below) to work with commitment towards enhancing the value of our Company and its Shares for the benefit of its Shareholders, and to maintain or attract business relationship with the Qualified Participants whose contributions are or may be beneficial to the growth of our Group.

The Board is of the view that the Share Option Scheme may provide the Qualified Participants with the opportunity of participating in the growth of our Group by acquiring Shares in our Company which may in turn assist in the attraction and retention of the Qualified Participants. To ensure the achievement of the purpose of the Share Option Scheme, its rules do not specify any minimum holding period and/or performance targets as a condition for the exercise of an option but subject to the determination of the Board. The Board is given the authority under the Share Option Scheme rules to determine and state in the offer letter of grant any minimum holding period and/or performance targets as conditions for exercise of an option. In addition, the Board has the authority under the Share Option Scheme rules to determine the basis of eligibility of any Qualified Participant and the grant of an option on a case by case basis as the Board in its sole discretion considers appropriate. Hence, the Board believe that the rules of the Share Option Scheme will serve to achieve its purpose as well as protect the value of our Company.

# (b) Who may join

The Board may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to:

- any executive Director, or employee (whether full time or part time) of our Company, any subsidiary or any entity in which our Company or any subsidiary holds any equity interest;
- (ii) any non-executive Directors (including independent non-executive Directors) of our Company, any subsidiary or any entity in which our Company or any subsidiary holds any equity interest (together with (i) above, "Eligible Employee");

- (iii) any customer, business or joint venture partner, advisor, consultant, contractor, supplier, agent or service provider of our Company, any subsidiary or any entity in which our Company or any subsidiary holds any equity interest who is an individual; or
- (iv) any full-time employee of any customer, business or joint venture partner, advisor, consultant, contractor, supplier, agent, customer or service provider of our Company or any subsidiary or an entity in which our Company or any subsidiary holds any equity interest,

who the Board considers, in its sole discretion, has contributed or will contribute to our Company or any subsidiary or any entity in which our Company or any subsidiary holds any equity interest (collectively, the "Qualified Participant").

#### (c) Maximum number of Shares in respect of which options may be granted

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company shall not in aggregate exceed the number of Shares that shall represent 10% of the total number of Shares in issue as at the Listing Date (such total number of Shares being 1,058,391,000 Shares) (the "Scheme Mandate", being 105,839,100 Shares), excluding for this purpose options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of our Company, provided that:

- (i) our Company may seek approval by the Shareholders in general meeting for refreshing the Scheme Mandate provided that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company under the Scheme Mandate as refreshed must not exceed 10% of the total number of Shares in issue as at the date of such shareholder approval. For these purposes, options previously granted under the Share Option Scheme and any other share option schemes of our Company, whether outstanding, cancelled, lapsed in accordance with its applicable rules or already exercised, will not be counted. Our Company shall send to the Shareholders a circular containing the information required under Chapter 17 of the Listing Rules;
- (ii) our Company may seek separate approval by the Shareholders in general meeting for granting options beyond the Scheme Mandate provided the options in excess of the Scheme Mandate are granted only to Qualified Participants who are specifically identified before such approval is sought. A circular will be sent by our Company to the Shareholders in accordance with the Listing Rules; and
- (iii) the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed such number of Shares as shall represent 30% of the Shares in issue from time to time. No options may be granted if such grant will result in this 30% limit being exceeded.

The maximum number of Shares in respect of which options may be granted shall be adjusted in such manner as the auditors of our Company shall certify in writing to the Board to be fair and reasonable in the event of any alteration to the capital structure of our Company whether by way of capitalization of profits or reserves, rights issue, consolidation, reclassification, reconstruction, subdivision or reduction of the share capital of our Company but shall not in any event exceed the limits imposed by the Listing Rules.

#### (d) Maximum entitlement of each Qualified Participant

Unless approved by Shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any grantee if the acceptance of those options would result in the total number of Shares issued and to be issued to that grantee on exercise of his options (including both exercised and outstanding options) during any 12 month period exceeding 1% of the total Shares then in issue.

#### (e) Grant of options to connected persons

Any grant of options to a Director, chief executive or substantial Shareholder (as defined in the Listing Rules) of our Company or any of their respective associates under the Share Option Scheme must be approved by all the independent non-executive Directors (excluding any independent non-executive Director who is also a grantee of the options).

Any grant of options to a substantial Shareholder or an independent non-executive Director or any of their respective associates (as defined in the Listing Rules) must be approved by the Shareholders in general meeting if the Shares issued and to be issued upon exercise of all options already granted and proposed to be granted to him (whether exercised, cancelled or outstanding) in the 12 month period up to and including the proposed date of grant:

- (i) would represent in aggregate more than 0.1% of the Shares then in issue; and
- (ii) would have an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000 (or such other amount as shall be permissible under the Listing Rules from time to time).

At the general meeting to approve such proposed grant of options, the grantee, his associates and all core connected persons of our Company must abstain from voting unless intending to vote against the proposed grant and that intention has been stated in the circular to be despatched to Shareholders in accordance with the Listing Rules. At such general meeting, the vote to approve the grant of such options must be taken on a poll in accordance with the relevant provisions of the Listing Rules. Our Company shall send to the Shareholders a circular containing the details and information required under Chapter 17 of the Listing Rules.

Any proposed change in the terms of options granted to a grantee who is a substantial shareholder or an independent non-executive director of our Company, or any of their respective associates, must be approved by the shareholders of our Company in general meeting in accordance with the relevant provisions of the Listing Rules.

#### (f) Acceptance of an offer of options

An offer of the grant of an option shall be made to a Qualified Participant by written offer letter in such form as the Board may from time to time determine, requiring the Qualified Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme. The offer shall remain open for such period (not exceeding 30 days, inclusive of, and from, the date of offer) as the Board may determine and notify to the Qualified Participant.

An option shall be deemed to have been accepted and to have taken effect when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance in favour of our Company of HK\$1 by way of consideration for the grant of the option shall have been received by our Company on or before the last day for acceptance as set out in the offer letter. The remittance is not in any circumstances refundable. Once accepted, the option is considered to be granted as from the date on which it was offered to the relevant Qualified Participant.

#### (g) Subscription price

The subscription price shall be a price determined by the Board but in any event shall be at least the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date of offer;
- (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of offer; and
- (iii) the nominal value of the Shares.

# (h) Duration of the Share Option Scheme

The Share Option Scheme shall be valid and effective from the date on which the last of the conditions (as set out in paragraph (x) below) is fulfilled (the "Adoption Date") until the end of the period of 10 years commencing on the Adoption Date (the "Scheme Period"), after which time no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. In particular, all options granted before the end of the Scheme Period shall continue to be valid and exercisable after the end of the Scheme Period in accordance with the terms of the Share Option Scheme.

# (i) Performance target and minimum holding period

There is no minimum period for which any option must be held before it can be exercised and no performance target which need to be achieved by a grantee before the option can be exercised unless the Board otherwise determined and stated in the offer letter of the grant of options.

## (j) Restriction on the time of grant of options

- (a) Our Company may not grant any option after inside information has come to its knowledge until it has announced the information. In particular, it may not grant any option during the period commencing one month immediately before the earlier of:
  - the date of the Board meeting (as such date is first notified to the Stock Exchange under the Listing Rules) for approving our Company's results for any year, halfyear or quarterly or any other interim period (whether or not required under the Listing Rules); and
  - (ii) the deadline for our Company to announce its results for any year or half- year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement. No option may be granted during any period of delay in publishing a results announcement. Without prejudice to the foregoing, no option shall be granted during the period specified in the Listing Rules as being a period during which no option may be granted.

No grant of options shall be made to a Qualified Participant who is a Director during a period in which the 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 our Company's own equivalent code.

# (k) Ranking of the Shares

The Shares to be allotted upon exercise of an option will be subject to all the provisions of the Articles and will rank pari passu with the fully paid Shares in issue on the date of allotment. Accordingly the Shares will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment provided that the record date for the dividend or distribution is a date after the date of allotment.

#### (l) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable (except for the transmission of an option on the death of any grantee to a person who of succession is entitled to the option). No grantee shall sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt to do so (except that the grantee may nominate a nominee, of which the grantee is the sole beneficial owner, in whose name the Shares issued pursuant to the Share Option Scheme may be registered provided that evidence of such trust arrangement between the grantee and the nominee has been provided to the satisfaction of the Board).

#### (m) Rights on ceasing employment/death

If the grantee who is an Eligible Employee ceases to be so engaged by reason other than his death or the termination of his employment on one or more of the grounds under subparagraph (s)(v) below or retirement in accordance with the terms of his contract of employment or by virtue of any statutory requirement, the grantee shall be entitled to exercise the option up to his entitlement at the date of cessation (to the extent exercisable but not already exercised) within a period of 1 month from the date of such cessation, which date shall be the last day on which the grantee was at work with our Company, the relevant subsidiary or any entity in which our Company or any subsidiary holds any equity interest (whether salary is paid in lieu of notice or not) or within such longer period as the Board may determine.

In the event of death of the grantee (being an individual) before exercising the option in full, and none of the events which would be a ground for termination of his employment under subparagraph (s)(v) below has arisen in case such grantee is an Eligible Employee, his legal personal representatives may exercise the option up to the grantee's entitlement (to the extent exercisable as at the date of his death and not exercised) within the period of 12 months following his death or such longer period as the Board may determine.

#### (n) Rights on retirement

If the grantee being an Eligible Employee ceases to be so engaged by reason of retirement in accordance with the terms of his contract of employment or by virtue of any statutory requirement and none of the events which would be a ground for termination of his employment as specified in subparagraph (s)(v) below has arisen, the grantee shall be entitled within a period of 12 months from the date of retirement (or such longer period as the Board may determine) to exercise the option up to the grantee's entitlement (to the extent exercisable but not already exercised).

#### (o) Rights on termination of business relationship with our Group

In the event that the grantee being a non-Eligible Employee in the absolute opinion of the Board ceases to be qualified as a Qualified Participant by reason of termination of its business relation with the relevant member of our Group or otherwise, such grantee shall be entitled within a period of 1 month from the date of termination (or such other period as the Board may determine) to exercise the option up to its entitlement (to the extent exercisable but not already exercised).

#### (p) Rights on take-over

If a general offer (whether by way of takeover offer, scheme of arrangement or otherwise) is made to all the Shareholders (or all Shareholders other than the offeror and its concert parties and persons controlled by the offeror) and the offer becomes or is declared unconditional during the option period of an outstanding option, the grantee (or his legal personal representatives) shall be entitled to exercise the option (to the extent not already exercised but whether vested or not) at any time before the expiry of the period of 10 business days following the date on which the offer becomes or is declared unconditional.

## (q) Rights on winding-up

If an effective resolution is passed for the voluntary winding-up of our Company or an order of court is made for the winding-up of our Company, a grantee may in respect of outstanding options by notice in writing to our Company within 15 business days after the date of such resolution elect to be treated as if the option (to the extent not already exercised but whether vested or not) had been exercised immediately before the passing of the resolution. The notice must state the number of Shares in respect of which the election is made and be accompanied by a remittance for the full amount of the subscription price for the relevant Shares. Immediately upon receipt of the notice by our Company, the grantee will become entitled to receive out of the assets available in the liquidation pari passu with the holders of Shares such sum as would have been received in respect of the Shares that are the subject of the election.

# (r) Rights on company reconstructions

If a compromise or arrangement between our Company and its Shareholders or creditors is proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies, our Company shall give notice to all grantees on the same day as it gives notice of the meeting to its Shareholders or creditors to consider the compromise or arrangement. Upon receipt of the notice, the grantee may, during the period commencing on the date of the notice and ending on the earlier of:

- (i) the date 2 calendar months thereafter; and
- (ii) the date on which such compromise or arrangement is sanctioned by the court;

exercise the option (to the extent not already exercised but whether vested or not) (whether in full or in part), conditional upon the compromise or arrangement being sanctioned by the court and becoming effective. With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Our Company may require the grantee to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to the compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms present to the court or upon any other terms as may be approved by such court) the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

## STATUTORY AND GENERAL INFORMATION

## (s) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) the expiry of the option period which must expire not more than 10 years from the date of grant;
- (ii) the expiry of the periods referred to in paragraphs (m), (n), (o), (p), (q) or (r) above;
- (iii) the date of the commencement of the winding-up of our Company in respect of the situation contemplated in paragraph (q) above;
- (iv) the date the scheme or compromise referred to in paragraph (r) above becomes effective;
- (v) the date on which the grantee being an Eligible Employee ceases to be a Qualified Participant by reason of the termination of his employment on the grounds that he has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made an arrangement or composition with creditors generally, or has been convicted of a criminal offence involving his integrity or honesty, or on any other ground on which an employer would be entitled to terminate his employment forthwith pursuant to applicable laws or under the grantee's employment contract;
- (vi) the date on which the grantee commits a breach of paragraph (1) above;
- (vii) if an option was granted subject to certain conditions, restrictions or limitation, the date on which the Board resolves that the grantee has failed to satisfy or comply with such conditions, restrictions or limitation;
- (viii) in respect of the grantee being a consultant or advisor (whether individual or corporation), the date on which the Board resolves that the consultant or advisor fails to comply with any provisions of the relevant contracts, or breaches its fiduciary duty under the common law: and
- (ix) the occurrence of such event or expiry of such period as may have been specifically provided for in the offer letter, if any.

# (t) Alteration of capital

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalization issue, rights issue, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which our Company is a party), the Board shall make (and shall notify to the grantee) such corresponding alterations (if any) in (i) the number of Shares subject to any option so far as such option remains unexercised; (ii) the subscription price; (iii) the method of exercise of the option; and/or (iv) the number of Shares subject to the Share Option Scheme, as the auditors of our Company shall certify in writing to the Board to be in their opinion fair and reasonable, provided that any adjustment shall be made on the basis that are required to give each

grantee the same proportion of the share capital as that to which the grantee was previously entitled, but not so that the effect would be to enable any Share to be issued to a grantee at less than its nominal value.

## (u) Cancellation of options

With the grantee's consent, the Board may cancel an option (which has been granted but not yet exercised), at the election of the Board and after giving notice in writing to such grantee stating, either:

- (i) our Company pays to the grantee an amount equal to the fair market value of the option at the date of cancellation as determined by the Board at its absolute discretion, after consultation with the auditors of our Company or an independent financial advisor appointed by the Board;
- (ii) the Board offers to grant to the grantee replacement options (or options under any other share option scheme) provided that such replacement options are granted under a scheme with available unissued options (excluding the cancelled options) within the limit mentioned in paragraph (c) above, or makes such arrangements as the grantee may agree to compensate him for the loss of the option; or
- (iii) the Board makes such arrangements as the grantee may agree to compensate him for the cancellation of the option.

### (v) Termination of the Share Option Scheme

Our Company may at any time terminate the operation of the Share Option Scheme by resolution of the Board or resolution of the Shareholders in general meeting and in such event no further options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects. In particular, all options granted and accepted prior to the termination and yet to be exercised shall continue to be valid and exercisable in accordance with the terms of the Share Option Scheme.

## (w) Alteration of the Share Option Scheme

The Board may by resolution amend any of the provisions of the Share Option Scheme except the following, which shall be approved by the Shareholders in general meeting:

- (i) any material alteration to its terms and conditions or any change to the terms of options granted (except where the alterations take effect under the existing terms of the Share Option Scheme). The Share Option Scheme so altered must comply with Chapter 17 of the Listing Rules and the notes thereto and the supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time;
- (ii) any alteration to the provisions of the Share Option Scheme in relation to the matters set out in Rule 17.03 of the Listing Rules to the advantage of the grantee;
- (iii) any change to the authority of the Board or the scheme administrator;

- (iv) any amendments to the terms of options granted to a grantee who is a substantial Shareholder (as defined in the Listing Rules) of our Company or an independent non-executive Director, or any of their respective associates (as defined in the Listing Rules) must be approved by our Shareholders in general meeting. The resolution to approve the amendment must be taken on a poll and the grantee, his associates and all core connected persons of our Company must abstain from voting on the resolution to approve such amendment, except that such a connected person may vote against such resolution; and
- (v) any change to the Scheme rules governing the amendment of the rules of the Share Option Scheme;

provided that any amendments of the Scheme provisions or terms of the options shall comply with the requirements of the Listing Rules.

## (x) Conditions of the Share Option Scheme

The adoption of the Share Option Scheme is conditional upon:

- (i) the approval of the Shareholders for the adoption of the Share Option Scheme; and
- (ii) the approval by the Stock Exchange of the listing of, and permission to deal in, any Shares to be allotted and issued pursuant to the exercise of options under the Share Option Scheme.

If the permission referred to in subparagraph (ii) is not granted within 6 months after the date of the Share Option Scheme was conditionally adopted:

- (iii) the Share Option Scheme will forthwith determine;
- (iv) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect;
- (v) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option; and
- (vi) the Board may further discuss and devise another share option scheme that is applicable to a private company for adoption by our Company.

## Present Status of the Share Option Scheme

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which fall to be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme.

## F. OTHER INFORMATION

### 1. Indemnities

Each of the Major Controlling Shareholders has entered into a deed of indemnity with the Company in favor of each member of our Group to provide the following indemnities:

Under the deed of indemnity, among others, the Major Controlling Shareholders will indemnify each of the Company and our subsidiaries against, among others, (a) taxation falling on the Company and our subsidiaries resulting from, or by reference to, any income, profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) on or before the Listing Date; (b) property losses and property claims (as defined therein) suffered or incurred by Company and our subsidiaries; (c) any actions, claims, losses, damages, costs, charges or expenses which may be made, suffered or incurred by any of the Company or our subsidiaries in respect of or arising directly or indirectly arising from any taxation or taxation claim or property loss or property claim (as defined therein); and (d) all the costs, expenses, losses and/or other liabilities incurred by the Company and its subsidiaries in relation with those outstanding or unsettled legal and arbitration proceedings, investigations and/or claims as disclosed in this prospectus.

The Major Controlling Shareholders will, however, not be liable under the deed of indemnity for taxation where, among others, (a) provision has been made for such taxation in the audited accounts of the Company and our subsidiaries; (b) the taxation falling on the Company and our subsidiaries in respect of any accounting period commencing on or after December 31, 2016 unless liability for such taxation would not have arisen but for some event entered into by the Major Controlling Shareholders, the Company, our subsidiaries or any of them otherwise than in the course of normal day to day trading operations on or before the Listing Date; and (c) the taxation arises or is incurred as a consequence of any change in law or the interpretation thereof or practice by the relevant tax authority having retrospective effect coming into force after the Listing Date or to the extent that the taxation arises or is increased by an increase in rates of taxation after the Listing Date with retrospective effect.

# 2. Litigation

As of the Latest Practicable Date, we are not aware of any other litigation or arbitration proceedings of material importance pending or threatened against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

## 3. Application for Listing

The Sole Sponsor made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus. All necessary arrangements have been made to enable such Shares into CCASS.

## 4. No Material Adverse Change

The Directors confirm that there has been no material change in the financial or trading position or prospects of the Group since June 30, 2017 (being the dated to which the latest audited consolidated financial statements of the Group were prepared and up to the date of this prospectus).

## 5. Agency Fees and Commissions Received

The Underwriters will receive an underwriting commission as referred to in "Underwriting—Underwriting Arrangements and Expenses—Commissions and Expenses."

## 6. The Sole Sponsor and Sole Sponsor's fees

The Sole Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules. The fee payable by the Company to the Sole Sponsor to act as sponsor to the Company in connection with the Global Offering is US\$1.0 million.

# 7. Preliminary expenses

The preliminary expenses incurred by our Company in relation to our incorporation were approximately HK\$23,400 and were paid by us.

## 8. Promoter

The Company has no promoter for the purpose of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

# STATUTORY AND GENERAL INFORMATION

# 9. Qualification of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Morgan Stanley Asia Limited	Licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on future contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO
Maples and Calder (Hong Kong) LLP	Legal advisor to the Company as to the laws of the Cayman Islands
Jingtian & Gongcheng	Legal advisor to the Company as to the laws of the PRC
Cleary Gottlieb Steen & Hamilton (Hong Kong)	Special advisor to the Company as to sanctions-related laws and regulations of the United States, the European Union and resolutions of the United Nations Security Council
King & Wood Mallesons	Legal advisor to the Company as to the international sanctions laws of Australia
Wilkinson & Grist	Legal advisor to the Company as to anti-money laundering laws and other laws of Hong Kong in respect of Third-Party Payments arrangements
Egorov Puginsky Afanasiev & Partners	Legal advisor to the Company as to the laws of Russia and Ukraine
Bruchou, Fernández Madero & Lombardi	Legal advisor to the Company as to the laws of Argentina
Assegaf Hamzah & Partners	Legal advisor to the Company as to the laws of Indonesia
北京市煒衡 (南通) 律師事務所 (W&H Law Firm (Nantong)) <sup>1</sup>	Legal advisor to the Company as to the customs laws of the PRC
McDermott Will & Emery LLP	Legal advisor to the Company as to patent laws of U.S.
PricewaterhouseCoopers	Certified Public Accountants, Hong Kong
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

Note 1: English name for identification purpose only

## 10. Consents of Experts

Each of the experts referred to in "Appendix IV—Statutory and General Information—F. Other Information—9. Qualification of Experts" has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

# 11. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

### 12. Reserves available for distribution

As at June 30, 2017, our Company has US\$24.3 million in reserves available for distribution to our Shareholders.

## 13. Bilingual prospectus

The English and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

## G. MISCELLANEOUS

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
  - no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) no founders or management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
  - (iv) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and

# STATUTORY AND GENERAL INFORMATION

- (v) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries.
- (b) Save as disclosed in this prospectus, our Company had not issued any debentures nor did it have any outstanding debentures nor any convertible debt securities.
- (c) Our Directors confirm that:
  - (i) there has been no material adverse change in the financial or trading position or prospects of the Group since June 30, 2017 (being the date to which the latest audited consolidated financial statements of the Group were prepared);
  - (ii) there is no arrangement under which future dividends are waived or agreed to be waived; and
  - (iii) there has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this prospectus.
- (d) The principal register of members of our Company will be maintained in the Cayman Islands by Maples Fund Services (Cayman) Limited and a branch register of members of our Company will be maintained in Computershare Hong Kong Investor Services Limited. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by Computershare Hong Kong Investor Services Limited and may not be lodged in the Cayman Islands.
- (e) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.
- (f) Save for the proposed listing of our Shares on the Stock Exchange, our Company does not have any equity or debt securities presently listed or dealt in, or for which listing or permission to deal is being or is proposed to be sought, on any stock exchange.

# DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

### DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were, among other things, (i) copies of the WHITE, YELLOW and GREEN application forms, (ii) the written consents referred to in "Appendix IV—Statutory and General Information—F. Other Information—10. Consents of Experts", and (iii) copies of the material contracts referred to in "Appendix IV—Statutory and General Information—B. Further Information About Our Business—1. Summary of material contracts".

### DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Cleary Gottlieb Steen & Hamilton (Hong Kong), 37th Floor, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the Accountant's Report for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017 issued by PricewaterhouseCoopers, the text of which is set out in Appendix I;
- (c) the audited consolidated financial statements of our Group for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017;
- (d) the report on the unaudited pro forma financial information from PricewaterhouseCoopers, the text of which is set out in Appendix II;
- (e) the material contracts referred to in "Appendix IV—Statutory and General Information—B. Further Information About Our Business—1. Summary of Material Contracts;"
- (f) the written consents referred to in "Appendix IV—Statutory and General Information—F. Other Information—10. Consents of Experts;"
- (g) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our legal advisor as to Cayman Islands law, summarising certain aspects of the Cayman Islands company law referred to in Appendix III;
- (h) the service contracts and letters of appointment referred to in "Appendix IV—Statutory and General Information—C. Further Information About Our Directors and Substantial Shareholders—2. Particulars of Service Contracts;"
- (i) the legal opinions dated November 6, 2017 issued by Jingtian & Gongcheng, our legal advisor as to PRC law, in respect of certain aspects of our Group and our property interests;
- (j) the legal advice dated November 6, 2017 issued by Cleary Gottlieb Steen & Hamilton (Hong Kong), our special advisor as to sanctions-related laws and regulations of the U.S. and the European Union and resolutions of the United Nations Security Council;

# DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

- (k) the legal advice dated November 6, 2017 issued by King & Wood Mallesons, our legal advisor as to the international sanctions laws of Australia;
- (l) the legal advice dated November 6, 2017 issued by Wilkinson & Grist, our legal advisor as to anti-money laundering laws and other laws of Hong Kong in respect of Third-Party Payments arrangements;
- (m) the legal advice dated November 6, 2017 issued by Egorov Puginsky Afanasiev & Partners, our legal advisor as to the laws of Russia and Ukraine;
- (n) the legal advice dated November 6, 2017 issued by Bruchou, Fernández Madero & Lombardi, our legal advisor as to the laws of Argentina;
- (o) the legal advice dated November 6, 2017 issued by Assegaf Hamzah & Partners, our legal advisor as to the laws of Indonesia;
- (p) the legal advice dated November 6, 2017 issued by 北京市煒衡(南通)律師事務所 (W&H Law Firm (Nantong))<sup>1</sup>, our legal advisor as to the customs laws of the PRC;
- (q) the legal advice dated November 6, 2017 issued by McDermott Will & Emery LLP, our legal advisor as to patent laws of U.S.;
- (r) the market research report prepared by Frost & Sullivan;
- (s) the Cayman Companies Law;
- (t) the Pre-IPO Share Incentive Scheme; and
- (u) the rules of the Share Option Scheme.

Note 1: English name for identification purpose only



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