



J S C X

江蘇創新環保新材料有限公司

Jiangsu Innovative Ecological New Materials Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2116

SHARE OFFER

Sole Sponsor

東方融資(香港)有限公司
ORIENT CAPITAL (HONG KONG) LIMITED

Joint Coordinators, Joint Bookrunners and Joint Lead Managers

東方證券(香港)有限公司
ORIENT SECURITIES (HONG KONG) LIMITED



國泰君安國際
GUOTAI JUNAN INTERNATIONAL

IMPORTANT

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



J S C X

Jiangsu Innovative Ecological New Materials Limited

江蘇創新環保新材料有限公司

(Incorporated in the Cayman Islands with limited liability)

SHARE OFFER

Number of Offer Shares under the : 120,000,000 Shares (subject to the Share Offer Over-allotment Option)

Number of Public Offer Shares : 12,000,000 Shares (subject to re-allocation)

Number of Placing Shares : 108,000,000 Shares (subject to re-allocation and the Over-allotment Option)

Offer Price : not more than HK\$1.25 per Public Offer Share and expected to be not less than HK\$1.00 per Public Offer Share, plus brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Hong Kong 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 : 2116

Sole Sponsor

東方融資(香港)有限公司
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 **國泰君安國際**
GUOTAI JUNAN INTERNATIONAL

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 VI — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" of this Prospectus, has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this Prospectus or any of the other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Coordinators (for themselves and on behalf of the Underwriters) and the Company on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 22 March 2018, or such time and date as may be agreed between us and the Joint Coordinators (acting for themselves and on behalf of the Underwriters). The Offer Price will be no more than HK\$1.25 per Offer Share and is currently expected to be no less than HK\$1.00 per Offer Share unless otherwise announced. Investors applying for Public Offer Shares must pay, on application, the maximum Offer Price of HK\$1.25 per Share, unless otherwise announced, together with brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is less than HK\$1.25 per Offer Share.

The Joint Coordinators (on behalf of the Underwriters) may, with the consent of the Company, reduce the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range below that stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, an announcement will be published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), the Hong Kong Stock Exchange's website at www.hkexnews.hk and on the Company's website at www.jsxsh.cn no later than the morning of the day which is the last day for lodging applications under the Public Offer. Further details are set out in "Structure of the Share Offer" and "How to Apply for Public Offer Shares." If, for any reason, the Offer Price is not agreed between the Joint Coordinators (on behalf of the Underwriters) and the Company on or before Tuesday, 27 March 2018, the Share Offer (including the Public Offer) will not proceed and will lapse. In such case, a notice will be published on the Stock Exchange's website at www.hkexnews.hk and on the Company's website at www.jsxsh.cn. The obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement to subscribe for, and to procure applicants to subscribe for, the Public Offer Shares, are subject to termination by the Joint Coordinators (for themselves and on behalf of the Public Offer Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. For more information, see "Underwriting — Underwriting Arrangements and Expenses — Public Offer — Grounds for termination."

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, or for the account or benefit of U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares may be offered, sold or delivered outside of the United States in accordance with Regulation S under the U.S. Securities Act.

19 March 2018

EXPECTED TIMETABLE⁽¹⁾

We will issue an announcement in Hong Kong to be published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.jscxsh.cn if there is any change to the following expected timetable of the Public Offer.

Latest time to complete electronic applications under
White Form eIPO service through the designated
website at www.eipo.com.hk ⁽²⁾ 11:30 a.m. on Thursday, 22 March 2018

Application lists of the Public Offer
open ⁽³⁾ 11:45 a.m. on Thursday, 22 March 2018

Latest time to lodge **WHITE** and **YELLOW**
Application Forms 12:00 noon on Thursday, 22 March 2018

Latest time to give **electronic application**
instructions to HKSCC ⁽⁴⁾ 12:00 noon on Thursday, 22 March 2018

Latest time to complete payment of **White Form eIPO**
applications by effecting internet banking
transfer(s) or PPS payment transfer(s) 12:00 noon on Thursday, 22 March 2018

Application lists of the Public Offer
close ⁽³⁾ 12:00 noon on Thursday, 22 March 2018

Expected Price Determination Date ⁽⁵⁾ on or round Thursday, 22 March 2018

(1) Announcement of the final Offer Price, the level of
indications of interest in the Placing, the level of
applications in the Public Offer, and the basis of allocation
of the Public Offer Shares under the Public Offer to be
published in the South China Morning Post (in English)
and the Hong Kong Economic Times (in Chinese) on or
before Tuesday, 27 March 2018

(2) Results of allocations in the Public Offer (with successful
applicants' identification document numbers or business
registration numbers, where appropriate) will be available
through a variety of channels as described in "How to
Apply for Public Offer Shares — 11. Publication of
Results") Tuesday, 27 March 2018

(3) A full announcement of the Public Offer containing (1) and
(2) above to be published on the website of the Stock
Exchange at www.hkexnews.hk and the Company's website
at <http://www.jscxsh.cn> ⁽⁶⁾ Tuesday, 27 March 2018

Results of allocations in the Public Offer will be available at
www.iporesults.com.hk (alternatively: English
<https://www.eipo.com.hk/en/Allotment>; Chinese
<https://www.eipo.com.hk/zh-hk/Allotment>) with a "search by
ID/Business Registration Number" function from Tuesday, 27 March 2018

Dispatch/collection of Share certificates or deposit of the Share
certificates into CCASS in respect of wholly or partially
successful applications pursuant to the Public Offer on or
before ⁽⁷⁾ Tuesday, 27 March 2018

EXPECTED TIMETABLE⁽¹⁾

Dispatch of refund cheques and **White Form** e-Refund payment instructions/refund cheques in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications pursuant to the Public Offer on or before ⁽⁸⁾⁽⁹⁾ Tuesday, 27 March 2018

Dealings in Shares on the Stock Exchange expected to commence at 9:00 a.m. on Wednesday, 28 March 2018

Notes:

- (1) All dates and times refer to Hong Kong local dates and times, 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 on 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 “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 22 March 2018, the application lists will not open or close on that day. See “How to Apply for Public Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists.”
- (4) Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should see “How to Apply for Public 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 Thursday, 22 March 2018. If, for any reason, the Offer Price is not agreed by Tuesday, 27 March 2018 between the Joint Bookrunners (on behalf of the Underwriters) and the Company, the Share Offer 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 for the Offer Shares will become valid certificates of title at 8:00 a.m. on Wednesday, 28 March 2018 provided that (i) the Share Offer has become unconditional in all respects and (ii) none of the Underwriting Agreements have been terminated in accordance with its terms.
- (8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer 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 check, 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 check. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of the refund check.
- (9) Applicants who have applied on **WHITE** Application Forms or **White Form eIPO** for 1,000,000 or more Public Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates in person from the 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 Tuesday, 27 March 2018 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. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. Applicants being corporations which are 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 the Company’s Hong Kong Share Registrar at the time of collection. Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Public 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 Public Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should see “How to Apply for Public Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies — Personal Collection — If you apply via Electronic Application Instructions to HKSCC” for details. Uncollected refund cheques and/or Share certificates will be dispatched by ordinary post, at the applicant’s own risk, to the addresses specified in the relevant applications.

The above expected timetable is a summary only. See “Structure of the Share Offer” and “How to Apply for Public Offer Shares” for details of the structure and conditions of the Share Offer, as well as the application procedures for the Public Offer.

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This Prospectus is issued by Jiangsu Innovative Ecological New Materials Limited solely in connection with the Public Offer and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Public Offer Shares offered by this Prospectus pursuant to the Public Offer. 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 or 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. The Company has 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 as having been authorized by the Company, the Sole Sponsor, the Joint Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, representatives, employees, agents or professional advisers or any other person or party involved in the Share Offer.

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SUMMARY AND HIGHLIGHTS

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

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

OVERVIEW

We develop, manufacture and market oil refining agents and fuel additives that are primarily applied to reduce undesirable emissions and comply with the evolving regulatory requirements. We endeavor to bring forth an innovative, environmentally sustainable generation of oil refining technology. Operating in an evolving landscape of enhanced environmental laws, according to CIC, our products contribute to the environmental sustainability of China’s modern economy.

We are among the earliest of our peers to enter the PRC oil refining agents and fuel additives industry. Our history parallels the rise of the PRC petrochemical industry. We believe that we have accompanied our long-term customers through their respective milestones. Over time we formed long-standing relationships with various Affiliates of Sinopec, CNPC and CNOOC, the three state-owned conglomerates that dominate the PRC petrochemical industry. According to CIC, these three conglomerates accounted for approximately 72% of China’s oil refining market in 2016. Hence, we believe that our relationship with the Affiliates of the three state-owned conglomerates is our major strength. Sales to Affiliates of the three state-owned conglomerates accounted for 92.2%, 92.6%, 92.7% and 87.7% of our total revenue, respectively, for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017. For discussions regarding concentration of and plan for diversifying our customer base, see “Business — Sales and Marketing — Our Five Largest Customers.”

We also attribute a significant part of our success to our research and development capabilities. We regularly collaborate with RIPP to pool ideas, information and resources with its industry and academic professionals. The success of our research and development efforts has resulted in a number of patents in China, as well as several awards in recognition of our capabilities.

During the Track Record Period, we experienced substantial revenue growth. Our revenue increased from RMB105.1 million for the year ended 31 December 2014 to RMB135.7 million for the year ended 31 December 2016, representing a CAGR of 13.6%. According to CIC, we ranked among the top five players in China’s oil refining agents and fuel additives industry and occupied around 1.7% of the total market in terms of domestic revenue in 2016. We believe that our long-term customer relationships, research and development capabilities and experienced senior management team have allowed and will continue to allow us to consolidate our market share in China.

Our Business Model

The following flow chart summarizes our business model from research and development to commercialization:



For details of our business model, see “Business — Our Business Model.”

SUMMARY AND HIGHLIGHTS

Our Products

We offer oil refining agents and fuel additives with desulfurizing agents, lubricity improvers and metal passivators as our key products among those two categories.

Our oil refining agents are used to refine crude oil and extend the working life of oil refining units, enhancing economic efficiencies and, with respect to oil refineries, reducing undesirable emissions in the form of industrial waste. Our fuel additives are used to enhance the quality and efficiency of fuels as our petrochemical industry customers increasingly seek to comply with evermore stringent mandatory emissions regulations. For example, as hydrodesulfurization is now a required part of the refining process, our customers use fuel additives such as our lubricity improvers to compensate for the resulting loss of key fuel characteristics.

Furthermore, we are authorized to distribute fuel additives such as lubricity improvers and static dissipater additives from Total, as well as a diesel oil cetane number improver from EURENCO known as the VeryOne Cetane Improver. We sell desulfurizing agents from International Supplier that are specifically used to reduce H₂S in tail gases emitted by sulfur-production units in oil refineries. This desulfurizing agent is capable of filtering through other gases to select small accumulations of sulfur compounds. Proper application of this desulfurizing agent may allow shutdowns of gas incinerators and result in energy and cost savings. There is no competition between the products we sell and the products we distribute. For details, see “Business — Sales and Marketing — Products Sold as Authorized Distributor.”

The following table sets forth the breakdown of our revenue by product category and as a percentage of total revenue for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2014		2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<i>Products sold</i>							(unaudited)			
Oil refining agents....	88,154	83.9	83,149	72.8	86,705	64.0	73,573	68.8	89,771	61.5
Fuel additives	16,202	15.4	25,982	22.7	33,973	25.0	24,502	22.9	25,491	17.5
<i>Products distributed</i>										
Oil refining agents....	—	—	2,445	2.1	5,346	3.9	2,236	2.0	16,218	11.0
Fuel additives	774	0.7	2,797	2.4	9,626	7.1	6,704	6.3	14,547	10.0
Total revenue.....	105,130	100.0	114,373	100.0	135,650	100.0	107,015	100.0	146,027	100.0

Revenue derived from desulfurizing agents we distributed increased significantly from RMB2.2 million for the nine months ended 30 September 2016 to RMB16.2 million for the nine months ended 30 September 2017, mainly because we had seven new customers which, our Directors believe, was due to the evermore stringent mandatory emissions regulations in China. Revenue derived from fuel additives we distributed substantially increased from RMB6.7 million for the nine months ended 30 September 2016 to RMB14.5 million for the nine months ended 30 September 2017. This increase was primarily because: (i) sales volumes for lubricity improvers increased mainly because our two existing customers increased their production volume, such that revenue generated from sales of those products increased by RMB5.1 million from the nine months ended 30 September 2016 to the nine months ended 30 September 2017; and (ii) revenue from EURENCO’s diesel oil cetane number improvers we distributed increased by RMB3.1 million during the nine months ended 30 September 2017.

SUMMARY AND HIGHLIGHTS

The table below sets forth our gross profit and gross profit margin by product category for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2014		2015		2016		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
(unaudited)										
<i>Products sold</i>										
Oil refining agents	35,536	40.3	38,945	46.8	46,010	53.1	38,791	52.7	33,897	37.8
Fuel additives.....	4,915	30.3	8,894	34.2	12,074	35.5	8,292	33.8	10,330	40.5
<i>Products distributed</i>										
Oil refining agents	—	—	185	7.6	704	13.2	169	7.6	4,775	29.4
Fuel additives.....	161	20.8	494	17.7	2,348	24.4	1,495	22.3	4,220	29.0
Total gross profit/gross profit margin	<u>40,612</u>	<u>38.6</u>	<u>48,518</u>	<u>42.4</u>	<u>61,136</u>	<u>45.1</u>	<u>48,747</u>	<u>45.6</u>	<u>53,222</u>	<u>36.4</u>

Owing to the promulgation of evermore stringent mandatory emissions regulations by the PRC Government, we experienced rising customer demand for our products during the Track Record Period. Our customer base is founded on a network of long-standing relationships with Affiliates of Sinopec, CNPC and CNOOC, three state-owned conglomerates who dominate the PRC petrochemical industry. Additionally, our prices and profit margins were higher than those of other members of our industry. Our profit margins were higher than those of others in the industry primarily because we were able to sell our products at higher prices, while sourcing raw materials at lower purchase prices because of our shorter payment period, relative to most of our competitors. We were able to sell products at higher prices because, during the tender process, we were not compelled to offer the lowest bid as we believe some of the state-owned conglomerates took into consideration our qualification and track record in awarding us the tender. For details, please refer to “Business — Sales and Marketing — Marketing — Tenders.”

Our Production Facilities

Our production facilities and corporate headquarters are located in Yixing, Jiangsu Province. Our Yixing Plant consists of three workshops housing four production lines and seven warehouses for the storage of finished products and raw materials.

SUMMARY AND HIGHLIGHTS

The tables below set forth data relating to our Yixing Plant for the periods indicated:

Oil refining agents

	Year ended 31 December			Nine months ended
				30 September
	2014	2015	2016	2017
Production capacity (tons) ⁽¹⁾	8,350.0	8,350.0	8,350.0	6,262.5
Production volume (tons)	4,409.6	4,506.4	4,872.6	6,206.1
Utilization rate (%).....	52.8	54.0	58.4	99.1

Fuel additives

	Year ended 31 December			Nine months ended
				30 September
	2014	2015	2016	2017
Production capacity (tons) ⁽¹⁾	2,100.0	2,100.0	2,100.0	1,575.0
Production volume (tons)	976.4	1,348.3	1,870.5	1,508.8
Utilization rate (%).....	46.5	64.2	89.1	95.8

Note:

- (1) Utilization rate is calculated by dividing production volume for the year or period by production capacity for the year or period.

For more information, see “Business — Production.”

Research and Development

We believe that research and development is essential to our business growth. As of the Latest Practicable Date, our research and development department consisted of 13 members, of whom five had bachelor’s degrees. Members of our research and development team have earned diplomas or degrees in subject areas key to our operations such as engineering, applied chemistry, petroleum processing and oil refining technology. As of the Latest Practicable Date, we owned three invention patents and 15 utility model patents. As a result of our research and development efforts, we developed two invention patents and 15 utility model patents in China as of the Latest Practicable Date. We also acquired one invention patent from Jiangsu Kechuang Petrochemicals Co., Ltd. (江蘇創科石化有限公司), a company owned by Ms. Gu’s brother. Our research and development expenses for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017 were RMB4.8 million, RMB5.2 million, RMB5.5 million, RMB3.5 million and RMB5.4 million, respectively, accounting for 4.6%, 4.5%, 4.1%, 3.2% and 3.7% of our total revenue, respectively. For more information, please refer to “Business — Research and Development.”

SUMMARY AND HIGHLIGHTS

Sales and Marketing

During the Track Record Period, we sold our oil refining agents and fuel additives directly to our customers through our sales department. Our customers are primarily corporations that operate oil refineries in the petrochemical industry. During the Track Record Period, most of our PRC customers were Affiliates of three state-owned conglomerates in China, namely Sinopec, CNPC and CNOOC. Our PRC customer base is spread throughout various regions in China. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, sales to our five largest customers amounted to RMB71.4 million, RMB74.5 million, RMB91.7 million and RMB77.4 million, respectively, accounting for 68.0%, 65.2%, 67.6% and 53.0% of our total revenue, respectively.

According to CIC, the PRC Government is an active player in the petrochemical industry and invests in oil and gas projects worldwide through the three state-owned conglomerates. For example, CNPC and Sudan's Ministry of Energy and Mining (through its controlled corporation) once partnered together in a joint venture and incorporated Khartoum Refinery Company Ltd. (“**Khartoum Refinery**”) in July 1997; we began supplying Khartoum Refinery with oil refining agents since 2003.

The following table sets forth the breakdown of our revenue, gross profit and gross profit margin by country and region for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2014		2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
<i>China</i>										
Revenue.....	85,579	81.4	94,447	82.6	102,680	75.7	75,652	70.7	124,877	85.5
Gross profit/gross profit margin	28,511	33.3	34,855	36.9	37,189	36.2	25,746	34.0	38,054	30.5
<i>Sudan</i>										
Revenue.....	17,014	16.2	17,251	15.1	29,555	21.8	27,948	26.1	18,687	12.8
Gross profit/gross profit margin	10,826	63.6	12,099	70.1	21,606	73.1	20,664	73.9	13,486	72.2
<i>Others</i> ⁽¹⁾										
Revenue.....	2,537	2.4	2,675	2.3	3,415	2.5	3,415	3.2	2,463	1.7
Gross profit/gross profit margin	1,275	50.3	1,564	58.5	2,341	68.6	2,337	68.4	1,682	68.3
Total revenue	<u>105,130</u>	<u>100.0</u>	<u>114,373</u>	<u>100.0</u>	<u>135,650</u>	<u>100.0</u>	<u>107,015</u>	<u>100.0</u>	<u>146,027</u>	<u>100.0</u>
Total gross profit/gross profit margin .	<u>40,612</u>	<u>38.6</u>	<u>48,518</u>	<u>42.4</u>	<u>61,136</u>	<u>45.1</u>	<u>48,747</u>	<u>45.6</u>	<u>53,222</u>	<u>36.4</u>

Note:

(1) Other countries and regions in which we had sales during the Track Record Period included Chad, Niger and Algeria in Africa. We sell our products to certain of our customers in these countries and regions through their designated agents.

We believe that our long-standing relationships with Affiliates of the three state-owned conglomerates have benefited us and are the result of consistent business development efforts over time. We have worked with Affiliates of Sinopec and CNPC since 2003 and CNOOC since 2008. When an existing or potential customer launches a tender, we believe that we are more likely to be awarded contracts because we have accumulated valuable experience in relation to the development and

SUMMARY AND HIGHLIGHTS

manufacturing of oil refining agents and fuel additives. During the Track Record Period, a substantial portion of our revenue in China was derived from purchase orders we obtained through participating in tenders. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, our tender success rate was 71.4%, 79.2%, 40.0% and 41.2%, respectively. For details, see “Business — Sales and Marketing — Marketing — Tenders.”

Raw Materials and Suppliers

Our oil refining agents and fuel additives are produced with 50 to 60 types of raw materials, which include MDEA, tall oil fatty acid, antimony trioxides and T154, among other things. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, the cost of our raw materials represented 95.2%, 89.9%, 80.7%, 84.6% and 74.6% of our total cost of sales, respectively.

The majority of our raw materials are obtained from qualified PRC suppliers. We also source supplies of tall oil fatty acid from Finland. We decide on the geographic regions from which we would purchase our raw materials based on factors such as availability, price and quality. In selecting our suppliers, we consider factors such as location, reputation, product quality, pricing and terms of dealing, and regularly review our list of suppliers based on those same factors. We are also constantly searching for better raw materials with which to produce our oil refining agents and fuel additives. We also distribute certain products from International Supplier, Total and EURENCO. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, purchases from our five largest suppliers amounted to RMB37.5 million, RMB39.4 million, RMB56.4 million and RMB72.9 million, respectively, representing 56.2%, 53.7%, 60.9% and 67.4% of our total purchases, respectively.

COMPETITIVE STRENGTHS

We believe the following competitive strengths have contributed and will continue to contribute to our leadership position and success:

- We are among the top five players in the PRC oil refining agents and fuel additives industry and have long-term customer relationships;
- We benefit from operating in an evolving landscape of enhanced environmental laws and regulations;
- We have research and development capabilities that allow us to develop innovative, high-quality oil refining agents and fuel additives; and
- We believe that we have an experienced senior management team.

BUSINESS STRATEGIES

We aspire to bring forth an innovative, environmentally sustainable generation of oil refining technology with our oil refining agents and fuel additives. We intend to pursue the following strategies in furtherance of this goal:

- Increase our production capacity to meet rising customer demand;
- Expand our product mix to create new market opportunities;
- Expand our customer base to diversify our revenue sources;
- Extend our upstream reach and produce certain key raw materials; and
- Continue enhancing our research and development capabilities.

SUMMARY AND HIGHLIGHTS

SUMMARY KEY FINANCIAL INFORMATION

The summary historical data of financial information set forth below have been extracted or derived from, and should be read in conjunction with, our consolidated financial statements, including the accompanying notes, set forth in the Accountants' Report attached as Appendix I to this Prospectus, as well as the information set forth in "Financial Information." Our financial information was prepared in accordance with HKFRS.

Selected Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Year ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue	105,130	114,373	135,650	107,015	146,027
Cost of sales	(64,518)	(65,855)	(74,514)	(58,268)	(92,805)
Gross profit	40,612	48,518	61,136	48,747	53,222
Other income	896	1,970	2,548	1,077	733
Selling and marketing expenses.....	(8,168)	(8,405)	(9,680)	(6,684)	(5,423)
General and administrative expenses	(9,124)	(9,248)	(9,372)	(7,211)	(15,110)
Research and development expenses.....	(4,823)	(5,190)	(5,509)	(3,459)	(5,427)
Profit from operations	19,393	27,645	39,123	32,470	27,995
Finance costs	—	—	—	—	(78)
Profit before taxation	19,393	27,645	39,123	32,470	27,917
Income tax	(2,973)	(4,443)	(5,777)	(4,811)	(4,265)
Profit and total comprehensive income for the year/period	<u>16,420</u>	<u>23,202</u>	<u>33,346</u>	<u>27,659</u>	<u>23,652</u>

Our revenue, gross profit and profit and total comprehensive income kept increasing from 2014 to 2016 mainly due to the increased demand from our customers for the oil refining agents and fuel additives we produced which, our Directors believe, was because of the evermore stringent mandatory emissions regulations. For the nine months ended 30 September 2017, our net profit decreased by RMB4.0 million due to a combined effect of an increase of RMB4.5 million in gross profit and an increase of RMB9.0 million in professional service fees in relation to the Listing. For details of the fluctuations of our financial results during the Track Record Period, see "Financial Information — Results of Operations."

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Selected Consolidated Statements of Financial Position

	As of 31 December			As of 30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	28,162	26,121	25,625	23,846
Current assets.....	74,130	100,754	118,595	143,892
Current liabilities	32,026	16,872	43,871	64,152
Net current assets.....	42,104	83,882	74,724	79,740
Total equity.....	<u>70,266</u>	<u>110,003</u>	<u>100,349</u>	<u>103,586</u>

The fluctuations in our net current assets were mainly due to substantial changes of trade and other payables and trade and other receivables. Our current liabilities decreased from RMB32.0 million as of 31 December 2014 to RMB16.9 million as of 31 December 2015, mainly due to a substantial decrease in trade and other payables of RMB17.0 million because of the settlement of an amount due to related parties (non-trade) of RMB11.8 million, payment of dividends payable of RMB7.0 million and a decrease in trade payables of RMB2.4 million. Our current liabilities increased from RMB16.9 million as of 31 December 2015 to RMB43.9 million as of 31 December 2016, mainly due to an increase in trade and other payables of RMB25.7 million primarily because we had dividends payable of RMB22.8 million in 2016 declared for the year ended 31 December 2016. For details, please refer to “Financial Information — Liquidity and Capital Resources — Selected items of the consolidated statements of financial position.”

Summary Consolidated Cash Flow Statements

	Year ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents at beginning of year/period.....	1,664	1,900	9,068	9,068	2,372
Net cash generated from/(used in) operating activities	20,303	43,226	10,403	5,916	(6,347)
Net cash (used in)/generated from investing activities.....	(5,601)	(34,020)	2,778	(2,932)	20,784
Net cash used in financing activities.....	(14,456)	(2,301)	(20,152)	—	(6,095)
Effect of foreign exchange rate changes	(10)	263	275	294	136
Cash and cash equivalents at end of year/period	<u>1,900</u>	<u>9,068</u>	<u>2,372</u>	<u>12,346</u>	<u>10,850</u>

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The fluctuations in net cash flows were mainly due to the changes of profit before tax and the trade and other receivables, the proceeds generated from disposal of available-for-sale financial assets and dividends declared and paid. For the nine months ended 30 September 2017, we had negative operating cashflow mainly due to the increase in trade and other receivables resulting from the increase in sales, the Listing expenses and the payment of income tax, partially offset by an increase in trade and other payables resulting from the increase in purchases. For details, please refer to “Financial Information — Liquidity and Capital Resources — Cash flows.”

Key Financial Ratios

	As of/For the year ended 31 December			As of/For the nine months ended 30 September
	2014	2015	2016	2017
	Return on equity ⁽¹⁾	25.1%	25.7%	31.7%
Return on assets ⁽²⁾	16.2%	20.2%	24.6%	N/A ⁽³⁾
Current ratio ⁽⁴⁾	2.3	6.0	2.7	2.2
Quick ratio ⁽⁵⁾	2.0	5.3	2.3	2.0
Gross profit margin	38.6%	42.4%	45.1%	36.4%
Net profit margin.....	15.6%	20.3%	24.6%	16.2%

Notes:

- (1) Return on equity represents profit for the year divided by average equity, calculated as equity at the beginning of the year plus equity at the end of the year, divided by two.
- (2) Return on assets represents profit for the year divided by average assets, calculated as assets at the beginning of the year plus assets at the end of the year, divided by two.
- (3) Such ratio would not be meaningful as it is not comparable to annual numbers.
- (4) Current ratio represents total current assets divided by total current liabilities as of the relevant year/period end.
- (5) Quick ratio represents total current assets less inventories divided by total current liabilities as of the relevant year/period end.

CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, the Company was owned as to 100% by Innovative Green Holdings, which in turn was owned as to 50% by Mr. Ge and 50% by Ms. Gu. Immediately following the completion of the Capitalization Issue and the Share Offer, assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme, Innovative Green Holdings and the public shareholders will hold 360,000,000 Shares and 120,000,000 Shares, respectively, representing 75% and 25%, respectively, of the enlarged issued share capital of the Company. Innovative Green Holdings, Mr. Ge and Ms. Gu are therefore the Controlling Shareholders of the Company within the meaning of the Listing Rules that can exercise or control the exercise of 30% or more of voting power at any of our Shareholders’ general meetings, and are expected to remain as the Controlling Shareholders of the Company immediately following the completion of the Share Offer. Mr. Ge and Ms. Gu are spouses and a group of Controlling Shareholders. For more information, see “Relationship with Controlling Shareholders — Our Controlling Shareholders.”

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RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Our business remained stable after the Track Record Period. For the year ended 31 December 2017, we recorded an increase of 37.7% in our revenue as compared to the year ended 31 December 2016, which is in line with the increase in our sales volume. According to CIC, the market size of the PRC oil refining agents and fuel additives industry is expected to increase in the foreseeable future with a greater focus on eco-friendly products. We believe such market trend will provide us with more business opportunities and allow us to take full advantage of our strong research and development capabilities. For the year ended 31 December 2017, we also recorded an increase in our gross profit as compared to the year ended 31 December 2016. However, our gross profit margin for the year ended 31 December 2017 decreased due to a significant purchase order in 2017 that generated gross profit margin of 10.7%, which was lower than our average gross profit margin. We lower our gross profit margin from time to time in order to gain significant market share of similar products in the industry. For more information, please see “Financial Information — Factors Affecting Our Results of Operations and Financial Condition — Adjustment of selling price for strategic reasons” and “Financial Information — Results of Operations — Nine months ended 30 September 2017 compared with nine months ended 30 September 2016 — Gross profit and gross profit margin.”

We believe that we will be able to maintain our top five market position in the PRC oil refining and fuel additives industry. In addition to our regular business operation, we have started the planning of the expansion of our Yixing Plant, which will increase our production capacity to 25,000 tons to better meet rising customer demand. We have obtained approvals from relevant government agencies for such expansion plan and are confident that the expansion plan will streamline our production process and enhance efficiencies. For details, see “Future Plans and Use of Proceeds — Use of Proceeds.” We are also planning to produce certain key raw materials to reduce the procurement costs and exercise greater control over product quality. We are currently at the stage of selecting the engineer, procurement and construction service provider. For details, see “Future Plans and Use of Proceeds — Use of Proceeds.” In addition, we are actively developing new customers such as the non state-owned oil refineries to expand our customer base, while continue to use our best effort to consolidate our relationship with our long-term customers, namely the Affiliates of Sinopec, CNPC and CNOOC.

As of 31 January 2018, we had bank borrowings of RMB18.0 million and had unutilized banking facilities of RMB2.0 million. Such bank borrowings were guaranteed by a security interest over our land use rights and properties as collateral.

Our Directors confirm that, as of the date of this Prospectus, there had been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since 30 September 2017, the reporting period end of our consolidated financial statements.

We have prepared unaudited preliminary financial information for our Group as of and for the year ended 31 December 2017, which is set forth in Appendix III to this Prospectus.

NON-COMPLIANCE MATTERS

Except for the non-compliance incidents disclosed below, we are advised by our PRC Legal Advisers that, during the Track Record Period and up to the Latest Practicable Date, we had complied with relevant PRC laws and regulations in all material respects:

- we failed to register with the relevant housing provident fund authority, and did not make housing provident fund contributions for all eligible employees; and
- we did not fully make social insurance fund contributions for all eligible employees.

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For more information, see “Business — Legal Proceedings and Compliance — Compliance.”

SALES TO COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

During the Track Record Period, we sold our non-U.S. origin products, namely oil refining agents and fuel additives, to certain customers in Sudan. Sudan was subject to OFAC’s comprehensive sanctions program under the Sudanese Sanctions Regulations (“SSR”) until 12 October 2017. For more information, see “Business — Business Activities in Countries Subject to International Sanctions.”

For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, our revenue derived from sales to customers in Sudan amounted to RMB17.0 million, RMB17.3 million, RMB29.6 million and RMB18.7 million, respectively, representing 16.2%, 15.1%, 21.8% and 12.8% of our total revenue, respectively. For more information, see “Business — Business Activities in Countries Subject to International Sanctions.” As advised by our International Sanctions Legal Advisers, certain payments by customers in Sudan during 2013 and 2014 that were denominated in U.S. dollars and processed through the U.S. financial system before they were received by our Group, appear to be potential violations of U.S. sanctions regulations that were applicable to transactions with Sudan at such time. We have ceased receiving all USD payments from customers in Sudan since August 2014. However, after consulting with our International Sanctions Legal Advisers, we submitted a voluntary self-disclosure (“VSD”) on 19 September 2017 to OFAC with regard to our USD-denominated transactions relating to Sudan. For more information, see “Financial Information — Contingent Liabilities.” Based on the facts and circumstances and the assessment made by our International Sanctions Legal Advisers, our Directors believe that the most likely result of the VSD will be a cautionary letter issued by OFAC to close out the case without the imposition of any penalty. If, however, in the less likely event that OFAC were to impose an administrative penalty on us as a result of potential sanctions violations, our Directors believe, based on consultation with our International Sanctions Legal Advisers, that such penalties, even if imposed, are unlikely to have a material adverse effect on our financial condition or results of operations. Our International Sanctions Legal Advisers have indicated that other than such potential administrative penalty, no other criminal or civil penalties are foreseeable based on the USD payments we received from customers in Sudan. For details regarding any risks associated with our prior sales in Countries subject to International Sanctions, see “Risk Factors — We have previously made sales to customers in countries that are subject to International Sanctions administered by the U.S., and we could be adversely affected if these sales result in penalties on our Group.”

SHARE OFFER STATISTICS

The statistics in the following table are based on the assumptions that: (i) the Share Offer is completed and 120,000,000 Shares are issued and sold in the Share Offer; (ii) the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme; and (iii) 480,000,000 Shares are issued and outstanding upon completion of the Share Offer.

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	<u>Based on an Offer Price of HK\$1.00 per Offer Share</u>	<u>Based on an Offer Price of HK\$1.25 per Offer Share</u>
Market capitalization of our Shares.....	HK\$480,000,000	HK\$600,000,000
Unaudited pro forma adjusted net tangible asset value per Share ⁽¹⁾	HK\$0.47	HK\$0.53

Note:

- (1) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in “Appendix II — Unaudited Pro Forma Financial Information.”

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$105.5 million from the Share Offer, after deducting the underwriting commissions and other estimated expenses payable by us in connection with the Share Offer, assuming that the Over-allotment Option is not exercised, without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme and assuming an Offer Price of HK\$1.13 per Share (being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus). We intend to use such net proceeds from the Share Offer for the purposes and in the amounts set forth below:

- approximately 41.0%, or approximately HK\$42.8 million, will be used to upgrade our Yixing Plant by purchasing new sets of machinery, equipment and analytical instruments, thereby expanding our production capacity, as well as meeting evermore stringent mandatory emissions regulations. We have already received regulatory approval for building a 25,000-ton production facility. We plan to complete the design and preparation for the expansion plan in the first half of 2018 and start the installation of the machinery and equipment in the third quarter of 2018. We expect to commence commercial production in the first quarter of 2019;
- approximately 51.0%, or approximately HK\$53.9 million, to build production facilities for the manufacturing of a lower-cost raw material substitute, high-purity oleic acid, for the production of lubricity improvers, which we currently need to import from overseas. The facility will be built on the same property in which our Yixing Plant is located. We expect to apply for recordation with the Yixing Economic Development Zone Economics and Technology Development Bureau (宜興經濟技術開發區經濟科技發展局) and respective approvals from the Environmental Protection Bureau of Wuxi City (無錫市環境保護局) and the Yixing Economic Development Zone Planning and Construction Bureau (宜興經濟技術開發區規劃建設局) in the fourth quarter of 2018, begin the construction in the first quarter of 2019 and commence commercial production in the fourth quarter of 2019; and
- approximately 8.0%, or approximately HK\$8.8 million, will be used for general business operations and working capital.

For more information, see “Future Plans and Use of Proceeds.”

SUMMARY AND HIGHLIGHTS

DIVIDENDS

Declaration of dividends is subject to the discretion of our Directors, depending on our results of operations, working capital, financial position, future prospects and capital requirements, as well as any other factors which our Directors may consider relevant. We made profit distribution of RMB17.5 million in 2014, RMB43.0 million in 2016 and RMB20.4 million in respect of six-month period ended 30 June 2017. Starting from 30 June 2017 and up to the Latest Practicable Date, we did not declare any additional dividends. There can be no assurance that we will be able to declare any dividend in the amount set out in any plan of the Board or at all. We currently do not have any dividend policy or any plan to declare any dividends in the near future. For more information, see “Financial Information — Dividends.”

LISTING EXPENSES

We expect to incur total listing expenses (including professional fees, underwriting commissions and other fees) of approximately HK\$30.1 million (based on the mid-point of the indicative Offer Price range), of which approximately HK\$20.1 million is expected to be charged to profit or loss and approximately HK\$10.0 million is expected to be capitalized upon Listing. During the Track Record Period, we incurred listing expenses of approximately HK\$13.8 million, among which approximately HK\$10.7 million has been charged to the profit or loss and approximately HK\$3.1 million has been capitalized. The listing expenses above are the latest estimate for reference only and the actual amount may differ from the estimate. Our financial results for the year ended 31 December 2017 were impacted by the non-recurring listing expenses to be charged to profit or loss.

RISK FACTORS

Our operations involve certain risks, 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 Share Offer. Some of the risks generally associated with our business and industry include the following:

- Most of our revenue is derived from a concentrated customer base.
- We may be unsuccessful in researching and developing new products or in improving the quality of our existing products.
- In carrying out our business strategy to upgrade our Yixing Plant, we may not achieve the intended economic results and/or we may exceed our original budget.
- Our strategy to manufacture a certain raw material substitute, high-purity oleic acid, in our Yixing Plant may not be successful.
- We have previously made sales to customers in countries that are subject to International Sanctions administered by the U.S., and we could be adversely affected if these sales result in penalties on our Group.

These risks are not the only significant risks that may affect the value of our Shares. You should carefully consider all of the information set forth in this Prospectus and, in particular, should evaluate the specific risks set forth in “Risk Factors” in deciding whether to invest in our Shares.

DEFINITIONS

In this Prospectus, unless the context otherwise requires, the following words and expressions have the following meanings. Certain technical terms are explained in “Glossary.”

“Accountants’ Report”	our accountants’ report set out in Appendix I of this Prospectus
“affiliate(s)”	any other person(s), directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person(s)
“Affiliates”	the subsidiaries of Sinopec, CNPC and/or CNOOC or companies which Sinopec, CNPC and/or CNOOC invested in
“AIC” or “SAIC”	Administration of Industry & Commerce (工商管理機關) in the PRC or, where the context so requires, the State Administration for Industry & Commerce of the PRC (中華人民共和國工商管理總局) or its delegated authority at the provincial, municipal or other local level
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s), or where the context so requires, any of them
“Articles of Association” or “Articles”	the amended and restated articles of association of the Company conditionally adopted on 11 March 2018 which will come into effect upon Listing, a summary of which is set out in “Appendix IV — Summary of the Constitution of the Company and Cayman Company Law” of this Prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board” or “Board of Directors”	the board of directors of the Company
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalization Issue”	the issue of 359,999,999 Shares to be made upon capitalization of an amount of HK\$3,599,999.99 standing to the credit of the share premium account of the Company as referred to in “Appendix V — Statutory and General Information — Further Information about Our Group — 3. Resolutions in Writing Passed by Our Shareholders on 11 March 2018” of this Prospectus
“Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands

DEFINITIONS

“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chemical Industry Park”	the Yixing Chemical Industry Park (宜興市化學工業園) located in Yixing City, Jiangsu Province
“China” or “PRC”	the People’s Republic of China, but for the purpose of this Prospectus and for geographical reference only and except where the context requires, references in this Prospectus to “China” and the “PRC” do not apply to Taiwan, Macau and Hong Kong
“China Grand New Material”	China Grand New Material Holdings Limited (中國鴻開新材料控股有限公司), a company incorporated in Hong Kong with limited liability on 4 August 2017 and a directly wholly owned subsidiary of Innovative Green Group
“CIC”	China Insights Consultancy Limited, an industry consultant engaged to prepare the CIC Report
“CIC Report”	an independent industry report prepared by CIC based on information from its database, publicly available sources, industry reports, data obtained from interviews and other sources
“Circular 13”	the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for Foreign Exchange Administration for Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) promulgated by SAFE on 13 February 2015 and effective from 1 June 2015
“Circular 37”	the Circular of the State Administration of Foreign Exchange on Issues Concerning Foreign Exchange Administration Over the Overseas Investment and Financing and Round-Trip Investment by Domestic Residents via Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) promulgated by SAFE on 4 July 2014 and effective from the same date

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“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“CNOOC”	China National Offshore Oil Corporation (中國海洋石油集團有限公司)
“CNPC”	China National Petroleum Corporation (中國石油天然氣集團公司)
“Companies Ordinance” or “Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (WUMP) Ordinance” or “Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”	Jiangsu Innovative Ecological New Materials Limited (江蘇創新環保新材料有限公司), a company incorporated in the Cayman Islands as an exempted company with limited liability on 6 July 2017
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and, unless the context requires otherwise, refers to Mr. Ge, Ms. Gu and Innovative Green Holdings
“Countries subject to International Sanctions”	are countries regarding which governments such as the U.S. or Australia, or governmental organizations, such as the EU or the UN, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organizations within such countries
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Indemnity”	the deed of indemnity dated 11 March 2018 entered into by our Controlling Shareholders with and in favor of the Company (for itself and as trustee for each of its subsidiaries) with particulars set out in “Appendix V — Statutory and General Information — Other Information — 16. Tax and Other Indemnities”
“Deed of Non-Competition”	the deed of non-competition dated 11 March 2018 entered into by our Controlling Shareholders with and in favor of the Company (for itself and as trustee for each of its subsidiaries) with particulars set out in “Relationship with Controlling Shareholders”

DEFINITIONS

“Director(s)”	director(s) of the Company
“EIT”	the PRC enterprise income tax
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), enacted on 16 March 2007 with effect from 1 January 2008, and amended on 24 February 2017 by the NPC with effect from the same date
“EIT Regulation”	the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例), promulgated by the State Council on 6 December 2007 with effect from 1 January 2008
“EU”	the European Union
“EURENCO”	European Energetics Corporation, a company headquartered in France that produces explosives and energetic materials and our supplier of VeryOne Cetane Improver
“Full Success”	Full Success International Limited (富成國際有限公司), a company incorporated in Hong Kong with limited liability on 1 November 2002 and directly owned as to 50% and 50% by Mr. Ge and Ms. Gu
“GDP”	gross domestic product
“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“gross profit margin”	gross profit for the year/period divided by revenue for the same year/period
“Group,” “our Group,” “we,” “our” or “us”	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
“Guotai Junan Securities”	Guotai Junan Securities (Hong Kong) Limited
“High and New Technology Enterprise”	a high and new technology enterprise (高新技術企業) that meets the criteria set forth in the Administrative Measures for Certification of New and High Technology Enterprises (高新技術企業認定管理辦法) and the Catalogue of High and New Technology Areas Specifically Supported by the State (國家重點支持的高新技術領域), jointly promulgated by MOF, SAT and the Ministry of Science and Technology of the PRC on 14 April 2008 with effect from 1 January 2008, and amended on 29 January 2016 with effect from 1 January 2016

DEFINITIONS

“HKFRS(s)”	Hong Kong Financial Reporting Standard(s) (including HKASs and Interpretations) issued by the HKICPA)
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“independent third party(ies)”	an individual(s) or a company(ies) who or which, as far as our Directors are aware after having made all reasonable enquiries, is/are not (a) connected person(s) of the Company within the meaning of the Listing Rules
“Innovative Green Holdings”	Innovative Green Holdings Limited, a company incorporated in BVI with limited liability on 6 July 2017, which is owned as to 50% by Mr. Ge and 50% by Ms. Gu
“Innovative Green Group”	Innovative Green Group Holdings Limited, a company incorporated in BVI with limited liability on 6 July 2017 and a directly wholly-owned subsidiary of the Company
“International Sanctions”	all applicable laws and regulations related to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted, administered and enforced by the U.S. Government, the EU and its member states, UN or the Government of Australia
“International Sanctions Legal Advisers”	Hogan Lovells, our legal advisers as to International Sanctions laws in connection with the Listing
“International Supplier”	an indirect subsidiary of a global corporation that produces chemical products and our supplier and customer of desulfurizing agents
“Jiangsu Chuangxin”	Jiangsu Chuangxin Petrochemical Co., Ltd., a company incorporated in the PRC with limited liability on 31 December 2002 and an indirect wholly-owned subsidiary of the Company

DEFINITIONS

“Joint Bookrunners,” “Joint Coordinators” and “Joint Lead Managers”	Orient Securities and Guotai Junan Securities
“Latest Practicable Date”	11 March 2018, being the latest practicable date prior to the printing of this Prospectus for the purpose of ascertaining certain information in this Prospectus prior to its publication
“Listing”	the listing of the Shares on the Main Board
“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about Wednesday, 28 March 2018, on which the Shares are listed on the Hong Kong Stock Exchange and from which dealings in the Shares are permitted to commence on the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
“M&A Rules”	the Rules on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定), jointly issued by the State-owned Assets Supervision and Administration Commission (國務院國有資產監督管理委員會), MOFCOM, SAT, SAIC, CSRC and SAFE on 8 August 2006 and re-issued by MOFCOM on 22 June 2009 with effect from the same date
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of the Company adopted on 11 March 2018, a summary of which is set out in Appendix IV of this Prospectus
“MEP”	the Ministry of Environment Protection of the PRC (中華人民共和國環境保護部)
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Ge”	Mr. Ge Xiaojun (葛曉軍), our Chairman, an executive Director, the chief executive officer of the Company and one of our Controlling Shareholders and Ms. Gu’s spouse

DEFINITIONS

“Ms. Gu”	Ms. Gu Jufang (顧菊芳), an executive Director and one of our Controlling Shareholders and Mr. Ge’s spouse
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NPC”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“OFAC”	the United States Department of the Treasury’s Office of Foreign Assets Control
“Offer Price”	the final Hong Kong dollar price per Share (exclusive of brokerage fee, Hong Kong Stock Exchange trading fee and SFC transaction levy) at which the Offer Shares are to be subscribed for pursuant to the Share Offer
“Offer Share(s)”	the Public Offer Shares and the Placing Shares together with, where relevant, any additional Shares to be issued pursuant to the exercise of the Over-allotment Option
“Orient Securities”	Orient Securities (Hong Kong) Limited
“Over-allotment Option”	the option expected to be granted by the Company to the Joint Coordinators (on behalf of the Placing Underwriters) under the Placing Underwriting Agreement to require the Company to issue up to 18,000,000 additional Shares (representing 15% of the Offer Shares initially being offered under the Share Offer) at the Offer Price, to, among other things, cover over-allocations of the Placing, if any, as further described in “Structure of the Share Offer”
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of China
“PBOC Benchmark Rate”	the exchange rate for foreign exchange transactions set daily by the PBOC based on the previous day’s PRC inter-bank foreign exchange rates and with reference to prevailing exchange rates on the world financial markets
“Placing”	the conditional offering of the Placing Share(s) by the Placing Underwriters for and on behalf of the Company to institutional, professional and other investors outside of the United States in reliance on Regulation S, as further described in “Structure of the Share Offer”
“Placing Shares”	the 108,000,000 Shares (subject to adjustment as described in “Structure of the Share Offer”) being initially offered by the Company for subscription at the Offer Price pursuant to the Placing, together with, where relevant, any additional Shares to be issued pursuant to the exercise of the Over-allotment Option

DEFINITIONS

“Placing Underwriters”	the underwriters of the Placing
“Placing Underwriting Agreement”	the underwriting agreement relating to the Placing and to be entered into by, among others, the Company, the Joint Coordinators and the Placing Underwriters on or about 22 March 2018, as further described in “Underwriting — Underwriting Arrangements and Expenses — The Placing”
“PRC Company Law”	the PRC Company Law (中華人民共和國公司法), which was promulgated by the SCNPC on 29 December 1993 and was effective on 1 July 1994, subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013 respectively and became effective on 1 March 2014
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC Government”	the central government of the PRC and all governmental subdivisions (including provincial, municipal and other regional or local government entities) and organizations of such government or, as the context requires, any of them
“PRC Legal Advisers”	Jingtian & Gongcheng, legal advisers to the Company on PRC laws in connection with the Share Offer
“Price Determination Date”	the date, expected to be on or around Thursday, 22 March 2018 (or such other date as may be agreed between our Company and the Joint Coordinators (for themselves and on behalf of the Underwriters) on which the Offer Price is fixed for the purposes of the Share Offer)
“Principal Share Registrar”	Conyers Trust Company (Cayman) Limited
“Prospectus”	this prospectus issued in connection with the Public Offer
“Province” or “province”	each being a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the PRC Government
“Public Offer”	the offer of the Public Offer Shares by the Company for subscription by the public in Hong Kong at the Offer Price, on and subject to the terms and conditions of this Prospectus and the Application Forms, as further described in “Structure of the Share Offer”
“Public Offer Shares”	the 12,000,000 Shares (subject to re-allocation as described in “Structure of the Share Offer”) being initially offered by the Company for subscription pursuant to the Public Offer
“Public Offer Underwriters”	the underwriters of the Public Offer

DEFINITIONS

“Public Offer Underwriting Agreement”	the underwriting agreement dated 16 March 2018 relating to the Public Offer and entered into by, among others, the Public Offer Underwriters and us, as further described in “Underwriting — Underwriting Arrangements and Expenses — Public Offer”
“Regulation S”	Regulation S under the U.S. Securities Act
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reorganization”	the reorganization of our Group as described in “History, Reorganization and Corporate Structure — Reorganization”
“RIPP”	the Sinopec Research Institute of Petroleum Processing, founded in 1956 to specialize in the research and development of oil refining technology and petrochemical engineering
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“Sanctioned Person(s)”	certain person(s) and identity(ies) listed on OFAC’s Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the U.S., EU, UN or Australia
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SAWS”	State Administration of Work Safety of the PRC (中華人民共和國國家安全生產監督管理總局)
“Scheme”	the Taihu Water Environmental Protection Regulations Scheme (江蘇省“十三五”太湖流域水環境綜合治理行動方案) of Jiangsu Province’s 13th Five-Year Plan
“SCNPC”	the Standing Committee of the NPC
“SDN List”	the list of Specially Designated Nationals and Blocked Persons maintained by OFAC, which sets forth individuals and entities that are subject to its sanctions and restricted from dealing with U.S. persons
“Securities and Futures Commission” or “SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of the Company

DEFINITIONS

“Shareholder(s)”	holder(s) of the Share(s)
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 11 March 2018
“Sinopec”	China Petrochemical Corporation (中國石油化工集團公司)
“Sole Sponsor”	Orient Capital (Hong Kong) Limited
“Stabilizing Manager”	Guotai Junan Securities
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into between the Stabilizing Manager (or its affiliates or any person acting for it) and Innovative Green Holdings, pursuant to which Innovative Green Holdings will agree to lend certain Shares to the Stabilizing Manager to cover any over-allocation under the Placing
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Sudan”	the Republic of Sudan
“Sudanese Legal Advisers”	Dirdeiry & Partners, legal advisers to the Company on Sudanese laws in connection with the Listing
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Taihu”	the Taihu lake, located south of Jiangsu Province
“Taihu Protection Area”	the area that covers Taihu, approximately five kilometers away from the lake shore, ten kilometers along the rivers into Taihu and one kilometer from each riverbank
“Track Record Period”	the period comprising the three financial years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017
“Total”	subsidiaries of Total S.A., an oil and gas company headquartered in France and our supplier of Total-branded fuel additives
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters

DEFINITIONS

“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“UN”	United Nations
“United States,” “USA” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Government”	the federal government of the United States, including its executive, legislative and judicial branches
“US\$,” “USD” or “\$”	U.S. dollars, the lawful currency of the United States
“VAT”	the PRC value-added tax
“VSD”	a voluntary self-disclosure filed to OFAC with regard to USD-denominated transactions relating to sanctioned countries
“ WHITE Application Form(s)”	the application form(s) for those who require Public Offer Shares to be issued in the applicant’s own name
“ White Form eIPO ”	the application for Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at www.eipo.com.hk
“ White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Wuxi City”	Wuxi City (無錫市), Jiangsu Province, PRC
“ YELLOW Application Form(s)”	the application form(s) for those who require Public Offer Shares to be deposited directly into CCASS
“Yixing”	Yixing City (宜興市), a county under the jurisdiction of Wuxi City
“Yixing Plant”	our production facilities located in Yixing

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

GLOSSARY

This glossary of technical terms contains terms used in this Prospectus in connection with us and our business. Some of these terms and their meanings may not correspond to standard industry meanings or usage of such terms.

“catalysts”	a substance that causes or accelerates chemical reactions
“catalytic cracking”	the stage during which large hydrocarbon molecules in crude oil are broken down into lighter and simpler molecules
“cetane number”	number that denotes the speed of combustion of diesel fuel
“cost and freight” or “C&F”	when the seller is required to pay for the costs and freight necessary to transport goods to the named port of destination, but does not need to insure the goods while in transit
“cost, insurance and freight” or “CIF”	when the seller is required to pay for the costs and freight necessary to transport goods to the named port of destination, and insure the goods while in transit
“crude oil”	a complex mixture of hydrocarbons that occur in the Earth in liquid form, extracted for burning or refining into petroleum products
“corrosion”	the deterioration of metals as a result of chemical reactions between the metal and the surrounding environment
“delayed coking”	the refining process used to produce petroleum coke
“desulfurizing”	the act of removing sulfur
“diesel fuel”	a petroleum product used as a fuel in diesel engines
“dry gas”	gas that has had condensable hydrocarbons removed and composed primarily of methane
“free on board” or “FOB”	when the seller arranges to deliver goods to a named port of destination, but the risk is transferred from the seller to the buyer once the goods are aboard the ship
“fuel additives”	additives used to protect the fuel system in vehicles and enhance the characteristics of fuel
“fuel lines”	a pipeline used to bring fuel from one point in a vehicle to another
“gasoline”	a petroleum product used as a fuel in internal combustion engines
“H ₂ S”	hydrogen sulfide
“hydrodesulfurization”	the chemical process used to remove sulfur during refining

GLOSSARY

“ISO”	the International Organization for Standardization, an independent non-governmental organization that develops and publishes international standards
“ISO 9001”	standards developed and published by the ISO for all organizations, regardless of type, size and product that define, establish and maintain a quality assurance system
“methyldiethanolamine” or “MDEA”	a chemical used as a desulfurizing agent
“oil refinery”	an industrial processing plant where crude oil is refined into more useful petroleum products
“oil refining agents”	chemicals used to process and refine crude oil into petroleum products or to maintain the efficiency of oil refining units and extend their working life
“oil field”	a region with an abundance of oil wells for extracting crude oil from the ground
“olefinic components”	compounds made up of hydrogen and carbon that are often used to maximize gasoline volumes in oil refineries
“oxidation”	the chemical process during which an element combines with oxygen
“petrochemical(s)”	chemical(s) obtained either from the cracking or chemical processing of petroleum, and from which crude oil derivatives such as plastics and glass are manufactured
“petrochemical industry”	the industry whose participants are concerned with the production and trade of petrochemicals
“petroleum coke”	a carbon-rich product derived from the oil refining process and commercially traded as a fuel
“petroleum products”	products derived from refining crude oil, such as gasoline and diesel oil
“ppm”	parts per million, a unit of measurement commonly used to denote concentration
“refinery gas”	a mixture of gases generated in an oil refinery during the processing of crude oil into various petroleum products
“sedimentation”	the settling of particles within fluids in response to gravity

GLOSSARY

“solvent”	a substance that dissolves a chemically distinct liquid, solid or gas
“tail gas”	gas produced in an oil refinery and not required for further processing
“ton”	a unit of weight equals to 1,000 kilogram
“%”	per cent

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements and information relating to the Company and its 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,” “forecast,” “expect,” “going forward,” “intend,” “ought to,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “will,” “would” and the negative of these words and other similar expressions, as they relate to our 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 the 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;
- 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;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices in the industry and markets in which we operate;
- certain statements in “Financial Information” with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this Prospectus that are not historical facts.

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.

RISK FACTORS

Potential investors should carefully consider each of the risks described below and all of the other information contained in this Prospectus, including the Accountants' Report included in Appendix I, before deciding to invest in the Offer Shares. Our business, financial condition, results of operations or prospects may be materially and adversely affected by any of these risks. You should pay particular attention to the fact that our subsidiary in China is located in a legal and regulatory environment that in some respects differ significantly from that of other countries. The trading price of the Offer Shares could decline due to any of these risks, as well as additional risks and uncertainties not presently known to us, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Most of our revenue is derived from a concentrated customer base.

During the Track Record Period, sales to Affiliates of Sinopec, CNPC and CNOOC accounted for a significant portion of our revenue. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, sales to Affiliates of those three state-owned conglomerates amounted to RMB97.0 million, RMB105.9 million, RMB125.7 million and RMB128.1 million, respectively, accounting for 92.2%, 92.6%, 92.7% and 87.7% of our total revenue, respectively.

Over the course of our history, we sought to build a network of long-standing customer relationships with Affiliates of Sinopec, CNPC and CNOOC as they dominate the PRC petrochemical industry. Our sales may decline if we fail to maintain these relationships within our concentrated customer base. If our customers opt to purchase oil refining agents and fuel additives from our competitors, experience financial difficulties, become dissatisfied with our products or decrease their orders for our services, we may in turn experience material fluctuations or decline in our revenue. There can be no assurance that our plan of expanding our customer base will be implemented successfully or achieve any positive results in the short term. We anticipate that we will continue to generate a significant portion of our revenue from Affiliates of the three state-owned conglomerates in the future. However, there is no assurance that we will be able to continue generating revenue from Affiliates of Sinopec, CNPC and CNOOC or service these customers at current levels. Failure to maintain our customer relationships or expand our existing customer base may materially and adversely affect our current market share and results of operations.

We may be unsuccessful in researching and developing new products or in improving the quality of our existing products.

Our research and development department collaborates with our strategic partner to develop new products and technologies for improving our existing products and production processes. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, our total research and development expenses amounted to RMB4.8 million, RMB5.2 million, RMB5.5 million and RMB5.4 million, respectively, representing 4.6%, 4.5%, 4.1% and 3.7% of our total revenue, respectively. However, the development of new or improved products or production processes may be time consuming and costly. We cannot assure you that our research and development projects will lead to any breakthroughs or that the results of such research and development projects will result in viable commercial production. If we are unsuccessful in researching and developing new products or if we are unable to translate our research and development efforts into commercial production, we may not be able to recover our research and development expenses. Moreover, our competitors may improve and develop products that gain wider market acceptance, or are superior to our own in terms of technological capabilities and quality. If we fail to respond by improving existing or launching new oil refining agents or fuel additives in a timely and effective manner, we may not be able to retain our existing customers, enhance our competitiveness or maintain our market position.

RISK FACTORS

In carrying out our business strategy to upgrade our Yixing Plant, we may not achieve the intended economic results and/or we may exceed our original budget.

We intend to cement our market position in the oil refining agents and fuel additives industry by upgrading our Yixing Plant. For more information, see “Business — Our Business Strategies.”

We believe that the upgrade of our Yixing Plant will contribute to our business growth. However, since we expect to finance the upgrade with cash flow from our operating activities and proceeds from the Share Offer, our profitability and liquidity would be materially and adversely affected in the event that our expansion plan does not achieve the intended economic results. For example, demand for our products may be adversely affected by market trends, customer preferences or other factors beyond our control. We may experience less demand than expected for our oil refining agents and fuel additives, and find that it was unnecessary to carry out the upgrade works. Nor can we assure you that we will be able to complete our upgrade works or the construction of our new production facilities within budget, on schedule or at all; our plan may be adversely affected by factors such as lack of utilities and personnel, unexpected technical issues, natural disasters, failure to obtain required governmental permits and approvals, delays in construction, logistical difficulties and unforeseen legal or regulatory impediments. Further, the expansion plan might not achieve the intended economic results, which in turn may weaken our competitive position in the market and adversely affect our business, financial condition and results of operations.

Our strategy to manufacture a certain raw material substitute, high-purity oleic acid, in our Yixing Plant may not be successful.

We intend to manufacture high-purity oleic acid as the substitute for tall oil fatty acid in our Yixing Plant. For more information, see “Business — Our Business Strategies — Extend our upstream reach and produce certain key raw materials.” However, we cannot assure you that our strategy will be implemented fully or successfully as planned. We may not be able to build the production facility to manufacture high-purity oleic acid on time as scheduled, or the production capacity may not be reached. We may also encounter unexpected difficulties in the production of high-purity oleic acid in relation to, among other things, technological capabilities, quality and costs. If we encounter disruptions in carrying out our business strategy, we may not be able to achieve the targeted breakeven and payback periods and intended cost savings, meet our purchase orders on time or deliver products according to our customers’ specifications as to quantity or quality, and hence may not be able to record profit as expected or at all. Our gross profit margin and net profit margin may decrease slightly over the same period. This may materially and adversely affect our business, financial condition and results of operations.

We have previously made sales to customers in countries that are subject to International Sanctions administered by the U.S., and we could be adversely affected if these sales result in penalties on our Group.

The U.S. and other jurisdictions or organizations, including the EU, UN and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organizations within such countries.

During the Track Record Period, we sold our non-U.S. origin products, namely oil refining agents and fuel additives, to certain customers in Sudan. Sudan was previously subject to very comprehensive U.S. economic sanctions until 12 October 2017, when OFAC permanently lifted broad sanctions that were imposed under the SSR, including restrictions over transactions denominated in U.S. dollars and processed through the U.S. financial system. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, our revenue derived from sales to customers in Sudan amounted to RMB17.0 million, RMB17.3 million, RMB29.6 million and RMB18.7

RISK FACTORS

million, respectively, representing 16.2%, 15.1%, 21.8% and 12.8% of our total revenue, respectively. For more information, see “Business — Business Activities in Countries subject to International Sanctions.” As advised by our International Sanctions Legal Advisers, certain payments by customers in Sudan during 2013 and 2014 that were denominated in U.S. dollars and processed through the U.S. financial system before they were received by our Group, appear to be potential violations of U.S. sanctions regulations that were applicable to transactions with Sudan at such time. We have ceased receiving all USD payments from customers in Sudan since August 2014. However, after consulting with our International Sanctions Legal Advisers, we submitted a VSD on 19 September 2017 to OFAC with regard to our USD-denominated transactions relating to Sudan, in which we provided OFAC with full details and relevant documents regarding those sales transactions, and explained our understanding as to which payments may have been processed through the U.S. financial system. OFAC is currently reviewing our VSD, and our International Sanctions Legal Advisers are working actively to make sure that OFAC has all the required information to resolve this issue. For details, see “Business — Business Activities in Countries Subject to International Sanctions.”

Sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of Sanctioned Persons. Further, new requirements or restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions. Our business and reputation could be adversely affected if the authorities of the U.S., the EU, UN, Australia or any other jurisdictions were to determine that any of our future activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Group.

Our gross profit margins of sales to overseas customers were substantially higher than the gross profit margins of sales to the PRC customers, and we cannot assure you that we may continue to secure such high profit margins of sales to overseas customers in the future.

During the Track Record Period, our overseas customers mainly consisted of customers from Sudan, Chad, Niger and Algeria in Africa. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, our gross profit margins of sales to Sudan were 63.6%, 70.1%, 73.1% and 72.2%, respectively; our gross profit margins of sales to other African countries were 50.3%, 58.5%, 68.6% and 68.3%, respectively; and our gross profit margins of domestic sales were 33.3%, 36.9%, 36.2% and 30.5%, respectively. The substantially higher gross profit margins of sales to overseas customers were mainly due to the long-term relationship with these customers as well as their technological reliance on our products. For details, see “Business — Sales and Marketing — Customers.” However, we cannot assure you that we will be able to maintain such high gross profit margins of sales to overseas customers going forward. The maintenance of such high gross profit margins may be affected by various factors, including but not limited to, the increasing competitiveness of the oil refining agents and fuel additives market in the overseas countries and the customers’ technology development, which are out of our control. If the gross profit margins of sales to the overseas customers decrease in the future, our business, our financial condition and the results of operation may be materially adversely affected.

Discontinuation of any of the preferential tax treatments we enjoy or imposition of any additional taxes could adversely affect our financial condition and results of operations.

The EIT rate generally applicable in China has been 25% since 1 January 2008 pursuant to the EIT Law. However, we were certified as a “High and New Technology Enterprise” in 2013, which allows us to enjoy a lower tax rate of 15%, as compared to 25%, for a period of three years from 2013 to 2015. Our certification was renewed in 2016 for a period of three years from 2016 to 2018. As such,

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we were entitled to a preferential income tax rate of 15% for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017. If we fail to maintain or renew our “High and New Technology Enterprise” certification, our applicable EIT rate would increase to 25%, which could have a material adverse effect on our financial condition and results of operations.

We may experience shortages of supply or price fluctuations in our raw materials.

Our continued success depends on the ability to maintain a stable and sufficient supply of raw materials. There can be no assurance that our major suppliers will continue to provide us with the required raw materials on favorable terms, or that shortages of or disruptions in supply will not occur in the future. For example, in 2017 we experienced price fluctuations in antimony trioxides due to factors beyond our control. Such instances lead to higher cost of sales, and there is no guarantee that we will be able to obtain an alternative supply of raw materials of adequate quantity or quality in a timely manner, or at all. There can also be no assurance that we will always be able to limit our exposure to price fluctuations or effectively pass on additional costs to our customers. Fluctuations in the prices of raw materials that we depend on may be caused by factors such as market supply and demand, changes in PRC tax, changes in PRC and global economic conditions and changes to PRC or international environmental and regulatory requirements. Failure to manage the cost and supply of our raw materials may materially and adversely affect our business and results of operations.

We may fail to maintain our existing supplier relationships on favorable terms or at all.

Over time we developed a stable and growing network of supplier relationships. Our relationships with our suppliers have enabled us to build our reputation, consolidate our market share and increase our profit margins. Examples of our key suppliers include International Supplier, Total and EURENCO, three global corporations that operate in the petrochemical industry, and Supplier A, a domestic company that operates in the chemical industry. We cannot guarantee that we will be able to maintain our relationships with our suppliers, or that we will be able to form new supplier relationships on favorable terms or at all. Loss of any of our suppliers may have a material and adverse impact on our sales and market share until we find alternative suppliers, which may be a costly and time-consuming exercise. Moreover, should International Supplier, Total, EURENCO, and/or Supplier A no longer wish to renew their distributorship/procurement contracts with us, we may not be able to find alternative suppliers of equal standing within our industry. Failure to do so may adversely affect our brand and reputation, and therefore our business and results of operations.

We had negative net operating cash flow for the nine months ended 30 September 2017 and are subject to credit and liquidity risk in relation to account receivables.

We had negative net operating cash flow of RMB6.3 million for the nine months ended 30 September 2017. Our net operating cash outflows were primarily due to an increase in trade and other receivables. For details, see “Financial Information — Liquidity and Capital Resources — Cash flows — Net cash generated from/(used in) operating activities.” During the Track Record Period, we set credit periods ranging from 30 to 90 days for our PRC customers, calculated from the dates that our invoices were issued. Our average turnover days of trade and bills receivables were 149.3 days, 128.2 days, 118.5 days and 137.1 days, respectively, for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017. Trade receivables which were past due but not impaired were RMB31.6 million, RMB19.7 million, RMB38.8 million and RMB91.7 million, respectively, accounting for 67.0%, 51.9%, 69.1% and 85.6% of total trade receivables as of 31 December 2014, 2015 and 2016 and 30 September 2017, respectively. We incurred a written-off uncollectible amounts of RMB0.2 million in 2015. For more information, see “Financial Information — Liquidity and Capital Resources — Selected items of the consolidated statements of financial position — Trade and other receivables.”

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We enter into various contracts with different counterparties in the ordinary course of business, including suppliers and customers. If any of our counterparties default, this may negatively impact our revenue and profits and we may incur additional operating costs. During the Track Record Period, we did not experience any material default by our counterparties. However, we cannot assure you that one or more of our counterparties will not default on us going forward as there is limited financial or public information on many of them. Defaults by our customers may have an adverse effect on our business, financial position and results of operations.

While we may have committed cash and other resources toward fulfilling our customer orders, it may take months for us to receive payments due to us. An extended delay in payment from any major customer may have a material and adverse effect on our cash flow and working capital. To cover our costs, we may be required to divert resources away from our other business operations. The process to recover various payments due may also be time-consuming and require additional resources from us. We may continue to experience negative net operating cash flows in the future. Our operating cash flows may be adversely affected by a number of factors beyond our control, including but not limited to, what point in time our customers settle their payment with us, the market conditions and the macroeconomic environment. Our future liquidity, the payment of trade payables and repayment of any debt obligations, as they become due, will primarily depend on our ability to maintain adequate cash inflows from operating activities. If we are unable to maintain adequate cash inflows from operating activities, we may default on our payment obligations, which may materially and adversely affect our business, financial condition, results of operations and prospects.

We may experience inventory obsolescence.

Our operations involve storage and stocking of a range of raw materials and finished goods. We typically place orders for raw materials on an order-by-order basis, while maintaining certain amount of inventories of raw materials and finished goods where we consider necessary as our sales volume increases. Our inventory may become obsolete due to the fluctuations in customer demand or technological change in our industry. However, we cannot assure you that we will be able to continue doing so in the future. If we do experience inventory obsolescence, it may adversely affect our business and results of operation.

Unexpected catastrophic events may affect our Yixing Plant, which we rely on to conduct business operations in relation to production and inventory storage.

During the Track Record Period, our production processes were carried out at our Yixing Plant. We do not maintain any back-up facilities and thus depend solely on our Yixing Plant for business operations in relation to production and inventory storage. Any unanticipated catastrophic events, including natural disasters, fires, technical or mechanical difficulty, power shortages or failures, explosions, strikes and outbreaks of epidemics may impair our ability to develop, manufacture and deliver our products. For example, interruptions or shortages of electricity and water supplies may force us to stop production, possibly preventing us from meeting customer orders on time. Moreover, we anticipate that our reliance on electricity and water supplies will grow as we seek to expand our production capacity. We cannot guarantee that we will be able to secure alternative production or storage facilities in a timely and cost-effective manner, or at all. They would have been caused by factors beyond our control and we cannot assure you that we will be able to adequately manage their impact on our business operations. Failure to do so may materially and adversely affect our business, financial condition and results of operations.

Our sales volumes are affected by, among other factors, the conditions of the PRC and global economy and the quantity and nature of the contracts we are awarded through participating in tenders.

During the Track Record Period, we derived revenue primarily from sales of oil refining agents and fuel additives in China. We also export products to overseas markets, namely Sudan, Chad, Niger

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and Algeria. Demand for our oil refining agents and fuel additives depends on, among other factors, the conditions of the PRC and global economy. In the PRC and our overseas markets, general economic conditions, interest rate levels, inflation and unemployment rates, demographic trends, GDP growth and consumer confidence, among other factors, influence the growth of industries where our products are widely used or applied. As a result, a downturn in the relevant industries in China or in the markets where our products are used, a downturn in general economic conditions or competition for our products in the markets in which we currently, or intend to, sell may affect our sales, resulting in pressure on the prices, volume and margins achieved or achievable in the future. Our sales volumes are also affected by the quantity and nature of the contracts we are awarded through participating in tenders. For example, in some years one or more of our customers may require a large amount of desulfurizing agents, perhaps to service newly-purchased oil refining units. In such cases we will experience a substantial increase in sales volumes for that particular product. Our ability to influence the decisions of our existing or potential customers during the tendering process is limited. A decline in demand or a shift to lower-value end products resulting from deteriorating economic conditions may adversely affect our business, financial condition, results of operations and prospects.

Our Yixing Plant may be relocated due to the water environmental protection regulations promulgated by the Jiangsu Provincial Government.

As part of its 13th Five-Year Plan (2016 — 2020) (“十三五”規劃), the Jiangsu Provincial Government promulgated the Scheme, which became effective on 18 January 2017. The Scheme aims to reduce water pollution in the Taihu area and gradually reduce the quantity of chemicals discharged into the Taihu area. To achieve this goal, the Jiangsu Provincial Government has relocated factories generating heavy water pollution in traditional manufacturing industries, such as chemicals, printing and dyeing and plating. The Scheme mandates the shutdown of all chemical factories in the Taihu Protection Area by 2018. The Scheme also provides guidance on the industrial structure reform of cities around Taihu area, including Yixing, with the objective of reducing the number of factories in the aforementioned industries by the end of 2020.

We cannot assure you that the Jiangsu Provincial Government or the PRC Government will not expand the Taihu Protection Area to our current location. In addition, our business and expansion plan may be materially and adversely affected by the Scheme, as the Jiangsu Provincial Government has called for the reduction of the number of factories in our industry. If we are relocated by the Jiangsu Provincial Government or the PRC Government or if our business operations and expansion plan are interrupted by the Scheme, our business, financial condition and prospects may be materially and adversely affected.

We may not be able to effectively manage our employees and affiliates to comply with anti-corruption measures related to tendering.

We derived during the Track Record Period and expect to continue to derive a substantial portion of our revenue from purchase orders obtained through participating in tenders, and we are subject to anti-corruption measures provided for in the Tendering and Bidding Law of China (中華人民共和國招標投標法) and other related PRC laws and regulations. As a result, we are subject to risks in relation to actions taken by us, our employees or affiliates that constitute violations of the aforementioned anti-corruption measures. If we, our employees or affiliates violate those anti-corruption measures, such as offering bribes to the principal or members of the bid assessment committee, our contract awards shall be void and we could be subject to consequences such as paying fines, returning illegal gains, losing qualifications to participate in biddings for one to two years, revoking business license in serious circumstances and paying damages to other parties for losses caused. We cannot assure you that our employees or affiliates will not engage in acts of corruption for which we might be held

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responsible. If our employees or affiliates are found to have engaged in such practices, our reputation could be adversely affected, and we may suffer any or all of the consequences above for violating anti-corruption measures related to tendering, which may have a material adverse effect on our business, financial condition and results of operations.

Demand for our products may decrease as electric vehicles grow in popularity.

Among other factors, demand for our oil refining agents and fuel additives is driven by the fact that fuel-powered vehicles are the norm. The number of cars on the road increases day by day as China undergoes economic development. Members of the petrochemical industry need to apply our oil refining agents and fuel additives to meet growing demand for their petroleum products.

Recently however, interest in electric cars has developed to parallel the public's growing environmental awareness. We believe that this is one of the technological trends of the age. Scientists and investors are developing electric cars that do not burn fuels and release undesirable emissions. Should consumers move towards electric cars in the near future, rendering fuel-powered vehicles obsolete, we would no longer experience demand for our products. We cannot influence the movement of consumer habits or the speed at which technological trends will change our market. Failure to evolve in line with such developments may materially and adversely affect our business, financial condition and results of operations.

We are subject to risks associated with conducting business overseas.

During the Track Record Period, we sold our products overseas to the countries of Sudan, Chad, Niger and Algeria. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, our sales out of China amounted to RMB19.5 million, RMB19.9 million, RMB33.0 million and RMB21.2 million, accounting for 18.6%, 17.4%, 24.3% and 14.5% of our total revenue, respectively. Our overseas sales will expose us to various risks associated with conducting business in foreign countries and territories, which may include, among other things:

- an increase in competition from foreign players or failure to anticipate changes to the competitive landscape in overseas markets due to lack of familiarity with the local business environment;
- the infringement of our intellectual property rights in foreign jurisdictions;
- political risks, including civil unrest, acts of terrorism, acts of war, regional and global political or military tensions and strained or altered foreign relations, which may lead to interruptions in our business operations and/or loss of property;
- economic, financial and market instability and credit risks;
- difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex domestic and international laws, treaties and regulations;
- inability to obtain or maintain the requisite licenses, permits, approvals and certificates in foreign jurisdictions;
- economic sanctions, trade restrictions, discrimination, protectionism or unfavorable policies against companies from China;
- exposure to litigation or third-party claims outside of China;
- foreign currency exchange controls and fluctuations;
- unfavorable tax conditions;

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- potential disputes with foreign customers or other foreign parties with whom we work;
- cultural and language difficulties; and
- lack of a well developed or independent legal system in certain foreign countries in which we conduct our business, which may create difficulties in the enforcement of legal rights.

Any of the above factors could lead to, among other things, business disruptions and loss of sales, which could have a material and adverse effect on our business, results of operations and overall growth strategies.

The industries in which we and our customers operate are influenced by policies and measures of the PRC Government, governments of other countries where we export our products and international and regional organizations, as well as by public opinion.

Government policies generally have significant impact on the petrochemical industry, especially with respect to the construction and operation of oil refineries. The PRC Government and the governments of other countries to which we export our products have various industrial policies and other economic measures, such as those relating to government spending, credit and financing, use of land, governmental approval for new projects, environmental protection, production safety, technological and capacity requirements for operation facilities, industry entry and foreign investment. These policies and economic measures may significantly impact capital expenditures within the petrochemical industry and subsequently demand for our products and services. The nature, scale and implementation of these policies and measures may be affected by various factors, including environmental and economic consideration and public opinion. In addition, the PRC Government and governments of other countries where we export our products may, from time to time, adopt new policies and economic measures or amend existing policies and economic measures affecting requirements for the oil refining and chemical projects. There is no assurance that we will be able to adjust our products and services, provide new products and services, develop new technologies or otherwise react promptly to industry policies and economic measures affecting our business. If we fail to do so in an effective and timely manner, our business, financial condition and results of operations could be adversely affected.

In addition, any adjustment or change to the policies and measures of international and regional organizations may have an impact on our business and our customers' businesses. For example, the Organization of the Petroleum Exporting Countries, which is responsible for the overall coordination of petroleum policies of each major petroleum exporting country, can exert great influence over international oil prices, which could affect the costs and prices of our customers' products and their demand for our services. We may not be able to promptly react to changed standards and codes. We and our customers may not be able to accurately predict the policies adopted by these international or regional organizations and may not be able to promptly react to changed policies, which could have an adverse impact on our business, financial condition and results of operations.

Our business operations are subject to various environmental, health and safety laws and regulations and we may fail to control the costs associated with more stringent standards of these laws and regulations.

Our business operations are subject to various environmental, health and safety laws and regulations, which require us to undergo environmental impact assessments and review processes and implement environmental, health and safety programs and procedures to control risks associated with the design, construction and operation of our production facilities. For example, we were required to prepare and submit an environmental impact assessment report to the relevant environmental protection authorities for approval before we can start the construction of our production facilities. When construction was completed, these facilities also need to pass certain inspection processes to

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ensure the satisfaction of environmental protection requirements prior to commercial operation. In particular, our business and operations involve the use, generation and disposal of hazardous chemicals, including substances that are highly regulated and may cause harm to the environment or human health. The PRC Environmental Protection Law and related regulations require us to establish an environmental protection and responsibility system, including the adoption of effective measures to prevent and control exhaust gas, sewage, waste residues, dust or other waste materials, to discharge waste properly and to pay certain discharge fees. The PRC environmental protection laws and regulations also require producers discharging chemicals and other pollutants to pay fines for discharges above permitted levels. In the event that the PRC Government imposes more stringent environmental protection laws and regulations, our production and distribution costs may increase, or we may be forced to curtail or suspend production or to incur material capital expenditures or other costs to remain in compliance and we may be unable to pass on these additional costs to our customers.

Our insurance may not be sufficient to cover the risks connected with our operations and potential losses.

We purchase and maintain insurance policies that we believe are customary with the standard commercial practice in our industry and as required under the relevant laws and regulations. For more information, see “Business — Insurance.” However, we cannot guarantee that our insurance policies will provide adequate coverage for all the risks in connection with our business operations. For example, hazardous chemicals that are part of our inventory are potentially destructive and dangerous in uncontrolled or unforeseen circumstances. Even though we maintain insurance policies to cover our properties, manufacturing facilities, plant and machinery, equipment and inventories against damages caused by accidents, our operations are still subject to unforeseen situation or events.

Consistent with customary practice in China, we do not carry any business interruption insurance or litigation insurance. We also do not carry product liability insurance for our oil refining agents and fuel additives. We may be required to bear our losses to the extent that our insurance coverage is insufficient. If we were to incur substantial losses and liabilities that are not covered by our insurance policies, we could suffer significant costs and diversion of our resources, and thereby materially and adversely affect our financial condition and results of operations.

We may be liable for damages based on product liability claims.

Our products involve an inherent risk of injury that may result from tampering by unauthorized third parties, improper use, or product contamination or degeneration, including the presence of foreign contaminants, chemicals, substances or other agents or residues during the various stages of procurement, production, transportation and storage. We cannot assure you that our products will not cause any health related illness or injury in the future or that we will not be subject to claims or lawsuits relating to such matters. Furthermore, we do not maintain any product liability or third-party liability insurance. In the event that a product liability or third-party liability claim is brought against us, we cannot assure you that we will be successful in defending such claims and, as a result, may be required to pay substantial damages.

We cannot assure you that relevant government authorities will not promulgate new laws or regulations containing recall mechanisms for such industrial products. Under such circumstances, we may have to recall our products if they fail to meet the relevant quality or safety standards. We cannot assure you that no product liability claims would be asserted against us as a result. A product liability judgment against us or a product recall may have material adverse effects on our reputation, business and results of operations.

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We may be unable to obtain, retain, or renew required permits, licenses, registration or certificates for our business.

In accordance with the PRC laws and regulations, we are required to maintain various licenses and permits to operate and to manufacture our products. Such regulations include Interim Measures for the Administration of Pollutant Discharge Licenses (排污許可證管理暫行規定). For more information, see “Regulatory Overview.” We are also required to renew our licenses and permits periodically. For example, we are required to maintain business licenses for our operations and are subject to applicable laws and regulations. In addition, for the sale or export of our products to, or the use of our products in, certain countries, we may be subject to certain import and product quality regulations in these countries. Loss of or failure to renew our licenses and permits may result in temporary or permanent suspension of some or all of our activities, which may disrupt our operations and may result in our failure to meet our contractual obligations.

Our patents, trademarks and confidentiality agreements may not be sufficient to protect our intellectual property.

Proprietary protection of our production processes and other technologies are important to our business. As of the Latest Practicable Date, we owned three invention patents and 15 utility model patents in China. Our actions to protect our proprietary rights may be insufficient to prevent others from developing similar products to ours. Furthermore, any future patent application filed by us might not result in an issued patent or, if patents are issued to us, such patents might not provide meaningful protection against competitors or against competitive technologies. You should be aware that the expiration of a patent or the failure of our patents to protect our production processes, technologies, trade secrets or proprietary know-how may result in intense competition with consequent erosion of gross margins. In addition, our competitors and any other third parties may obtain patents that restrict or preclude our ability to lawfully manufacture and market our products in a competitive manner, which may adversely affect our business and results of operations.

We also rely on unpatented proprietary know-how and continuing technological innovation and other trade secrets to develop and maintain our competitive position. While it is our policy to enter into confidentiality and non-competition agreements with our research and development staff to protect our intellectual property, we cannot assure you that they will not be breached, that such confidentiality and non-competition agreements offer us meaningful protection or that adequate remedies will be available in the event of unauthorized uses or disclosures of our trade secrets and know-how. In addition, we cannot assure you that others will not obtain knowledge of these trade secrets through independent development or other legal means.

We may be subject to claims of infringement of third-party intellectual property rights.

We seek to develop and implement new technologies and production processes quickly, and in doing so we might not be aware of other third-party rights and accordingly, may be unable to assess the scope and validity of those third-party rights. In addition, product development is inherently uncertain in a rapidly evolving technology environment in which there may be numerous patent applications pending, many of which are confidential when filed with regard to similar technologies. There may also be a certain degree of uncertainty regarding who rightfully owns rights in a process or technology. Accordingly, we may be subject to lawsuits for infringement on intellectual property rights.

Intellectual property litigation may adversely affect the development or sale of the challenged product or technology or require us to pay substantial damages or royalties to license proprietary rights from third parties if we are found liable for the alleged infringement. Licenses might not be available to us on acceptable terms, if at all. Given the rapid technological development that characterizes the industry, we cannot assure you that our current measures are adequate and that we

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will not be subject to claims of infringement by third parties, both within or outside China. Any intellectual property litigation may cause us reputational damage and incur significant expense and divert our personnel's attention and efforts, any of which may have an adverse effect on our business, financial condition, results of operations or prospects.

Our success depends on our ability to attract and retain experienced professionals.

Our success depends on our ability to attract and retain experienced professionals, including executive officers and professionals such as engineers, research and development personnel and senior technical workers with the requisite experience, knowledge and expertise to successfully carry out our business. According to CIC, competition for qualified personnel is intense in the PRC oil refining agents and fuel additives industry. We face the risk of losing employees to competitors who are able to offer more competitive compensation packages, and we may be unable to find replacements in a timely manner. We may also need to make significant expenditures to train employees in order to enhance their relevant experience and specialized skills. Moreover, should any of our former employees join or form a competing business with their industry expertise, business relationships and full knowledge of our intellectual property, know-how and production processes, we may not be able to estimate the extent of and compensate for such damage.

We are led by a senior management team of highly experienced professionals, most of whom have at least ten years of experience in our industry. For example, Mr. Ge, our Chairman and chief executive officer, has dedicated himself to the research and development, production and marketing of oil refining agents and fuel additives since 1988. His vision and experience are key to the formation of our business strategies. In addition, our research and development department is led by Mr. Huang Lei, who has 25 years of experience in our industry. As he worked at Sinopec prior to joining us, he is knowledgeable about the business of our customers and therefore able to lead us in developing technological solutions tailored to their needs. All members of our senior management team have entered into employment contracts with us for one-year terms. For more information, see "Directors and Senior Management." If we are unable to recruit personnel with the necessary skills, the attention of our management could be diverted. If we cannot recruit and retain the employees necessary for executing our contracts or performing necessary business activities, our business operation may be adversely affected.

We may be involved in litigation or legal proceedings.

We may at times be involved in litigation or legal proceedings during the ordinary course of our business operations, related to, among other factors, product or other types of liabilities, and labor or contractual disputes. We may also be involved in litigation or legal proceedings as co-defendant. For more information, see "Business — Legal Proceedings and Compliance — Legal Proceedings." If we become involved in any litigation or other legal proceedings in the future, the outcome of such proceedings could be uncertain and could result in settlements or results, which may materially and adversely affect our business, financial condition and results of operations. In addition, any litigation or legal proceedings could involve substantial legal expenses, require a significant amount of time and resources, and divert the attention of management from our operations. Further, we might suffer negative publicity resulting from such claims. If any negative publicity or reputational harm is not effectively remedied or reversed, our existing or potential suppliers and customers may develop negative views on us, which may negatively affect our ability to maintain solid relationships with our suppliers and customers, engage new customers and expand into new markets.

We may experience failures in our information systems.

We rely on our information systems for business operations such as finance and accounting, production management, inventory management and sales and marketing, such as our financial management software, Kingdee KIS (金蝶KIS專業版). Our information systems allow us to record

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financial data, analyze our past financial performance and monitor our financial condition. Our operating efficiency has been enhanced by such information systems. We cannot assure you that any damage or interruption caused by power outages, computer viruses, hardware and software failures, telecommunications failures, fires, natural disasters and other similar events relating to our information systems will not happen in the future. Additionally, restoring any damaged information systems may cause us to incur significant costs and require additional workforce. If any serious damage or significant interruption occurs, we may experience errors in the systems and our operations may be disrupted.

Our performance depends on favorable labor relations with our employees, and we may experience deterioration in labor relations, labor shortages or a material increase in labor costs.

We seek to maintain favorable labor relations as we believe that our long-term growth depends on the expertise, experience and development of our employees. During the Track Record Period, we did not experience any material labor disputes or strikes, nor were we subject to any material claims or lawsuits related to occupational health and safety. However, we cannot guarantee that will always be the case in the future. The deterioration of our labor relations could result in disputes, strikes, claims and legal proceedings, labor shortages that disrupt our business operations, as well as loss of experience, know-how and trade secrets.

Our labor costs were RMB5.6 million, RMB5.6 million, RMB5.9 million and RMB4.7 million for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, respectively. During the Track Record Period, we did not experience any labor shortages. However, we cannot assure you that we will not experience any labor shortages or that labor costs in China will not increase in the future. If we experience any labor shortages, we may have difficulties in maintaining our production schedule and we may experience cost increases that may not be passed on to our customers. If we experience any material labor shortages or material increases in labor costs, our business, financial condition and results of operations may be materially and adversely affected.

Our risk management, quality control and internal control systems may not be able to completely eliminate non-compliance matters or product defects.

We have established risk management, quality control and internal control systems, consisting of policies and procedures, that we believe are appropriate for our business. However, the implementation of such policies and procedures may involve human error and mistakes. Moreover, we may be exposed to fraud or other misconduct committed by our employees, customers, suppliers or third parties, which are out of our control, that could adversely affect our product quality and reputation and subject us to financial losses and sanctions imposed by government authorities. As a result, we cannot assure you that our risk management, quality control and internal control systems are able to completely eliminate non-compliance matters or product defects.

We may be subject to risks beyond our control relating to epidemics, acts of terrorism, wars or other natural or man-made calamities in China and globally.

Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the region where we conduct our business. Some of the regions in China and other foreign countries and regions where we conduct our business may be under the threat of floods, earthquakes, sandstorms, snowstorms, fires or droughts, power shortages or failures, or are susceptible to potential wars, terrorist attacks or epidemics, such as Ebola, severe acute respiratory syndrome (SARS), strains of avian influenza, the human swine influenza A (H1N1), the human swine influenza A (H5N1) and the human swine influenza A (H7N9). Serious natural disasters may result in a tremendous loss of lives, injuries and the destruction of assets, as well as disrupt our business and operations. Severe communicable disease outbreaks could result in a widespread health crisis that could materially adversely affect economic

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systems and financial markets. Acts of war or terrorism may also injure our employees, cause loss of lives, disrupt our operations and adversely affect our customers. Any of these factors and other factors beyond our control could have an adverse effect on the overall business sentiment and environment, cause uncertainties in the region where we conduct our business, cause our business to suffer in ways that we cannot predict and materially adversely impact our business, financial condition and results of operations.

RISKS RELATING TO DOING BUSINESS IN CHINA

We are vulnerable to adverse changes in economic, political and social conditions and government policies in China.

All of our operations and assets are located in China. Accordingly, our financial condition, results of operations and prospects are subject, to a significant degree, to the economic, political and social conditions and government policies in China. The PRC economy differs from the economies of most developed countries in a number of respects, including the extent of government involvement, level of development, growth rate and control of foreign exchange. Before its adoption of reform and open-door policies beginning in 1978, China was primarily a planned economy. Since that time, the PRC economy has been reformed from a planned economy to a market economy with socialist characteristics.

For approximately four decades, the PRC Government has implemented economic reform measures to utilize market forces in the development of the PRC economy. Many of the reform measures are unprecedented or experimental and are expected to be modified from time to time. Other political, economic and social factors may also lead to further readjustment or introduction of other reform measures. This reform process and any changes in laws and regulations or the interpretation or implementation thereof in China may have a material impact on our operations or may adversely affect our financial condition and results of operations.

While the PRC economy has grown significantly in the past 40 years, this growth has been geographically uneven among various sectors of the economy and during different periods. We cannot assure you that the PRC economy will continue to grow, or that if there is growth, such growth will be steady and uniform. Any economic slowdown may have a negative effect on our business. For example, the PRC Government has in the past periodically implemented a number of measures intended to slow down certain sectors of the economy believed to be overheating. We cannot assure you that the various macroeconomic measures and monetary policies adopted by the PRC Government to guide economic growth and the allocation of resources will be effective in improving the growth rate of the PRC economy. In addition, such measures, even if they benefit the overall PRC economy in the long term, may materially adversely affect us if they reduce demand for our products.

Uncertainties with respect to PRC legal system could materially and adversely affect us and may limit the legal protection available to you.

The legal system in China has inherent uncertainties that could limit the legal protection available to our Shareholders. As all of our business operations are in China, we are principally governed by the PRC laws, rules and regulations. The PRC legal system is based on the civil law system. Unlike the common law system, the civil law system is established on the written statutes and their interpretation by the Supreme People's Court (最高人民法院), while prior legal decisions and judgments have limited significance for guidance. The PRC Government has been developing a commercial law system, and has made significant progress in formulating and implementing laws and regulations relating to economic affairs and matters, such as corporate organization and governance, foreign investments, commerce, taxation and trade.

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However, many of these laws and regulations are relatively new, and because of the limited volume of published decisions, their implementation and interpretation involve uncertainties and may not be as consistent and predictable as in other jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of any violation of these policies and rules until sometime after such violation has occurred. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and may result in substantial costs and diversion of resources and management attention.

You may experience difficulties in effecting service of process or enforcing foreign judgments against us, our Directors or senior management residing in China.

The Company was incorporated in the Cayman Islands. All of our assets are located in China and all of our executive Directors and senior management are based in China. Therefore, it may not be possible to effect service of process within Hong Kong or elsewhere outside China upon us or our Directors or executive officers. Moreover, China has not entered into treaties for the reciprocal recognition and enforcement of court judgments with the United Kingdom, Japan and many other countries. As a result, recognition and enforcement in China of a court judgment obtained in other jurisdictions may be difficult or impossible.

In addition, pursuant to the Arrangement of the Supreme People's Court for the Reciprocal Recognition and Enforcement by the Courts of the Mainland and of the Hong Kong Special Administrative Region of the Judgments of Civil and Commercial Cases Under Consensual Jurisdiction (最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排), signed on 14 July 2006 and became effective as of 1 August 2008, a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in China. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in China if the parties in the dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to enforce a Hong Kong court judgment against our assets or our Directors or executive officers in China.

The PRC Government's control over currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares.

Currently, the Renminbi still cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. There is no assurance that, under a certain exchange rate, we will have sufficient foreign currencies to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends following the completion of the Share Offer, do not require prior approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the requisite licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by the SAFE.

Under existing foreign exchange regulations, following the completion of the Share Offer, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by

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complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign currencies may restrict our ability to obtain sufficient foreign currencies for dividend payments to our Shareholders or to satisfy any other foreign exchange requirements.

Fluctuations in exchange rates may have a material and adverse impact on your investment.

The exchange rate of the Renminbi fluctuates against the Hong Kong dollar, U.S. dollar and other foreign currencies and is affected by, among other factors, the policies of the PRC Government and changes in international and domestic political and economic conditions. From 1994 to 20 July 2005, the official exchange rate for the conversion of Renminbi to USD was generally stable. In July 2005, the PRC Government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. The current policy permits the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. In general, the Renminbi has depreciated since the end of 2015 from approximately RMB6.49 per U.S. dollar as of December 2015 to approximately RMB6.94 per U.S. dollar as of 30 December 2016. The Renminbi subsequently appreciated to approximately RMB6.51 per U.S. dollar as of 31 December 2017. It is difficult to predict how market forces and the PRC Government's policies will continue to impact Renminbi exchange rates going forward. The Renminbi may appreciate or depreciate significantly in value against the Hong Kong dollar, U.S. dollar or other foreign currencies in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued, or it may be permitted to enter into full float, which may also result in significant appreciation or depreciation of the Renminbi against the Hong Kong dollar, U.S. dollar or other foreign currencies. The Hong Kong dollar is currently pegged to the U.S. dollar.

Such developments may depreciate the value of your investment. For example, significant appreciation of the Renminbi against the Hong Kong dollar could reduce the amount of Renminbi received from converting Share Offer proceeds or future financing efforts to fund our operations, thereby materially and adversely affecting our profitability. On the other hand, significant depreciation of the Renminbi may increase the cost of converting our Renminbi-denominated cash flow into Hong Kong dollars, thereby reducing the amount of any cash dividends payable to our Shareholders.

You may be subject to PRC income tax on dividends from us or on any gain realized on the transfer of our Shares under PRC law.

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between China and your jurisdiction of residence that provides for a different income tax arrangement, PRC withholding tax at the rate of 10% is normally applicable to dividends from PRC sources payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in China, or which have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such investors is subject to 10% PRC income tax if such gain is regarded as income derived from sources within China unless a treaty or similar arrangement provides otherwise. Under the PRC Individual Income Tax Law (中華人民共和國個人所得稅法) and its implementation rules, dividends from sources within China paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of shares are generally subject to 20% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws.

Although all of our business operations are in China, it is unclear whether dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, would be treated as income

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derived from sources within China and as a result be subject to PRC income tax if we are considered a PRC resident enterprise. If PRC income tax is imposed on gains realized from the transfer of our Shares or on dividends paid to our non-resident investors, the value of your investment in our Shares may be materially and adversely affected. Furthermore, our Shareholders whose jurisdictions of residence have tax treaties or arrangements with China may not qualify for benefits under such tax treaties or arrangements.

We may be subject to additional social insurance and housing provident fund contributions and late payments and fines imposed by the relevant governmental authorities.

We are obliged to contribute to social insurance funds and housing provident funds for our employees under applicable PRC laws and regulations. During the Track Record Period: (i) we failed to register with the relevant housing provident fund authority, and did not make housing provident fund contributions for all eligible employees; and (ii) we did not fully make social insurance fund contributions for all eligible employees. We estimate that the aggregate outstanding amounts of housing provident fund contributions and social insurance fund contributions were RMB0.9 million and RMB1.8 million, respectively. For more information, see “Business — Legal Proceedings and Compliance — Compliance.”

As advised by our PRC Legal Advisers, in the event that the relevant social insurance and housing provident fund authorities demand that we pay the outstanding amounts of social insurance and housing provident fund contributions, we shall be required to pay such amounts if applicable, and if we do not do so within the prescribed time limit, the relevant authorities may impose fines on us. For more details, see “Business — Legal Proceedings and Compliance — Compliance.”

We may be deemed a PRC resident enterprise under the EIT Law and be subject to PRC taxation on our global income.

Pursuant to the EIT Law, which came into effect on 1 January 2008 and was amended on 24 February 2017, an enterprise established outside China whose “de facto management body” is located in China is considered a “PRC resident enterprise” and will generally be subject to the uniform EIT rate of 25% on its global income. Under the implementation rules of the EIT Law, “de facto management body” is defined as the organization body that effectively exercises management and control over such aspects as the business operations, personnel, accounting and properties of the enterprise.

On April 22, 2009, the SAT released the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) (“Circular 82”), as amended on 29 January 2014, which sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of China and controlled by PRC enterprises or PRC enterprise groups is located within China. Under Circular 82, a foreign enterprise controlled by a PRC enterprise or PRC enterprise group is considered a PRC resident enterprise if all of the following apply: (i) the senior management and core management departments in charge of daily operations are located mainly within China; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders’ meetings are located or kept within China; and (iv) at least half of the enterprise’s directors with voting rights or senior management reside within China. In addition, Circular 82 also requires that the determination of “de facto management body” shall be governed by the principle that substance is more important than form. Further to Circular 82, the SAT issued Chinese-Controlled Offshore Incorporated Resident EIT Regulation (Trial Implementation) (境外註冊中資控股居民企業所得稅管理辦法(試行)) (“Bulletin 45”), which took effect on 1 September 2011 and amended on 1 June 2015 and 1 October 2016 successively, to provide more guidance on the implementation of Circular 82 and

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clarify the reporting and filing obligations of such “Chinese-controlled offshore incorporated resident enterprises.” Bulletin 45 provides procedures and administrative details for the determination of resident status and administration of post-determination matters. Although Circular 82 and Bulletin 45 explicitly provide that the above standards apply to enterprises which are registered outside China and controlled by PRC enterprises or PRC enterprise groups, Circular 82 may reflect SAT’s criteria for determining the tax residence of foreign enterprises in general. If we were treated as a PRC resident enterprise, the EIT rate of 25% on our global taxable income could materially and adversely affect our ability to satisfy any cash requirements we may have.

We rely on dividends paid by our PRC subsidiary for our cash needs, and any limitation on the ability of our PRC subsidiary to make payments to us could have a material and adverse effect on our ability to conduct our business operations.

We conduct all of our business operations through our PRC subsidiary. Therefore, we rely on the dividends received from our PRC subsidiary for funds necessary to pay dividends to our Shareholders. PRC regulations currently permit dividends to be paid only out of distributable profits determined in accordance with the PRC GAAP. Our PRC subsidiary is required to set aside at least 10% of its after-tax profit calculated based on the PRC GAAP to its general reserve fund, until the aggregate amount of such reserve reaches 50% of its registered capital. This statutory reserve is unavailable for distribution as loans, advances or cash dividends. We expect that such limitations on the ability of our PRC subsidiary to transfer funds to us may in turn materially and adversely restrict our ability to pay dividends to our Shareholders or otherwise fund and conduct our business operations. Additional limitations may include, but are not limited to, restrictive covenants in debt instruments and withholding tax.

Current PRC regulations of loans and direct investments by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Share Offer to make loans or additional capital contributions to our PRC subsidiary.

Any loans or capital contributions that we, as an offshore entity, make to our PRC subsidiary out of the net proceeds of the Share Offer are subject to PRC regulations. For example, pursuant to the Notice of PBOC on Matters Concerning Macro-prudential Management on All-Round Cross-Border Financing (中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知) promulgated by PBOC on 12 January 2017 and effective from the same day, any overseas loan to our PRC subsidiary cannot exceed its upper limit of the risk-weighted balance for cross-border financing, which shall be calculated by its capital or net assets, the leverage rate of cross-border financing and the macro-prudential adjustment parameters. Such loans must be registered or filed on record. We cannot assure you that we will be able to complete the required registration and filing procedures in a timely manner or at all, with respect to future loans or capital contributions that we may make to our PRC subsidiary. Failure to do so may negatively affect our ability to use the proceeds of the Share Offer and to fund our business operations, which would in turn materially and adversely affect our liquidity and ability to expand our business.

Inflation in China could negatively affect our profitability and growth.

Economic growth in China has, in the past, been accompanied by periods of high inflation. In response, the PRC Government has implemented policies from time to time to control inflation, such as restricting the availability of credit by imposing tighter bank lending policies or higher interest rates. While inflation has eased recently in China, the PRC Government may take similar measures in response to future inflationary pressures. Rampant inflation without the PRC Government’s mitigation policies would likely increase our costs of production and sales, thereby materially reducing our profitability. There is no assurance that we will be able to pass any additional costs to our customers. On the other hand, such control measures may also lead to slower economic activity and we may experience reduced demand for our products and services.

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PRC laws and regulations establish more complex procedures for some acquisitions of PRC companies by foreign investors, which could make it difficult for us to pursue growth through acquisitions in China.

A number of PRC laws and regulations, including the M&A Rules, the Anti-Monopoly Law (反壟斷法), and the Rules of MOFCOM on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (商務部實施外國投資者併購境內企業安全審查制度的規定) promulgated by MOFCOM on 25 August 2011 and effective from 1 September 2011 (“**Security Review Rules**”), have established procedures and requirements that are expected to make the review of certain merger and acquisition activities by foreign investors in China more time consuming and complex. These include requirements in some instances to notify MOFCOM in advance of any transaction in which foreign investors take control of a PRC domestic enterprise, or to obtain approval from MOFCOM before overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to merger control or security review.

The Security Review Rules prohibits foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. If we are found to be in violation of the Security Review Rules and other PRC laws and regulations with respect to the merger and acquisition activities in China, or fail to obtain any of the required approvals, the relevant regulatory authorities would have broad discretion in dealing with such violations, including levying fines, confiscating our income, revoking our PRC subsidiary’s business and operating licenses, requiring us to restructure or unwind the relevant ownership structure or business operations. Any of these actions could cause significant disruption to our business operations and may materially and adversely affect our business, financial condition and results of operations. Furthermore, if the business of any target company we plan to acquire falls into the ambit of security review, we may not be able to successfully acquire such company either by equity or asset acquisition, capital contribution or any contractual arrangement. We may grow our business in part by acquiring other companies operating in our industry. Complying with the requirements of the relevant regulations to complete such transactions could be time consuming, and any required approval processes, including approval from MOFCOM, may delay or inhibit our ability to complete such transactions, thus affecting our ability to expand our business or maintain our market share.

RISKS RELATING TO THE SHARE OFFER

There has been no prior market for our Shares, and their liquidity and market price following the Share Offer may be volatile.

Prior to the Share Offer, there has been no public market for our Shares. The initial Offer Price range for our Shares was the result of negotiations among us and the Joint Bookrunners (on behalf of the Underwriters), and the Offer Price may differ significantly from the market price of our Shares following the Share Offer.

We have applied to list and deal in our Shares on the Stock Exchange. However, even if approved, there can be no guarantee that: (i) an active trading market for our Shares will develop; or (ii) if such a trading market does develop, it will be sustained following the completion of the Share Offer; or (iii) the market price of our Shares will not decline below the Offer Price. The trading volume and price of our Shares may be subject to significant volatility in response to, among other things, the following factors:

- variations in our financial condition and/or results of operations;

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- changes in securities analysts' estimates of our financial condition and/or results of operations, regardless of the accuracy of information on which their estimates are based;
- changes in investors' perception of us and the investment environment generally;
- loss of visibility in the markets due to lack of regular coverage of our business;
- announcements of new technologies;
- strategic alliances or acquisitions;
- industrial or environmental accidents, litigation or loss of key personnel suffered by us;
- changes in laws and regulations that impose limitations on our industry;
- fluctuations in the market prices of our products;
- announcements made by us or our competitors;
- changes in pricing adopted by us or our competitors;
- the liquidity of the market for our Shares; and
- general economic and other factors.

Future or perceived sales of substantial amounts of our Shares could affect their market price.

The market price of our Shares could decline as a result of future sales of substantial amounts of our Shares or other related securities, or the perception that such sales may occur. Our ability to raise future capital at favorable times and prices may also be materially and adversely affected. Our Shares held by the Controlling Shareholders are currently subject to certain lock-up undertakings, the details of which are set out in "Underwriting — Underwriting Arrangements and Expenses." However, there is no assurance that following the expiration of the lock-up periods, these Shareholders will not dispose of any Shares. We cannot predict the effect of any future sales of the Shares by any of our Shareholders on the market price of our Shares.

Our Controlling Shareholders have substantial influence over the Company and their interests may not be aligned with the interests of Shareholders who subscribe for our Shares in the Share Offer.

Immediately following the Share Offer, our Controlling Shareholders will directly and indirectly own an aggregate of 75.0% of our Shares, if the Over-allotment Option is not exercised, or 72.3% of our Shares, if the Over-allotment Option is exercised in full. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matters submitted to our Shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership, as a result, may discourage, delay or prevent a change in control of the Company, which could deprive our Shareholders of an opportunity to receive a premium for their Shares in a sale of the Company or may reduce the market price of our Shares. In addition, to the extent the interests of our Controlling Shareholders conflict with the interests of other Shareholders, the interests of other Shareholders may be disadvantaged or harmed.

Potential investors will experience immediate and substantial dilution as a result of the Share Offer and could face dilution as a result of future equity financings.

Potential investors will pay a price per Share that substantially exceeds the per Share value of our tangible assets after subtracting our total liabilities and will therefore experience immediate dilution when potential investors purchase the Offer Shares in the Share Offer. As a result, if we were to distribute our net tangible assets to the Shareholders immediately following the Share Offer, potential investors would receive less than the amount they paid for their Shares.

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We may need to raise additional funds in the future to finance further expansions or new developments in our existing operations. If additional funds are raised through the issuance of new equities or equity-linked securities of the Company other than on a pro-rata basis to existing Shareholders, the percentage ownership of such Shareholders in the Company may be reduced and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

There will be a time gap between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins.

The Offer Price of our Shares will be determined on the Price Determination Date. However, trading of our Shares on the Hong Kong Stock Exchange will not commence until our Shares are delivered, which is expected to be a short period after the Price Determination Date. As a result, holders of our Shares may not be able to sell or otherwise deal in our Shares during that period. Thus, holders of our Shares may be subject to the risk that trading price of our Share could fall before trading of our Shares begins as a result of adverse market conditions or other adverse developments arising during the period between the Price Determination Date and the date on which trading of our Shares begins.

We have discretion as to how we will use the net proceeds of the Share Offer, and you may not necessarily agree with how we use them.

Our management may spend the net proceeds from the Share Offer in ways you may not agree with or that do not yield a favorable return. We plan to use the net proceeds from the Share Offer to upgrade our Yixing Plant and build production facilities to manufacture high-purity oleic acid as the substitute for tall oil fatty acid for our lubricity improvers. For more information, see “Future Plans and Use of Proceeds.” However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from this Share Offer.

We may not declare dividends on our Shares in the future.

A declaration of dividends is proposed by our Board of Directors and the amount of any dividends will depend on various factors, including, without limitation, our results of operations, financial condition, future prospects and other factors which our Board of Directors may determine are important. For more information, see “Financial Information — Dividends.” We cannot guarantee when, if and in what form dividends will be paid in the future.

Investors may experience difficulties in enforcing their shareholders’ rights because the Company is incorporated in the Cayman Islands, and the protection to minority shareholders under Cayman Islands law may be different from that under the laws of Hong Kong or other jurisdictions.

The Company is incorporated in the Cayman Islands and its affairs are governed by the Articles of Association, the Cayman Companies Law and common law applicable in the Cayman Islands. The laws of the Cayman Islands may differ from those of Hong Kong or other jurisdictions where investors may be located. As a result, minority Shareholders may not enjoy the same rights as pursuant to the laws of Hong Kong or such other jurisdictions. A summary of the Cayman Company Law on protection of minority Shareholders is set out in “Appendix IV — Summary of the Constitution of the Company and Cayman Company Law” to this Prospectus.

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We cannot guarantee the accuracy of facts, forecasts and statistics with respect to China, the PRC economy and our relevant industries contained in this Prospectus.

Certain facts, forecasts and statistics in this Prospectus relating to China, the PRC economy and industries relevant to us have been derived from information provided or published by PRC Government agencies, industry associations, independent research institutions or other third-party sources, and we can guarantee neither the quality nor reliability of such source materials. They have not been prepared or independently verified by us, the Sole Sponsor, the Joint Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters or any of its or their respective affiliates or advisers. Therefore, we make no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside of China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the statistics herein may be inaccurate or incomparable to statistics produced for other economies and should not be relied upon. Furthermore, there can be no assurance that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, investors should consider how much weight or importance they should attach to or place on such facts, forecasts or statistics.

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

This Prospectus contains certain forward-looking statements and information relating to us 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,” “expect,” “going forward,” “intend,” “ought to,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “will,” “would” and the negative of these words and other and similar expressions, as they relate to the Company 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. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. Investors should not place undue reliance on such forward-looking statements and information.

**WAIVERS AND EXEMPTIONS FROM STRICT COMPLIANCE WITH
THE LISTING RULES AND THE COMPANIES (WINDING UP AND
MISCELLANEOUS PROVISIONS) ORDINANCE**

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

**WAIVER FROM STRICT COMPLIANCE WITH RULE 4.04(1) OF THE LISTING RULES AND
EXEMPTION FROM COMPLIANCE WITH SECTION 342(1)(B) OF THE COMPANIES
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE IN RELATION TO
PARAGRAPHS 27 AND 31 OF THE THIRD SCHEDULE THEREIN**

According to Rule 4.04(1) of the Listing Rules, we are required to include in this Prospectus, an accountants' report covering the consolidated results of our Group in respect of each of the three financial years immediately preceding the issue of this Prospectus.

Similarly, section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance stipulates that we must state the matters specified in Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and set out the reports specified in Part II of that Schedule in this Prospectus. Under paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, we are required to include in this Prospectus: (i) a statement as to the gross trading income or sales turnover (as may be appropriate) of our Group; and (ii) a report by our auditors with respect to the profits and losses and assets and liabilities of our Group in respect of each of the three financial years immediately preceding the issue of this Prospectus.

The Accountants' Report set forth in Appendix I to this Prospectus contains the audited consolidated results of our Group for each of the three financial years ended 31 December 2016 and the nine months ended 30 September 2017, which is in compliance with the requirements under Rule 8.06 of the Listing Rules but not in strict compliance with Rule 4.04(1) of the Listing Rules. However, strict compliance with Rule 4.04(1) of the Listing Rules and paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance would be unduly burdensome for us as there would not be sufficient time for the reporting accountants of the Company to complete and finalize the audit of the consolidated financial statements of our Group for the full financial year ended 31 December 2017 for inclusion in this Prospectus.

Accordingly, an application has been made to the SFC for an exemption, and the SFC has issued a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, from strict compliance with the requirements of paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance subject to the following conditions:

- (a) the Prospectus will be issued on or before 19 March 2018;
- (b) the Shares shall be listed on the Stock Exchange on or before 29 March 2018; and
- (c) the particulars of the exemption shall be set out in this Prospectus.

WAIVERS AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

An application has also been made to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 4.04(1) of the Listing Rules subject to the following additional conditions:

- (a) our Shares shall be listed on the Stock Exchange on or before 29 March 2018;
- (b) we obtain a certificate of exemption from the SFC on compliance with similar requirements under paragraphs 27 and 31 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance subject to such conditions as SFC thinks fit;
- (c) the preliminary unaudited financial information for the year ended 31 December 2017 and a commentary on the results for the year will be included in this Prospectus. The financial information to be included must (i) follow the same content requirements as for a preliminary results announcement under Rule 13.49 of the Listing Rules; and (ii) be agreed with the reporting accountants following their review under Practice Note 730 “Guidance for Auditors Regarding Preliminary Announcements of Annual Results” issued by the Hong Kong Institute of Certified Public Accountants; and
- (d) our Company is not in breach of its constitutional documents or laws and regulations of the PRC or other regulatory requirements relating to its obligation to publish preliminary results announcements.

We have included in Appendix III to this Prospectus the unaudited preliminary financial information and a commentary on the results of operations of our Group for the year ended 31 December 2017, which follow the same content requirements as for a preliminary results announcements under Rule 13.49 of the Listing Rules and have been agreed with the reporting accountants following their review under Practice Note 730 “Guidance for Auditors Regarding Preliminary Announcements of Annual Results” issued by the Hong Kong Institute of Certified Public Accountants.

Our Directors and the Sole Sponsor confirmed that all information that is necessary for the public to make an informed assessment of the business, profit and losses, assets and liabilities, financial position and profitability of our Group has been included in this Prospectus. As such, the exemption granted by the SFC from compliance with section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in respect of the requirements under paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the waiver granted by the Stock Exchange from strict compliance with Rule 4.04(1) of the Listing Rules will not prejudice the interests of the investing public based on the following reasons:

- (a) after performing all due diligence work by our Directors and the Sole Sponsor, there has been no material adverse change in the financial and trading positions or prospects of our Group since 30 September 2017 and up to the date of this Prospectus; and
- (b) there is no event which would materially affect the information as contained in the Accountant’s Report as set out in Appendix I to this Prospectus, the unaudited pro forma financial information as set out in Appendix II to this Prospectus, the unaudited preliminary financial information for the year ended 31 December 2017 as set out in Appendix III to this Prospectus, the section headed “Financial Information” in this Prospectus and other parts of this Prospectus.

WAIVERS AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

MANAGEMENT PRESENCE

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. The Company's headquarters and our major business operations are based in China and all of our five executive Directors, namely Mr. Ge, Ms. Gu, Mr. Huang Lei, Mr. Jiang Caijun and Mr. Fan Yaqiang, have been, are and are expected to be based in China and are not ordinarily resident in Hong Kong. We believe it would be more effective and efficient for our executive Directors to be based in a location where we have significant operations and so that our management is best able to attend to its functions by being based in China. As such, we will not be able to strictly comply with the requirements of Rule 8.12 of the Listing Rules for sufficient management presence in Hong Kong. Accordingly, we have applied to the Stock Exchange for and the Stock Exchange has granted a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules subject to the following conditions: (i) 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. Ge, an executive Director, and Mr. Young Ho Kee Bernard, our company secretary. They will be able to meet with the Stock Exchange on reasonable notice upon request of the Stock Exchange and be readily contactable by telephone, facsimile and email by the Stock Exchange; (ii) 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; (iii) each of the Directors who are not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period of time upon request of the Stock Exchange; (iv) we have, in compliance with Rule 3A.19 of the Listing Rules, engaged Orient Capital (Hong Kong) Limited as our compliance adviser, who will act as an additional channel of communication with the Stock Exchange; and (v) to enhance communications with the Stock Exchange, the Directors will provide their respective mobile phone numbers, office phone numbers, email addresses and fax numbers to the authorized representatives as well as the Stock Exchange, and in the event that a Director expects to travel and be out of office, he/she will provide the phone number of the place of his/her accommodation or means of communication to the authorized representatives.

APPOINTMENT OF JOINT COMPANY SECRETARIES

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

Note 1 to Rule 3.28 of the Listing Rules sets out the academic and professional qualifications considered to be acceptable by the Stock Exchange:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance).

WAIVERS AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Note 2 to Rule 3.28 of the Listing Rules sets out the factors that the Stock Exchange considers when assessing an individual's "relevant experience":

- (a) length of employment with the issuer and other issuers and the roles he played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

We have appointed Mr. Tan Qian as one of our joint company secretaries on 18 September 2017 for a term of three years. Mr. Tan Qian joined our Group in February 2007, and has more than 20 years of experience in international trade, administrative management and accounting, with sound understanding of the operations of our Board and our Group. For biographical details of Mr. Tan Qian, please see "Directors and Senior Management — Senior Management." Mr. Tan Qian, however, does not possess the specified qualifications required by Rule 3.28 of the Listing Rules. Given the important role of company secretary in the corporate governance of a listed issuer, particularly in assisting the listed issuer as well as its directors in complying with the Listing Rules and other relevant laws and regulations, we have made the following arrangements:

- Mr. Tan Qian will endeavor to attend relevant training courses, including briefing on the latest changes to the applicable Hong Kong laws and regulations as well as the Listing Rules organized by the Company's Hong Kong legal advisers on an invitation basis and seminars organized by the Stock Exchange from time to time, in addition to the minimum requirement under Rule 3.29 of the Listing Rules;
- we have appointed Mr. Young Ho Kee Bernard (楊浩基), who meets the requirements under Note 1 to Rule 3.28 of the Listing Rules, as a joint company secretary to work closely with and to provide assistance to Mr. Tan Qian in the discharge of his duties as a company secretary for an initial period of three years so as to enable Mr. Tan Qian to acquire the relevant experience (as required under Note 2 to Rule 3.28 of the Listing Rules) to discharge the duties and responsibilities as a company secretary; and
- before expiry of the three-year period, the qualifications and experiences of Mr. Tan Qian will be re-evaluated. Mr. Tan Qian is expected to demonstrate to the Stock Exchange's satisfaction that he, having had the benefit of Mr. Young's assistance for three years, would then have acquired the "relevant experience" within the meaning of Note 2 to Rule 3.28 of the Listing Rules. If such requirements cannot be satisfied, we will employ a suitable candidate who will be able to comply with the requirements under Rule 8.17 of the Listing Rules as secretary of the Company.

**WAIVERS AND EXEMPTIONS FROM STRICT COMPLIANCE WITH
THE LISTING RULES AND THE COMPANIES (WINDING UP AND
MISCELLANEOUS PROVISIONS) ORDINANCE**

We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules. Upon expiry of the initial three-year period, the qualifications of Mr. Tan Qian will be re-evaluated to determine whether the requirements as stipulated in Note 2 to Rule 3.28 of the Listing Rules can be satisfied. In the event that Mr. Tan Qian has obtained relevant experience under Note 2 to Rule 3.28 of the Listing Rules at the end of the said initial three-year period, the above joint company secretaries arrangement would no longer be necessary.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This Prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this Prospectus is accurate and complete in all material respects and is neither misleading nor deceptive, and there are no other matters the omission of which would render any statement herein or this Prospectus misleading.

INFORMATION ON THE SHARE OFFER

The Offer Shares are offered solely on the basis of information contained and representations made in this Prospectus and the Application Forms, and on and subject to the terms and conditions set out herein and therein. No person is authorized to give any information in connection with the Share Offer or 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 the Company, the Sole Sponsor, the Joint Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, members of senior management, authorized representatives, agents, employees or advisers or any other party involved in the Share Offer. Neither the delivery of this Prospectus nor any offer, 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 Share Offer, including its conditions, are set out in “Structure of the Share Offer.”

UNDERWRITING

This Prospectus is published solely in connection with the Public Offer, which forms part of the Share Offer. For applicants under the Public Offer, the application procedure for Public Offer Shares is set out in “How to Apply for Public Offer Shares” of this Prospectus and the relevant Application Forms.

The Listing is sponsored by the Sole Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriters under the terms and conditions of the Underwriting Agreement, subject to agreement on the Offer Price between the Company and the Joint Coordinators (on behalf of the Underwriters) on the Price Determination Date. The Placing is expected to be fully underwritten by the Placing Underwriters subject to the terms and conditions of the Placing Underwriting Agreement, which is expected to be entered into on or around the Price Determination Date.

For more information, see “Underwriting.”

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price, which is expected to be fixed by agreement between the Joint Coordinators (for themselves and on behalf of the Underwriters) and the Company on the Price Determination Date.

If, for whatever reason, the Joint Coordinators (for themselves and on behalf of the Underwriters) and the Company are unable to reach an agreement on the Offer Price by Tuesday, 27 March 2018, the Share Offer will not become unconditional and will lapse immediately.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Offer Shares under the Public Offer will be required to, or be deemed by his acquisition of the Public Offer Shares to, confirm that he is aware of the restrictions on offer and sale 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 in 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/or the Application Forms and the offer and sale of the Offer Shares in jurisdictions other than in Hong Kong 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. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC.

APPLICATION FOR LISTING ON THE HONG KONG 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 Share Offer, including the Shares which may be issued pursuant to the exercise of the Over-allotment Option, the Capitalization Issue and upon the exercise of any options which may be granted under the Share Option Scheme. No part of the Share or loan capital of the Company 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.

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

OFFER SHARES WILL BE ELIGIBLE FOR ADMISSION 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 Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

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

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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

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

HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

All Shares to be issued pursuant to the Share Offer and any Shares to be issued upon the exercise of the Over-allotment Option will be registered on the Company's Hong Kong register of members to be maintained by the Company's Hong Kong Share Registrar in Hong Kong. The Company's principal register of members will be maintained in the Cayman Islands by the Principal Share Registrar. Dealings in Shares of the Company registered on the Hong Kong register of members will be subject to Hong Kong stamp duty. **The current and valorem rate of Hong Kong stamp duty of 0.1% on the higher of the consideration for or the market value of the Shares and it is charged to the purchaser on every purchase and to the seller on every sale of the Shares. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the Shares.**

PROFESSIONAL TAX ADVICE RECOMMENDED

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

APPLICATION PROCEDURE FOR THE PUBLIC OFFER SHARES

The application procedure for Public Offer Shares is set out in "How to Apply for Public Offer Shares" and the relevant Application Forms.

OVER-ALLOTMENT AND STABILIZATION

Further details of the arrangements relating to stabilization and the Over-allotment Option are set out in "Structure of the Share Offer — Over-allotment Option and Stock Borrowing Agreement" and "Structure of the Share Offer — Stabilization Action." Unless otherwise specified, all relevant information in this Prospectus assumes no exercise of the Over-allotment Option.

CURRENCY TRANSLATIONS

Solely for your convenience, this Prospectus contains translations of certain Renminbi amounts into Hong Kong dollars at specified rates. No representation is made that the Renminbi amounts could actually be converted into Hong Kong dollar amounts at the rates indicated or at all. Unless we indicate otherwise, the translation of Renminbi into Hong Kong dollars was made at the rate of RMB0.8414 to HK\$1.00, the exchange rate prevailing on 20 September 2017, set by the PBOC for foreign exchange transactions.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

LANGUAGE

If there is any inconsistency between the English version of this Prospectus and its Chinese translation, the English version of this Prospectus shall prevail. If there is any inconsistency between the Chinese names of PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like mentioned in this Prospectus and their English translations, the Chinese names shall prevail.

ROUNDING

In this Prospectus, where information is presented in hundreds, thousands, ten thousands, millions, hundred millions or billions, certain amounts of less than one hundred, one thousand, ten thousand, one million, a hundred million or a billion, as the case may be, have been rounded to the nearest hundred, thousand, ten thousand, million, hundred million or billion, respectively. 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 AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Ge Xiaojun (葛曉軍)	Estrada De Seac Pai Van No. S/N Lote 6 No. 34 Andar A Macau	Chinese
Ms. Gu Jufang (顧菊芳)	Estrada De Seac Pai Van No. S/N Lote 6 No. 34 Andar A Macau	Chinese
Mr. Huang Lei (黃磊)	Apartment 15, Building 22 Yinxing Yuan Cuiping International City Moling Road Jiangning District Nanjing, Jiangsu PRC	Chinese
Mr. Jiang Caijun (蔣才君)	Apartment 106, Building 2 Garden Residence, Qiting Street Yixing, Jiangsu PRC	Chinese
Mr. Fan Yaqiang (范亞強)	Apartment 405, Building 1 Zhongxing Village #2, Yicheng Street Yixing, Jiangsu PRC	Chinese
Non-executive Director		
Mr. Gu Yao (顧耀)	Room 1001, Building 5 Grand Summit Xinza Road 1999 Jing'an District Shanghai PRC	Chinese
Independent Non-executive Directors		
Mr. Fan Peng (樊鵬)	2F Hong Garden 37 Homantin Street Ho Man Tin, Kowloon Hong Kong	Chinese
Mr. Guan Dongtao (管東濤)	Apartment 183, Building 24 Longze Garden Zone D Yixing, Jiangsu PRC	Chinese
Ms. Wu Yan (吳燕)	Apartment 403, Building 11 Lvyuanxin Village, Yicheng Street Yixing, Jiangsu PRC	Chinese

For more information, see “Directors and Senior Management.”

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor	Orient Capital (Hong Kong) Limited 28-29/F, 100 Queen's Road Central Central Hong Kong
Joint Coordinators, Joint Bookrunners and Joint Lead Managers	Orient Securities (Hong Kong) Limited 28-29/F, 100 Queen's Road Central Central Hong Kong Guotai Junan Securities (Hong Kong) Limited 27/F, Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong
Co-lead Manager	Quasar Securities Co., Limited Unit A, 12/F, Harbour Commercial Building 122-124 Connaught Road Central Sheung Wan, Hong Kong
Co Managers	Huabang Securities Limited Unit 2901-02, 29/F, Enterprise Square Two, 3 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong CNI Securities Group Limited 10/F, Sun's Group Centre, 200 Gloucester Road, Wanchai, Hong Kong Freeman Securities Limited 38/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong
Legal advisers to the Company	<i>As to Hong Kong law:</i> Troutman Sanders 34 th Floor, Two Exchange Square 8 Connaught Place Central Hong Kong <i>As to PRC law:</i> Jingtian & Gongcheng 34 th Floor, Tower 3, China Central Place 77 Jianguo Road, Chaoyang District Beijing 100025 PRC

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

As to Cayman Islands law:

Conyers Dill & Pearman

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

As to International Sanctions law:

Hogan Lovells

11th Floor
One Pacific Place
88 Queensway
Hong Kong

As to Sudan law:

Dirdeiry & Partners

608 Tadamon Bank Tower
Baladia Street
Khartoum
Sudan

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

As to Hong Kong law:

MinterEllison

Level 25, One Pacific Place
88 Queensway
Hong Kong

As to PRC law:

AllBright Law Offices

11, 12/F, Shanghai Tower,
501 Yincheng Middle Road
Pudong New Area
Shanghai
PRC

Auditor and Reporting Accountant

KPMG

8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

Industry Consultant

China Insights Consultancy Limited

10th Floor, Tomorrow Square
399 West Nanjing Road
Huangpu District
Shanghai
PRC

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Compliance adviser

Orient Capital (Hong Kong) Limited
28-29/F, 100 Queen's Road Central
Central
Hong Kong

Receiving bank

Wing Lung Bank Limited
45 Des Voeux Road
Central
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal place of business and headquarters in the PRC	No. 16 West Kaixuan Road Economic Development Zone Yixing, Jiangsu PRC
Principal place of business in Hong Kong	18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Joint company secretaries	Mr. Tan Qian (談前) No. 16 West Kaixuan Road Economic Development Zone Yixing, Jiangsu PRC Mr. Young Ho Kee Bernard (楊浩基) 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Company's website	http://www.jscxsh.cn <i>(the information contained on this website does not form part of this Prospectus)</i>
Authorized representatives	Mr. Ge Xiaojun (葛曉軍) Estrada De Seac Pai Van No. S/N Lote 6 No. 34 Andar A Macau Mr. Young Ho Kee Bernard (楊浩基) 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Audit committee	Mr. Guan Dongtao (管東濤) (<i>chairman</i>) Mr. Fan Peng (樊鵬) Ms. Wu Yan (吳燕)
Remuneration committee	Ms. Wu Yan (吳燕) (<i>chairman</i>) Mr. Guan Dongtao (管東濤) Ms. Gu Jufang (顧菊芳)

CORPORATE INFORMATION

Nomination committee	Mr. Ge Xiaojun (葛曉軍) (<i>chairman</i>) Ms. Wu Yan (吳燕) Mr. Guan Dongtao (管東濤)
Principal share registrar and transfer office	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17 th Floor Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Principal bankers	Bank of China Limited Yixing Qiting Sub-Branch Qiting Subdistrict Yixing, Jiangsu PRC Bank of China Limited Yixing Sub-Branch No. 106, West Taige Road Yicheng Road Yixing, Jiangsu PRC Bank of Communications Co., Ltd. Yixing Dongshan Sub-Branch No. 217, East Jiefang Road Yicheng Road Yixing, Jiangsu PRC

INDUSTRY OVERVIEW

The information presented in this section is, including certain facts, statistics and data, derived from the market research report prepared by China Insights Consultancy Limited, an independent market research and consulting company which was commissioned by us (“CIC Report”), and from various official government publications and other publicly available publications, unless otherwise indicated. We believe that these sources are appropriate for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by the Company, the Sole Sponsor, the Joint Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Share Offer and no representation is given as to its accuracy, completeness or fairness. The information and statistics may not be consistent with other information and statistics compiled within or outside of China. As a result, excessive reliance on the information contained in this section shall be avoided.

SOURCE OF INFORMATION

We commissioned CIC, a market research and consulting company and an independent third party, to conduct an analysis of, and to report on the PRC oil refining agents and fuel additives industry for the period between 2012 and 2021. The CIC Report has been prepared by CIC independent of our influence. The fee payable to CIC for preparing the CIC Report is RMB538,000, which we believe reflects the market rate for similar services. CIC is a consulting firm founded in Hong Kong. It provides professional industry consulting services across multiple industries. CIC’s services include industry consulting services, commercial due diligence and strategic consulting.

Our Directors are of the view that the information set forth in this section is reliable and not misleading as the information was extracted from the CIC Report and CIC is an independent market research company with extensive experience in their profession. The information and data collected by CIC have been analyzed, assessed and validated using CIC’s in-house analysis models and techniques. Primary research was conducted via interviews with key industry experts and leading industry participants. Secondary research involved analysis of market data obtained from several publicly available data sources, such as releases from the PRC Government, company reports, independent research reports and CIC’s own internal database. The methodology used by CIC is based on information gathered from multiple levels and allows such information to be cross-referenced for accuracy. On the basis of the aforementioned, we consider the data and statistics to be reliable.

The CIC Report contains a variety of market projections which were produced with the following key assumptions: (i) the overall social, economic and political environment in China is expected to remain stable during the forecast period; (ii) the PRC economy is likely to maintain a steady growth trajectory during the forecast period, accompanied with continuing urbanization; (iii) related key industry drivers are likely to propel continued growth in the PRC oil refining agents and fuel additives industry throughout the forecast period, including the increasing demand for petroleum products in China, the implementation of evermore stringent mandatory emissions regulations, growing public concerns regarding air pollution caused by automobile exhaust, the evolution of oil refining technology and growing importation and consumption volumes for heavy crude oil; (iv) the global oil price is expected to remain stable in the forecast period; and (v) there is no extreme force majeure or unforeseen industry regulations in which the market may be affected in a dramatic or fundamental way.

INDUSTRY OVERVIEW

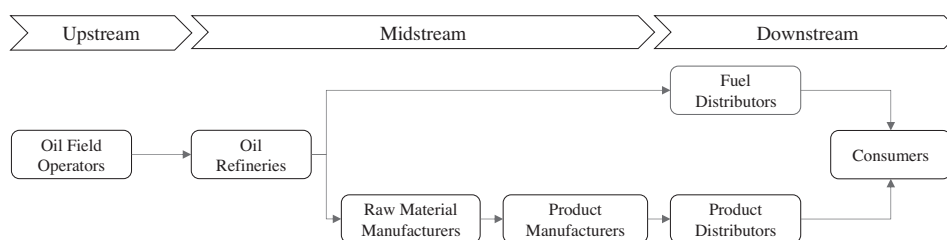
The CIC Report mainly focuses on the market for oil refining agents and fuel additives in China, the main jurisdiction in which our businesses are located. Our Directors confirm that after taking reasonable care, there is no material adverse change in the market information since the date of the relevant data contained in the CIC Report which may qualify, contradict or have an impact on the information in this section. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the CIC Report. Parameters used in the CIC Report include: (i) the nominal GDP in China; (ii) value added by the manufacturing sector of the PRC economy; (iii) vehicle output and ownership in China; (iv) crude oil output volume in China; and (v) oil product output volume and consumption volume in China.

OVERVIEW OF PRC PETROCHEMICAL INDUSTRY

Development history of the PRC petrochemical industry

RIPP, founded in 1956, is a research and development organization specializing in oil refining and petrochemical engineering technologies and is subordinate to Sinopec. It is mainly devoted to the development and application of oil refining technologies and the research and development of petrochemical technologies. In recent years, it has also focused on technologies to produce clean fuels and reduce undesirable emissions. For the past half-century, RIPP has been pioneering in the research and development of PRC petrochemical products.

Value chain analysis of the PRC petrochemical industry



Oil field operators who exploit and extract crude oil are upstream of the PRC petrochemical industry. Oil refineries and their subsequent raw materials and products manufacturers who are the major clients of oil refining agents and fuel additives manufacturers are midstream of the industry. With a series of complicated chemical processes, crude oil is separated into different types of fuels and petrochemicals. Fuels are transported to distributors once their purity and cleanliness have met the country's standards. Petrochemicals are sold to raw material manufacturers to produce plastics, glass and polyester fabric, and these raw materials are used to create final products such as plastic bottles, glass products and textile clothing. The distributors and consumers who sell and purchase these final products are downstream of the petrochemical industry. Fuels in China are mostly distributed through Sinopec and CNPC's distribution networks, which usually consist of gasoline stations, to vehicle drivers. Petrochemical derivatives are normally distributed by various brand retailers and wholesalers to final consumers.

PRC crude oil refining volume

From 2012 to 2016, the crude oil refining volume of China increased from 466.8 million tons to 570.6 million tons, representing a CAGR of 5.1%. Vehicle ownership per thousand people in China is expected to continue increasing at a CAGR of 8.3% from 2016 to 2021. Moreover, several significant projects, including the first private-led mega-refinery project in Zhoushan and the joint venture between CNPC and Russian oil and gas company OAO Rosneft to build an oil refinery in Tianjin have already begun, and are expected to start operating within the next five years. Therefore, the crude oil refining volume in China is predicted to reach a further 724.5 million tons by 2021, with a CAGR of 4.9% between 2016 and 2021.

INDUSTRY OVERVIEW

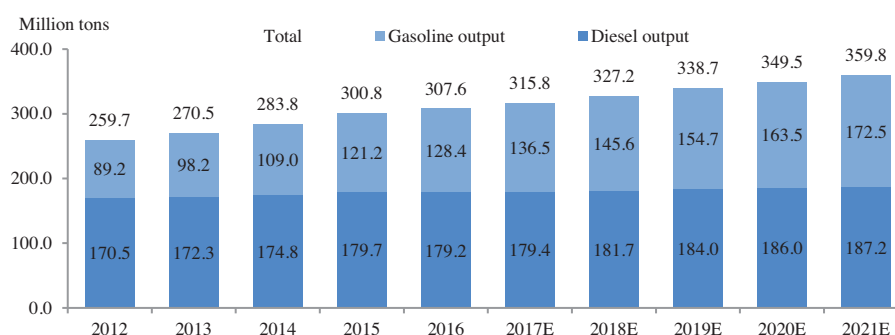
Output of PRC petroleum products

In the past five years, vehicle ownership per thousand people in China increased at a relatively high CAGR of 14.8%, mainly due to increases in the disposable income of PRC nationals. Although major cities in China have implemented measures to limit the distribution of plate numbers, restrict the purchase of automobiles and encourage the development and purchase of electric vehicles, demand for vehicles in lower-tier cities in China is expected to grow in the forthcoming years. Vehicle ownership per thousand people is expected to grow at a CAGR of 8.3% from 2016 to 2021.

Gasoline is the primary fuel for vehicles. Due to the rapid increase of vehicle ownership per thousand people in China over the past five years, gasoline output also experienced a CAGR of 9.5% from 2012 and 2016. Gasoline output is expected to experience a relatively stable CAGR of 6.1% from 2016 to 2021.

Diesel fuel is a major raw material of industrial production. However, diesel fuel output is expected to grow at a lower CAGR, and the total output of diesel is expected to reach 187.2 million tons in 2021 due to slowdown in the macro economy, the transfer of the PRC Government's focus from the manufacturing sector of the economy to the service sector, as well as the development of renewable energy.

Petroleum products output, China 2012 — 2021E



Source: National Bureau of Statistics of China, CIC

OVERVIEW OF THE PRC OIL REFINING AGENTS AND FUEL ADDITIVES INDUSTRY

Definition and categorization of oil refining agents and fuel additives

Oil refining agents refer to different additives used during the crude oil refining process, typically used to enhance the refining process, improve the performance of final products or protect oil refining units. Fuel additives are added into vehicles along with gasoline or diesel, and enhance engine performance by improving the quality of gasoline or other fuels.

The progression from the “China IV” to the “China V” Fuel Quality Standard

On 18 December 2013, the PRC Government promulgated the “China V” Fuel Quality Standard (第五階段車用汽油國家標準), which sets stricter emissions and fuel quality requirements than the “China IV” Fuel Quality Standard (第四階段車用汽油國家標準) previously in force. For example, the “China V” Fuel Quality Standard mandates that by 31 December 2017, members of the petrochemical industry must lower sulfur levels in fuels from 50 ppm as required under the “China IV” Fuel Quality Standard to 10 ppm, a reduction of 80%. We expect that the PRC Government will implement even more stringent fuel quality requirements under the “China VI” Fuel Quality Standard.

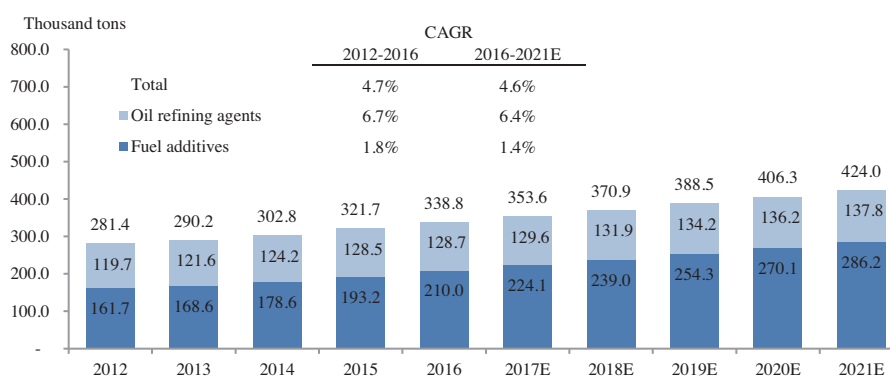
INDUSTRY OVERVIEW

Market size of the PRC oil refining agents and fuel additives industry by sales volume

Total sales volume for the PRC oil refining agents and fuel additives market increased from 281.4 thousand tons in 2012 to 338.8 thousand tons in 2016, representing a CAGR of 4.7% from 2012 to 2016.

The volume of application of oil refining agents and fuel additives is highly correlated to crude oil consumption and fuel quality standards in China. With oil consumption in China continuing to increase over the past decades, the country's oil refining agents and fuel additives industry has likewise continued to grow at a steady pace. Furthermore, given the increasingly stringent fuel quality standards, more newly developed oil refining agents and fuel additives are being demanded by upstream oil refineries, which is expected to continue to help the PRC oil refining agents and fuel additives industry grow sustainably during the forecast period, reaching a further 424.0 thousand tons by 2021, representing a CAGR of 4.6% between 2016 and 2021.

Sales volumes for oil refining agents and fuel additives, China, 2012 — 2021E



Source: CIC

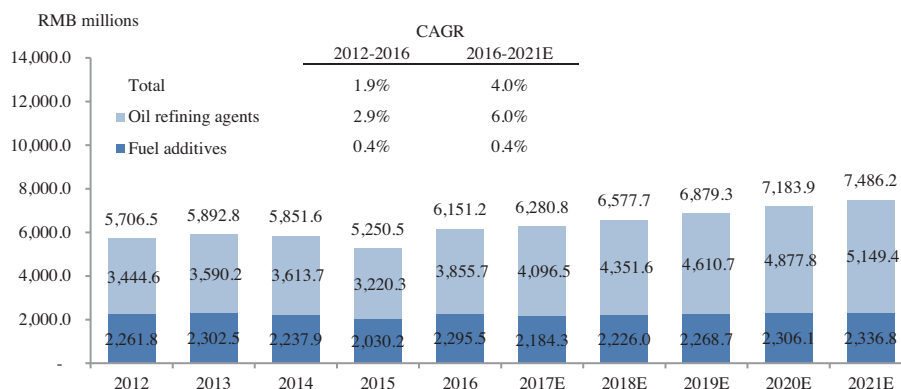
Market size of the PRC oil refining agents and fuel additives industry by sales value

Total sales value for the PRC oil refining agents and fuel additives market increased from RMB5,706.5 million in 2012 to RMB6,151.2 million in 2016, representing a CAGR of 1.9% between 2012 and 2016.

Total sales value for oil refining agents and fuel additives is highly correlated to the price of crude oil. As a result of the substantial drop in crude oil prices in 2015, total sales value for oil refining agents and fuel additives also experienced negative growth. However, as prices began to recover in the second half of 2016 and stabilized in 2017 at approximately USD50.0 per barrel, demand for oil refining agents and fuel additives also began to recover, which may help the sales price of oil refining agents and fuel additives recover and remain steady during the forecast period. With the implementation of the new “China V” Fuel Quality Standard, oil refineries are likely to use oil refining agents and fuel additives at increasing volumes going forward. Thus, the PRC oil refining agents and fuel additives market is expected to reach RMB7,486.2 million by 2021, representing a CAGR of 4.0% between 2016 and 2021.

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Sales value for oil refining agents and fuel additives, China, 2012 — 2021E



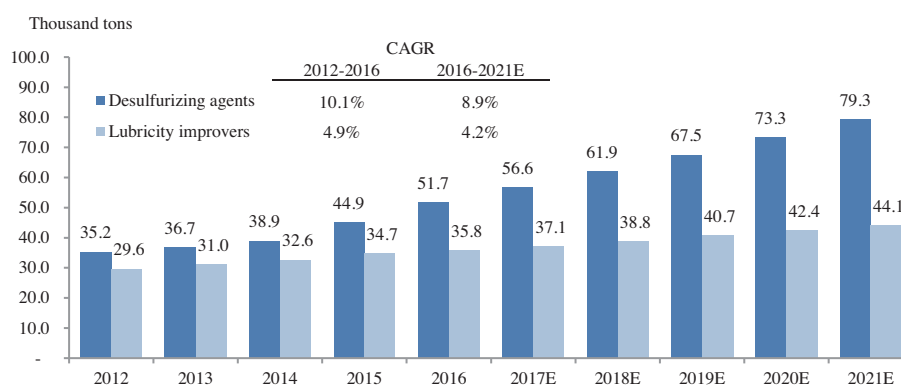
Source: CIC

Sales volume of desulfurizing agents and lubricity improvers

The sales volume of desulfurizing agents in China increased from 35.2 thousand tons in 2012 to 51.7 thousand tons in 2016, representing a CAGR of 10.1%. The rapid growth was mainly due to the growth of PRC vehicle ownership per thousand people and evermore stringent mandatory emissions regulations issued by the PRC Government. Although the “China VI” Emissions Standard was finalized in December 2016, an even stricter set of emissions standards will be implemented by 2020. As a result, the use of desulfurizing agents per unit of petroleum is expected to experience significant growth in the next few years, and the sales volume of desulfurizing agents in China is predicted to continue rising at a CAGR of 8.9% from 2016 to 2021, which is a higher CAGR than that for other oil refining agents.

As permitted levels of sulfur in fuels are consistently lowered with each set of Fuel Quality and Emissions Standards, the lubricity of fuels produced by oil refineries are also reduced. The use of fuel additives such as lubricity improvers is expected to increase in the next few years. Sales volumes for lubricity improvers are expected to increase at a CAGR of 4.2% from 2016 to 2021, which is a higher CAGR than that for other fuel additives.

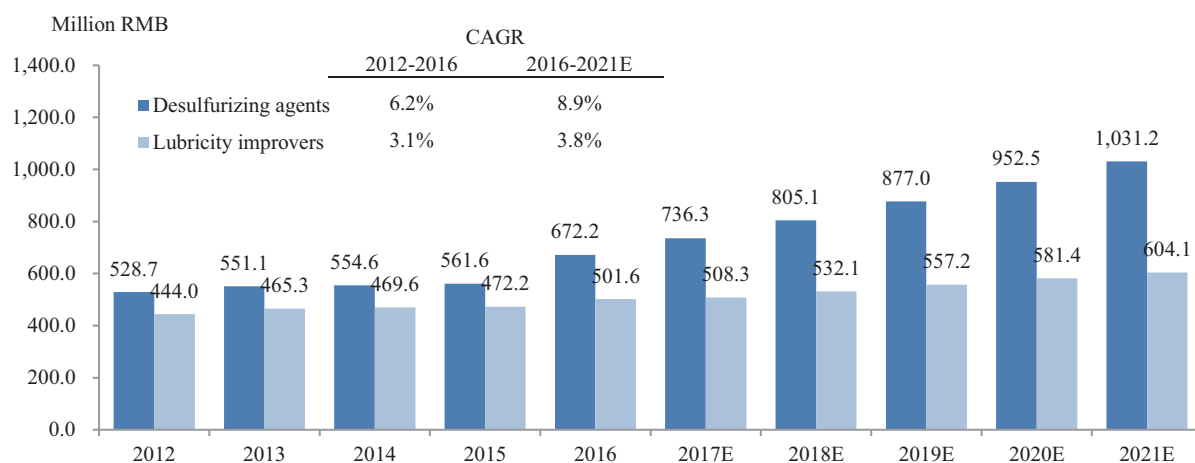
Sales volumes for desulfurizing agents and lubricity improvers, China, 2012 — 2021E



Source: CIC

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Sales value for desulfurizing agents and lubricity improvers, China, 2012 — 2021E



Source: CIC

Drivers of the PRC oil refining agents and fuel additives industry

- Increasing demand for petroleum products in China.* In 2016, the number of automobiles in China reached a total of 165.6 million from 36.8 million in 2006, representing a CAGR of 16.2% over the past ten years. With the PRC market for automobiles likely to continue its growth trend throughout the forecast period, oil refining agents and fuel additives industry are expected to maintain a similar growth trajectory.
- Implementation of higher emission standard for sulfur.* In order to better manage the environment and decrease air pollution, the PRC Government introduced the “China V” Fuel Quality Standard. Vehicle manufacturers and oil refineries in China have responded by choosing desulfurizing agents of higher quality while increasing their use of desulfurizing agents. However, as the sulfur content within product oil decreases, the performance of oil is also lowered, and more fuel additives such as lubricity improvers and diesel oil cetane number improvers are required to be added to improve performance. Thus, we expect that demand for oil refining agents and fuel additives in China will continue to be influenced by the implementation of such standards going forward.
- Increased public concern about air pollution caused by automobile exhaust.* Public concern in China over the negative effects of smog have increased dramatically during the past several years. To remedy this problem, an increasing number of drivers are selecting higher-grade gasoline and fuel additives. With the widespread adoption and use of higher-grade gasoline and an ever expanding retail market for fuel additives, growth in the PRC oil refining agents and fuel additives industry is expected to receive a further boost.
- The evolution of oil refining technology.* Oil refineries are developing newer technologies aimed at meeting the increase in demand for higher-grade gasoline and diesel or in advancing production efficiency. These evolving technologies, along with the establishment of upgraded production facilities, will pressure manufacturers of oil refining agents to upgrade their products and increase production volumes to sustainably meet future growth in demand.
- Increasing import and consumption volume of heavy crude oil.* Among the explored global crude oil reserves, approximately 150 billion tons are light crude oil, while 1.5 trillion tons are heavy crude oil. Thus, even though Organization of Petroleum Exporting Countries

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(which primarily produces heavy crude oil) announced its production reduction plan in December 2016, China's crude oil consumption still mainly relies on heavy crude oil. Moreover, a number of major oil fields in China including Karamay Oil Field, Liaohe Oil Field, Penglai 19-3 Oil Field and Gudao Oil Field all produce heavy crude oil. Apart from that, a certain portion of the oil fields located in the Middle East are owned by the three state-owned conglomerates, such as the Sudan No.6 Oil Field, which produces high volumes of heavy crude oil. As a result, as China's crude oil refining volume is expected to keep growing in the future, its heavy crude oil import and consumption volume are predicted to increase accordingly. With the rising consumption volume of heavy crude oil in China, the demand for various oil refining agents such as desulfurizing agents and antifouling agents will also increase in the next few years.

Future trends in the PRC oil refining agents and fuel additives industry

- *Greater focus on eco-friendly products.* In response to increasing public concerns over air pollution and increasingly stringent environmental regulations, Companies operating in the PRC oil refining agents and fuel additives industry are now upgrading their products in line with the new "China V" Fuel Quality Standard. Furthermore, the PRC Government has set strict requirements on tail gas emissions. Thus, traditional desulfurizing agents are unlikely to achieve the higher level of performance required, with gas incinerators remaining an expensive solution. Oil refineries are expected to respond by switching to newer products aiding in the treatment of sulfur content in tail gas.
- *Continued increase in localization rate for lower-end products.* PRC oil refineries used to purchase products from overseas companies such as BASF SE and the 3M Company, as they possess greater technological advantages over domestic companies. Domestic companies are expected to increase the localization rate for products that require lower technological advancement with the narrowing of the gap between domestic companies and companies abroad in terms of technological knowhow. However, domestic companies will still need to import most of their high-end products before they are able to manufacture these products by themselves. As the lower-end products are mostly used as raw materials for oil refining agents and oil additives, the increasing localization rate of lower-end products gives domestic manufacturers of oil refining agents and fuel additives the chance to lower their costs and increase profit margins. On the other hand, high-end products are mostly directly distributed to oil refining companies. As high-end products provide higher refining efficiency, demand for these high-end products is less likely to be affected by the increasing localization rate of lower-end products.
- *Continuous investments in research and development.* Companies in the PRC oil refining agents and fuel additives industry are investing more in research and development to meet changing environmental regulations and policies. Furthermore, given that oil prices remain relatively low, oil refineries are expected to make use of quality oil refining agents to lower input volumes and their associated costs. Therefore, with demand from downstream clients shifting towards newer products, major players in the industry are expected to make continuous investments in research and development so as to remain competitive.
- *Customer concentration.* As of December 2016, the three state-owned conglomerates controlled 76 refineries out of the 165 refineries in China, meaning that over 45% of refineries are connected to either Sinopec, CNPC or CNOOC. In terms of oil refining volume, the three state-owned conglomerates occupied around 72% of the market in 2016, while local refineries only took the remaining 28%. The most representative local refineries are those located in Shandong, as they took around 71% of the market share among local refineries, and 20% of the share among all refineries in China. Furthermore, the three

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state-owned conglomerates controlled more than 50% of gas stations in China in 2016, and are also responsible for most of China's fuel product exports, and are expected to continue to dominate the industry going forward. Thus, customer concentration is expected to further increase during the forecast period.

- *More stringent emission standards to be implemented.* The “China V” Fuel Quality Standard is expected to be phased in by 31 December 2017. In December 2016, the “China VI” Emissions Standard, which further tightened the requirements relating to sulfur and carbon emissions of vehicle was issued, and it is expected to be implemented by 2020. The increasingly stringent emission standards issued in recent years indicate the rising concerns on atmospheric pollution of the PRC Government, and a higher demand for related oil refining agents in order to produce product oil that meets the rising emission standards.
- *Popularization of fuel injector cleaners.* In recent years, the PRC Government has sought to standardize the fuel injector cleaner industry. With such standardization, together with the growing consumer confidence in local fuel injector cleaners, increased public awareness of environmental issues and the gap between the fuel injector cleaner consumption in China and developed countries, the fuel injector cleaner industry in China is expected to experience faster growth in the next few years.

Major challenges to the PRC oil refining agents and fuel additives industry

- *Fluctuations in crude oil prices.* Fluctuations in the price of crude oil continues to be the most important threat to the PRC oil refining agents and fuel additives industry. This threat can largely be attributed to two key factors. Fluctuating crude oil prices will affect the demand for crude oil. The precipitous price drop has similarly affected the prices for PRC oil refining agents and fuel additives. With lower prices, industry players have had to boost sales in order to cover fixed costs, which will eliminate small scale players in the industry. As a result, fluctuations in crude oil prices continue to remain the most important threat to the PRC oil refining agents and fuel additives industry.
- *The popularization of electric vehicles.* The demand for oil refining agents and fuel additives industry is primarily driven by the demand for its upstream petroleum products. However, interest in electric cars has developed in parallel to the public's growing environmental awareness. With the PRC Government's favorable policy towards electric vehicles, more consumers are considering electric vehicles as their choice of personal transportation. Even though such trend will not result in a negative impact to the petroleum industry within a short time period, it is still expected to adversely affect the petroleum industry as well as the oil refining agents and fuel additives industry in the future.
- *Further technological advancements by foreign petrochemical group.* The present technological level achieved by domestic companies still lags behind that of leading foreign petrochemical companies such as BP P.L.C. and Royal Dutch Shell. As such, domestic players will need to continue investing in research and development to remain competitive in the industry.

PRICE ANALYSIS OF THE PRC OIL REFINING AGENTS AND FUEL ADDITIVES INDUSTRY

Monthly Europe Brent spot price of crude oil

The global oil price decreased in the second half of 2014 due to the turmoil in Iraq and Libya, weak economic activities and increased U.S. shale oil production, among other reasons. The highest monthly Europe Brent Spot Price of crude oil between January 2010 and December 2015 was in March 2012 at USD125.5 per barrel and the lowest monthly price was USD30.0 per barrel in January 2016.

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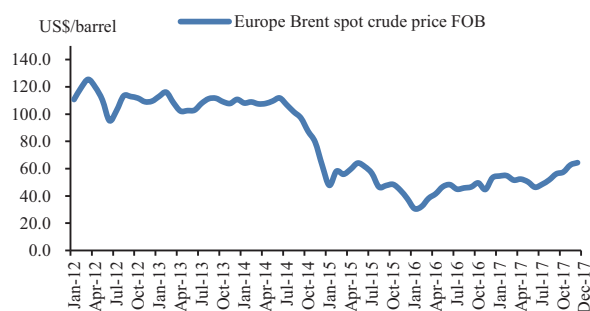
Import price for tall oil fatty acid

Tall oil fatty acid is an unsaturated fatty acid and a source of low-boiling point fatty acids widely used in the synthetic lubricants industry. Between January 2012 and July 2017, import prices for tall oil fatty acid in China experienced a decline from RMB11,801.0 per ton to RMB7,240.6 per ton. However, prices are expected to recover during the forecast period. The price for high-quality tall oil fatty acid that the Company used is approximately 20% to 30% higher than average market price.

Ex-factory price for solvent oil (6#)

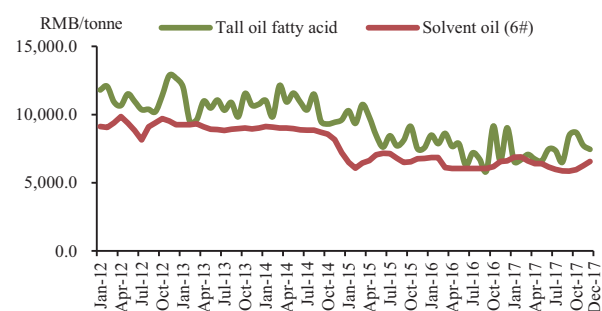
Between January 2012 and July 2017, the ex-factory price for solvent oil (6#) decreased from RMB9,118.8 per ton to RMB5,971.4 per ton. Between October 2014 and February 2015, the ex-factory price for solvent oil (6#) fell precipitously mainly due to the price drop of crude oil, which is its major raw material. After February 2015, the ex-factory price of solvent oil (6#) did not fall in tandem with the decreasing trend of crude oil, but sustained at a relatively stable level as a result of the closedown of a certain number of unprofitable factories and the resulting supply shortage.

Monthly Europe Brent spot price of crude oil, Jan 2012-Dec 2017



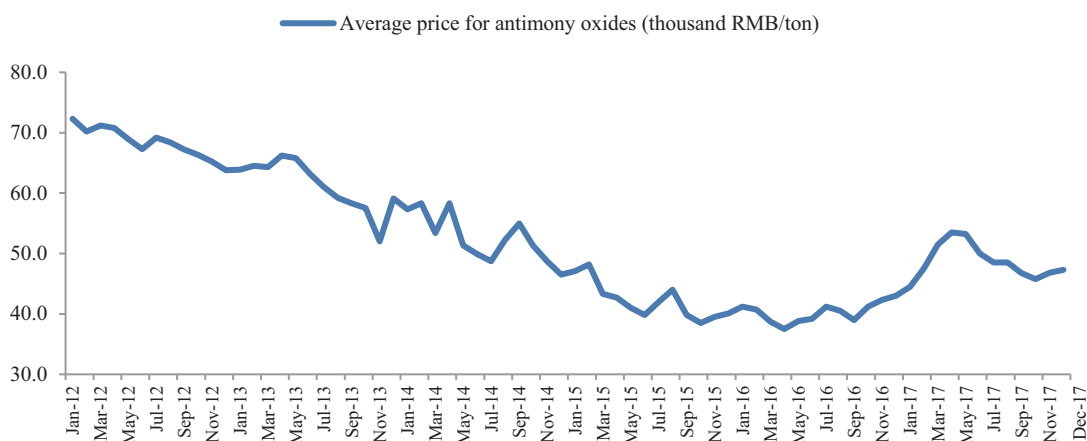
Source: U.S Energy Information Administration

Import price for tall oil fatty acid and ex-factory price for solvent oil (6#), China, Jan 2012-Dec 2017



Source: General Administration of Customs of China

Average price for antimony oxides, China, Jan 2012-Dec 2017



Source: CIC

The average price of antimony trioxides in China decreased from RMB72.3 per kilogram in January 2012 to RMB47.3 per kilogram in December 2017. The downward price trend was primarily attributable to three factors. First, the demand for antimony trioxides from Asian and North American

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countries decreased due to the deceleration of the macroeconomic growth and the reduced operations of downstream factories. Second, the domestic inventory of antimony trioxides increased because the PRC Government implemented a new quota system for controlling the amount of export of antimony trioxides in 2013. Third, the price of antimony trioxides in China was impacted by the increased supply of antimony trioxides from Bolivia, Thailand and European countries. The PRC oil refining agents producers enjoyed lower raw material costs and higher profit margins due to the decreased price of antimony trioxides. In 2017, the fluctuation of non-ferrous metal price is considered the fundamental reason which results in the price change in antimony trioxides. Moreover, the launch of the national environmental inspection project at the beginning of 2017 forced suppliers to close down production plants and reduce market supply in order to avoid inspection. With the decreasing supply, the price of antimony trioxides continued to increase until April. After the completion of the national environmental inspection project in May 2017, the price of antimony trioxides subsequently decreased. In China, over 50% of antimony trioxides are used to produce flame retardants, which are mainly used in the plastic manufacturing industry. Because of the increasing urbanization, the demand for plastic products is expected to be stimulated by the future growth in the automobile, engineering, real estate and construction industries in China. Therefore, the demand for flame retardants is expected to rise, which, in turn, is expected to increase the demand for antimony trioxides, in the next five years. As a result, the price of antimony trioxides is expected to keep increasing at a steady rate in the next few years.

From 2012 to 2016, prices of all of our major raw materials, namely tall oil fatty acid, solvent oil, antimony trioxides and MDEA, experienced a slight decrease. At the beginning of 2017, the price of tall oil fatty acid experienced a sudden fall, which was considered a delayed reaction to the crude oil price drop in 2016. Starting from 2017 and in the long term, prices for both tall oil fatty acid and antimony trioxides are expected to gradually recover due to the growing demand from their respective downstream industries as well as the more stringent environmental requirements of producing antimony trioxides. Solvent oil and MDEA are both extracted from crude oil and, as a result, the future prices for these two raw materials are expected to follow a similar price trend as that for crude oil.

INDUSTRY LANDSCAPE FOR THE PRODUCTION AND SALES OF OLEIC ACID AND STEARIC ACID

High-purity oleic acid as the substitute of tall oil fatty acid

Tall oil fatty acid is a type of oleic acid. Both tall oil fatty acid and high-purity oleic acid possess similar characteristics to effectively improve the lubricity of fuels. The production of a unit of lubricity improvers requires the same amount of high-purity oleic acid and tall oil fatty acid. Thus, high-purity oleic acid is considered a suitable substitute for tall oil fatty acid. The raw material for high-purity oleic acid is plant oleic acid, which is made from soybeans and corns. Soybeans and corns had stable and high production volume records in China in the past few years. Thus, there is sufficient supply of plant oleic acid in the PRC market currently and in the foreseeable future.

The market demand for oleic acid and stearic acid

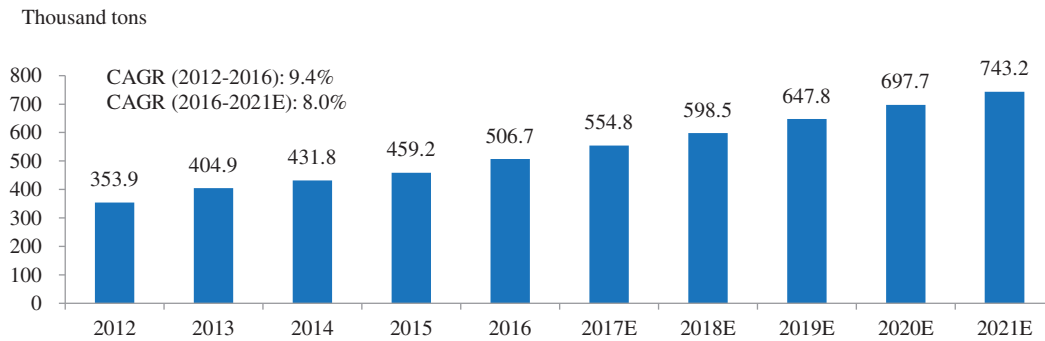
Oleic acid is widely used in the production of lubricating agents, plasticizing agents, agricultural chemicals, paint, printing ink, among other things; while stearic acid is widely used in the production of PVC (聚氯乙烯) tubes and boards, rubber, and skin care products. Although the production volumes and supplies for both oleic acid and stearic acid are sufficient in China as their raw materials are easy to obtain, the demand and sales prices for oleic acid and stearic acid are expected to grow steadily in the next few years, as they benefit from the steady expansion of their downstream industries. Moreover, the price of tall oil fatty acid has been steadily increasing since 2017. As the substitute of tall oil fatty acid in producing lubricity improvers, high-purity oleic acid is much cheaper and is expected to have a greater market demand than tall oil fatty acid. As a result, both oleic acid and stearic acid are the lubricants with sustainable market demands.

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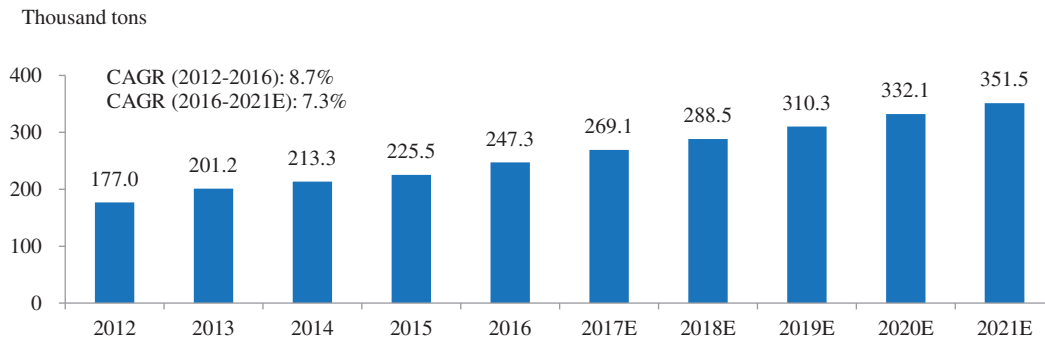
The consumption of oleic acid and stearic acid

The total consumption volume of oleic acid increased from 353.9 thousand tons in 2012 to 506.7 thousand tons in 2016, representing a CAGR of 9.4% between 2012 and 2016. The total consumption volume of stearic acid in China increased from 177.0 thousand tons in 2012 to 247.3 thousand tons in 2016, representing a CAGR of 8.7% between 2012 and 2016.

Total consumption volume of oleic acid, China, 2012-2021E

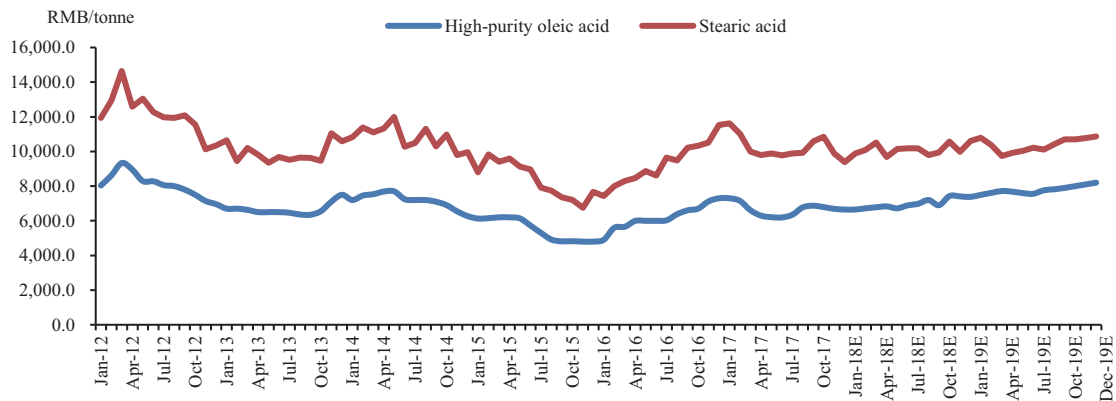


Total consumption volume of stearic acid, China, 2012-2021E



It is expected that the total consumption volume of oleic acid will reach 743.2 thousand tons in 2021, representing a CAGR of 8.0% between 2016 and 2021, while the total consumption volume of stearic acid will further reach 351.5 thousand tons in 2021, representing a CAGR of 7.3% between 2016 and 2021.

Monthly price for high-purity oleic acid and stearic acid, China, Jan 2012-Dec 2019E



Source: CIC

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From December 2017 to December 2019, the prices for both high-purity oleic acid and stearic acid are predicted to increase steadily, as the price for high-purity oleic acid is expected to increase from RMB6,650 per ton to RMB8,200 per ton, with a CAGR of 11.0%, and the price for stearic acid is expected to increase from RMB9,387 per ton to RMB10,858 per ton, with a CAGR of 5.0%.

COMPETITIVE LANDSCAPE OF THE PRC OIL REFINING AGENTS AND FUEL ADDITIVES INDUSTRY

Overview of the competitive landscape of major competitors in the PRC oil refining agents and fuel additives industry

The PRC oil refining agents and fuel additives industry is relatively fragmented, with over 200 players actively operating in the market. However, Sinopec, CNPC and CNOOC maintain high standards in terms of product quality, which means that products must be screened for quality before any potential supplier undergoes a series of tests to be considered. As such, there are only about 100 companies on the lists of suppliers for Sinopec, CNPC and CNOOC, with this number likely to decrease over time. In recent decades, producers of oil refining agents in China experienced a period of relatively rapid growth alongside major players located mostly in Jiangsu Province. By the end of 2016, nearly 30% of the PRC oil refining agents and fuel additives manufacturers were located in Jiangsu Province. Jiangsu Province is surrounded by a number of large-scale refinery plants including Zhenghai Refinery and SINOPEC Shanghai Petrochemical Co., Ltd. The oil refining agents and fuel additives manufacturers located in Jiangsu Province gain a great advantage over competitors that are located elsewhere by being able to maintain lower logistical costs. In 2016, the top five players in the PRC oil refining agents and fuel additives industry occupied around 12.1% of the total market by size. We recorded revenues of approximately RMB102.7 million from our domestic business in 2016, having captured a market share of approximately 1.7%.

Ranking and market shares of the top five competitors in the oil refining agents and fuel additives industry, China, 2016

Ranking	Company	Headquarters location	Major products	Domestic revenue in 2016 (RMB million)	Market share in 2016
1	Company A	Zhejiang	<ul style="list-style-type: none"> • Diesel fuel cold flow improvers • BTX aromatics 	189.0	3.1%
2	Company B	Jiangsu	<ul style="list-style-type: none"> • Auxiliary Chemical Products for refineries • Additives for Lubricating oil 	180.0	2.9%
3	Company C	Shanxi	<ul style="list-style-type: none"> • Diesel oil cetane number improver • Demulsifier 	144.0	2.3%

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Ranking	Company	Headquarters location	Major products		Domestic revenue in 2016 (RMB million)	Market share in 2016
4	Company D	Jiangsu	<ul style="list-style-type: none"> • MDEA • MMEA • DMEA 	<ul style="list-style-type: none"> • Demulsifier • Defoamer 	130.0	2.1%
5	The Group	Jiangsu	<ul style="list-style-type: none"> • Lubricity improvers • Desulfurizing agents 	<ul style="list-style-type: none"> • Antifouling agents • Decalcifying agents • Metal passivators 	102.7	1.7%

Source: CIC

Entry barriers to the PRC oil refining agents and fuel additives industry

- *Long-term customer relationships.* Given the unique and competitive landscape of the PRC petrochemical industry, all major customers are connected to the three state-owned conglomerates. The strong customer network established between market players and these three conglomerates forms a major entry barrier for new entrants into the PRC oil refining agents and fuel additives industry.
- *Technological prowess.* The development of new products takes years of experience and extensive expertise.
- *Intensive capital requirement.* Industry players must invest in manufacturing facilities and research and development. The PRC oil refining agents and fuel additives industry is part of the country's petrochemical industry, an industry strictly regulated by the PRC Government. Companies must therefore also purchase the necessary equipment to meet established environmental standards. Thus, capital requirements are yet another entry barrier for new entrants into the PRC oil refining agents and fuel additives industry.
- *Access to talented and experienced personnel.* The PRC oil refining agents and fuel additives industry requires talented and experienced staff capable of engaging in results-based research and development, adjusting formulas for products to meet their clients' needs, and providing better customer service with technical support for clients. Such experienced personnel are usually industry experts with years of experience in their field. New market entrants are typically unable to attract such talent.

Our competitive strengths

Some of our key competitive strengths include: (i) a long operating history with a competitive track record; (ii) long-standing relationships with Affiliates of Sinopec, CNPC and CNOOC; (iii) eco-friendly products that comply with stringent environmental laws; (iv) research and development capabilities; and (v) well-established relationships with foreign brands. For more information, see "Business — Our Competitive Strengths" and "Business — Competition."

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OVERVIEW OF THE COMPETITIVE LANDSCAPE OF THE OIL REFINING AGENTS AND FUEL ADDITIVES IN SUDAN

As the U.S. comprehensive sanctions against Sudan were permanently lifted on 12 October 2017, it is expected that the oil refining agents and fuel additives industry will grow because of the potential development of the oil refinery industry in Sudan. Sales of oil refining agents and fuel additives to Sudan customers no longer present any risk of sanctions violations, provided that no Special Designated Nationals and Blocked Persons under the SDN List are involved and no violations of the export control laws take place. The only functioning oil refinery in Sudan, Khartoum Refinery, was constructed by CNPC, and CNPC intended to maintain long-term partnerships with reputable suppliers who provided high-quality products. We believe we are one of these reputable suppliers. In addition, even if Sudan were to develop its domestic oil refineries, they are likely to rely heavily on foreign oil refining agents and fuel additives manufacturers as suppliers due to the current level of oil refining technologies in Sudan. Suppliers in EU and the U.S. may not be interested in the Sudan market due to the relatively small market size. Moreover, the technical personnel working in Khartoum Refinery were trained by Chinese suppliers, who had built up a trustworthy relationship with Khartoum Refinery. As a result, it is unlikely for Khartoum Refinery to switch suppliers for its oil refining agents and fuel additives.

REGULATORY OVERVIEW

POLICIES RELATING TO FOREIGN INVESTMENT IN THE OIL REFINING AGENTS AND FUEL ADDITIVES INDUSTRIES

Foreign investments in different industries in the PRC are regulated through the Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) (“**Guidance Catalogue**”) jointly amended and promulgated by the NDRC and the MOFCOM from time to time. In the Guidance Catalogue, industries are classified into three categories: encouraged, restricted and prohibited. According to the Rule on Guiding the Direction of Foreign Investment (指導外商投資方向規定) promulgated by the State Council on 11 February 2002 with effect from 1 April 2002, industries that are not listed in the Guidance Catalogue are permitted foreign investment industries. According to the original version of the Guidance Catalogue which came into effect from 10 April 2015 and the new version of the Guidance Catalogue amended on 28 June 2017 with effect from 28 July 2017, the oil refining agents, fuel additives and oleic acid industries are permitted foreign investment industries.

CERTIFICATION OF HIGH AND NEW TECHNOLOGY ENTERPRISES

According to the Administrative Measures for Certification of High and New Technology Enterprises (高新技術企業認定管理辦法) jointly promulgated by the Ministry of Science and Technology of the PRC, the MOF and the SAT on 29 January 2016 with effect from 1 January 2016, a resident enterprise registered within the PRC which, within the High and New Technology Areas Specifically Supported by the State (國家重點支持的高新技術領域), conducts ongoing research and development and transformation of technological achievement, forming its core independent intellectual property rights based on which business activities are carried out, is a High and New Technology Enterprise upon certification. An enterprise legally certificated as a High and New Technology Enterprise is entitled to apply for preferential taxation policies according to the EIT Law and relevant regulations (see “ — Laws and Regulations Relating to Taxes — Enterprise income tax (EIT)” in this section for details of preferential taxation policies). The science and technology administrative authorities of provinces, autonomous regions, municipalities and specifically-designed cities in the state plan together with the fiscal and taxation authorities at their respective levels shall form their respective High and New Technology Enterprise certification and administration authorities for the certification of enterprises in their respective administrative regions. A qualified enterprise will be issued the High and New Technology Enterprise Certificate (高新技術企業證書) and the qualification of a certificated enterprise shall be valid for a term of three years from the issuance date of the certificate. Change of company name or material changes in relation to the certification criteria such as spin-off, merger and restructuring or change in business activities occurred in a High and New Technology Enterprise shall be reported to the certification authority within three months upon occurrence. The qualification of a High and New Technology Enterprise shall remain unchanged if it satisfies the certification conditions upon review by the certification authority. In relation to change of company name of a High and New Technology Enterprise, it will be reissued a certificate with number and valid period unchanged. A High and New Technology Enterprise shall be disqualified from the year of change of company name or change of conditions if it does not satisfy the certification conditions.

REGULATIONS RELATING TO USE AND OPERATION OF HAZARDOUS CHEMICALS

The Regulations on the Safety Administration of Hazardous Chemicals (危險化學品安全管理條例) were promulgated by the State Council on 26 January 2002, amended on 16 February 2011, 7 December 2013 and became effective on 7 December 2013 to regulate, among other things, the production safety, storage, use, operation and transportation of hazardous chemicals. Hazardous chemicals include hyper-toxic and other hazardous chemicals that are toxic, corrosive, explosive, flammable or accelerative, which damage human health, facilities or the environment. According to the Measures for the Implementation of the Permits for the Safe Use of Hazardous Chemicals (危險化學品安全使用許可證實施辦法) promulgated by the SAWS on 16 November 2012, came into effect

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on 1 May 2013 and subsequently amended on 27 May 2015 and became effective on 1 July 2015, chemical enterprises (other than manufacturing enterprises of hazardous chemicals) which use hazardous chemicals in production and the amount of their consumption of hazardous chemicals has reached the quantitative standards of hazardous chemicals shall obtain the License for the Safe Use of Hazardous Chemicals (危險化學品安全使用許可證) (“**Safe Use Permits**”) according to the requirements of such measures. The PRC implements the licensing system for the operation (including storage) of hazardous chemicals. Any entity and individual shall not carry out the operation of hazardous chemicals without license. Chemical enterprises that use hazardous chemicals in production and the amount of whose consumption of hazardous chemicals reaches the quantitative standards of hazardous chemicals without the Safe Use Permits may be ordered by the production safety administrative authorities to stop their illegal activities immediately, to rectify within a specified period and may be also imposed a fine ranging from RMB100,000 to RMB200,000. Enterprises failing to rectify within a specified period may be ordered to suspend production for rectification. According to the Measures for the Administration of Permits for Trading in Hazardous Chemicals (危險化學品經營許可證管理辦法) promulgated by former State Economic and Trade Commission on 8 October 2002 and came into effect on 15 November 2002, and issued by the SAWS on 17 July 2012 and came into effect on 1 September 2012, enterprises carrying out the operation of hazardous chemicals without the License of the Safe Operation of Business Dealing in Hazardous Chemicals (危險化學品經營許可證) may be ordered by the production safety administrative authorities to stop their business activities, and their illegally operated hazardous chemicals and illegal income generated by illegal operation may be confiscated and may also be imposed a fine ranging from RMB100,000 to RMB200,000. Where the case constitutes a crime, criminal liabilities shall be imposed.

REGULATIONS RELATING TO INVESTMENT PROJECTS

According to the Regulation on the Administration of the Confirmation and Recordation of Enterprise Investment Projects (企業投資項目核准和備案管理條例), promulgated by the State Council on 30 November 2016 with effect on 1 February 2017, projects relating to state security and involving allocation of major national productive forces, development of strategic resources and major public interests, among other things, shall be subject to confirmation administration. Projects other than those listed above shall be subject to recordation administration.

Pursuant to the Measures for the Administration of the Confirmation and Recordation of Enterprises’ Investment Projects (企業投資項目核准和備案管理辦法), promulgated by the NDRC on 8 March 2017 with effect on 8 April 2017, the provincial governments shall enact the project recordation administration measures within their respective administrative regions.

Pursuant to the Regulation on the Administration of the Confirmation and Recordation of Enterprises’ Investment Projects in Jiangsu Province (江蘇省企業投資項目核准和備案管理辦法), promulgated by the Government of Jiangsu Province on 30 June 2017 with effect on 1 July 2017, projects outside the Catalogue of Investment Projects subject to Provincial Government Confirmation (江蘇省政府核准的投資項目目錄) are subject to recordation. The recordation of investment projects is not an administrative license, and the recordation authorities only regulate whether the enterprises have fulfilled the legal obligation of revealing relevant project information on their investment. Except for projects involving national secrets, the confirmation and recordation of projects implement online submission, handling, supervision and service through the Investment Project Online Approval and Regulation Platform (投資項目在線審批監管平臺) (“**Online Platform**”). The relevant project information of confirmation and recordation at all levels, the information on the handling of relevant formalities of land and resources, urban and rural planning, environmental protection, security supervision, construction, industry and commerce, and other relevant information shall be intercommunicated and shared through the Online Platform.

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For a project subject to recordation administration, the enterprise shall, before the commencement of construction, provide the recordation authority with relevant information through the Online Platform, fulfill the legal obligation of information disclosure in good faith and follow the normative principles. The recordation authorities shall provide the templates for information required on the Online Platform, which includes: (i) the basic information of the enterprise; (ii) the project name, construction site, construction scale and construction content; (iii) the total investment amount of the project (foreign currency included); and (iv) a statement on the project's compliance with industrial policies. A stamped commitment letter on the authenticity, legality and completeness of the information for recordation shall be sealed and then uploaded to the Online Platform by the enterprise. It shall be deemed that the recordation formalities have been completed when the recordation authority receives the complete information as prescribed above. The enterprise shall obtain its project codes generated by the Online Platform and print the project registration information from the Online Platform on its own. Where the project recordation authority finds that: (i) any project information provided by an enterprise is incomplete; (ii) the project is not a fixed asset investment project; (iii) the project is subject to confirmation or approval from relevant administrations in accordance with the laws; or (iv) the project recordation authority cannot register the project, it shall notify the enterprise in a timely manner to take corrective actions to the relevant information submitted through the Online Platform within 24 hours (statutory holidays excluded), or the enterprise shall be deemed to have completed the recordation formalities.

LAWS RELATING TO CONSTRUCTION PROJECTS

According to the Urban and Rural Planning Law of the PRC (中華人民共和國城鄉規劃法), amended by the SCNPC with effect on 24 April 2015, if the right to use state-owned land for a construction project is obtained by assignment, the construction entity shall, after concluding the contract for assignment of the right to use state-owned land, obtain the construction land planning permit from the competent department of urban and rural planning with the approval, verification or recordation documents of the construction project, and the contract for the assignment of the right to use the state-owned land. To build any structure, fixture, road, pipeline or other engineering project within a city or town planning area, the construction entity shall apply to the competent department of urban and rural planning of the people's government of the city or county concerned or to the township people's government designated by the people's government of the province, autonomous region, or centrally-administered municipality. To apply for a planning permit for a construction project, the relevant documentary evidence on land use, the engineering design plans of the project as well as other relevant documents shall be submitted. If the project requires a detailed construction planning by the construction entity, such planning shall also be submitted. If the project satisfies the regulatory planning requirements, the competent department of urban and rural planning shall issue a planning permit for construction project.

LAWS RELATING TO ENVIRONMENTAL PROTECTION

According to the Environmental Protection Law of the PRC (中華人民共和國環境保護法) promulgated by the SCNPC on 26 December 1989 and subsequently amended on 24 April 2014 and came into effect on 1 January 2015, the competent department of environmental protection under the State Council formulate the national environmental quality standards. The people's governments of provinces, autonomous regions and municipalities may formulate local environmental quality standards for items not specified in the national environmental quality standards; with regard to items already specified in the national environmental quality standards, they may formulate local environmental quality standards that are more stringent than the national environmental quality standards. The local environmental quality standards shall be submitted to the competent department of environmental protection under the State Council for record. The competent department of environmental protection under the State Council formulates the national pollutant discharge standards according to the national environmental quality standards and national economic and

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technical conditions. The people's governments of provinces, autonomous regions and municipalities may formulate local pollutant discharge standards for items not specified in the national pollutant discharge standards; with regard to items already specified in the national pollutant discharge standards, they may formulate local pollutant discharge standards that are more stringent than the national pollutant discharge standards. The local pollutant discharge standards shall be submitted to the competent department of environmental protection under the State Council for record.

According to the Law of the PRC on Environment Impact Assessment (中華人民共和國環境影響評價法) promulgated by the SCNPC on 28 October 2002, amended on 2 July 2016 and came into effect on 1 September 2016, the State imposes different requirements over environmental impact assessment of construction projects in accordance with the extent of environmental impact of construction projects. Construction entities shall work out the environmental impact report, environmental impact statement or environmental impact registration form (collectively "**environment impact assessment documents**") according to the following principles: (i) if the environmental impacts may be significant, it shall work out a report of environmental impacts so as to include an all-round assessment of the environmental impacts; (ii) if the environmental impacts may be mild, it shall work out a statement of environmental impacts so as to include an analysis or special assessment of environmental impacts; (iii) if the environmental impacts may be insignificant so that it is unnecessary to conduct an assessment of environmental impacts, it shall fill in a registration form of environmental impacts. The catalogue for the classified management of environmental impact assessments for construction projects is formulated and issued by the competent department of environmental protection under the State Council. The report or the statement of environmental impact included in the environmental impact assessment documents shall be provided by an institution that has corresponding qualifications for making appraisals of the environmental impact. Such institution shall also be responsible for the conclusion of the appraisal. The report or the statement of environmental impact shall be submitted by the construction entity to the relevant departments of environmental protection administration with the authority for approval. The construction entities shall not commence construction if the environment impact assessment documents of their construction projects fail to be reviewed by the relevant approval authorities or are not approved after such review.

According to the Administrative Regulations on the Environmental Protection of Construction Projects (建設項目環境保護管理條例) (State Council Order [1998] No. 253) promulgated by the State Council on 29 November 1998, subsequently amended on 16 July 2017 and came into effect on 1 October 2017, construction project environmental impact reports, environmental impact statements shall be submitted by construction entities to competent departments of environmental protection administration with authority of examination and approval for examination and approval. The relevant departments of environmental protection administration should focus on the feasibility of the construction project, the reliability of the environmental impact and prediction assessments, the effectiveness of the environmental protection measures and whether or not the environmental impact assessment conclusions are scientific during the examination of the report or the statement and whether there are any environmental impacts. The relevant department of environmental protection administration should make a decision on whether to approve the construction project, and then notify the construction unit in writing within 60 days from the date of receiving the report of environmental impacts or 30 days from the date of receiving the statement of environmental impacts. The relevant department of environmental protection administration shall make a decision on disapproval of the report or the statement of environmental impacts of a construction project if: (i) the type, location, layout, or scale of the construction project is not in line with laws and regulations on environmental protection and the relevant statutory planning; (ii) the environmental quality of the area where the construction project is located fails to meet the national or local environmental quality standards and the measures to be taken for the construction project cannot meet the administrative requirements of regional environmental quality improvement targets; (iii) the pollution prevention and control

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measures adopted for the construction project cannot ensure that the pollutant discharge can meet the national and local discharge standards, or no necessary measures are taken to prevent and control ecological damage; (iv) in the case of a reconstruction or expansion project or technological transformation project, no effective measures are taken to prevent and control the original environmental pollution and ecological damage of the project; and (v) the basic materials and data in the report or the statement of environmental impacts of the construction project are obviously false with material defects or omissions, or the environmental impact evaluation conclusions are unclear and unreasonable. Construction entities shall not be permitted to start construction until the aforesaid construction project documents have been reviewed and approved by the competent authorities. Construction entities shall, according to related state provisions, submit the environmental impact registration form to the county-level administrative department of environmental protection where the project is located for recordation. The environmental protection facilities required to be constructed for a construction project must be designed, constructed and put into operation simultaneously with the major construction works of the said construction project. Construction entities shall, upon completion of a construction project which is necessary to work out a report or a statement, organize the acceptance checks on completion of matching construction of environmental protection facilities and compile the construction project completion acceptance report, the said construction project may only formally go into production or be delivered for use when the matching construction of the environmental protection facilities required for the construction project has passed acceptance checks. A post environmental impact assessment should be compiled in accordance with the relevant provisions of the competent department of environmental protection administration under the State Council. The relevant departments of environmental protection administration should exercise supervision and examination over the designation, construction, acceptance checks, delivery for operation or use and the implementation of other environmental protection measures required by the relevant environmental impact assessment documents.

According to the Law of the PRC on Prevention and Treatment of Atmospheric Pollution (中華人民共和國大氣污染防治法) promulgated by the SCNPC on 5 September 1987 and amended on 29 August 1995, 29 April 2000 and 29 August 2015 and came into effect on 1 January 2016, entities undertaking construction projects which have an impact on atmospheric environment shall conduct the environmental impact assessment and disclose the environmental impact assessment documents. The pollutants discharged into the air shall comply with relevant discharge standards and be within the limits under the volume control target requirements of key atmospheric pollutants. The competent department of environmental protection under the State Council or the people's governments of provinces, autonomous regions and municipalities formulate the atmospheric environmental quality standards.

According to the Law of the PRC on Prevention and Treatment of Water Pollution (中華人民共和國水污染防治法) promulgated by the SCNPC on 11 May 1984 and amended on 15 May 1996, 28 February 2008 and 27 June 2017, and coming into effect on 1 January 2018, the environmental impact assessment shall be conducted on new construction, reconstruction and construction expansion projects or other installations on water which directly or indirectly discharge pollutants into the water according to law. The water pollution prevention and treatment facilities of a construction project must be designed, constructed and put into operation simultaneously with the major construction works of the said construction project. The water pollution prevention and treatment facilities shall comply with the requirements of approved or filed environmental impact assessment documents. According to the Interim Measures for the Administration of Pollutants Discharge Licenses (排污許可證管理暫行規定) promulgated and implemented by the MEP on 23 December 2016, enterprises directly or indirectly discharging industrial wastewater into water must obtain a pollutant discharge license.

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According to the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法) promulgated by the SCNPC on 30 October 1995 and amended on 29 December 2004, 29 June 2013, 24 April 2015, 7 November 2016 and came into force on the same date, the construction of projects which discharge solid waste and the construction of project for storage, use and treatment of solid waste shall be carried out upon the appraisal regarding their effects on environment and in compliance with the relevant state regulations concerning the management of environmental protection in respect of construction projects. The necessary supporting facilities for the prevention and control of environmental pollution by solid wastes as specified in the environmental impact assessment documents of the construction project shall be designed, constructed and put into operation simultaneously with the major construction works of the construction project. No construction projects shall be permitted to be put into operation or to use before its facilities for the prevention and control of environmental pollution by solid wastes have been inspected and accepted by the competent department of environmental protection that examined and accepted the environmental impact assessment documents. The inspection and acceptance of the facilities for prevention and control of environmental pollution by solid wastes shall be conducted simultaneously with the inspection and acceptance of the major construction works of the construction project.

According to the Law of the PRC on Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法) promulgated by the SCNPC on 29 October 1996 and came into effect on 1 March 1997, an enterprise whose construction projects may cause noise pollution must prepare the environmental impact report and submit the same to the relevant competent department of environmental protection for approval in accordance with required procedures. The environmental noise pollution prevention and control facilities of a construction project must be designed, constructed and put into operation simultaneously with the major construction works of the said construction project. No construction projects shall be permitted to be put into operation or use before its facilities for the prevention and control of environmental noise pollution have been inspected and accepted by the competent department of environmental protection that approved the environmental impact assessment report.

LAWS RELATING TO ENTERPRISE PRODUCTION SAFETY

According to the Law of the PRC on Production Safety (中華人民共和國安全生產法) promulgated by the SCNPC on 29 June 2002 and came into effect on 1 November 2002 and amended on 31 August 2014 and implemented from 1 December 2014, enterprises that engage in production activities in the PRC shall comply with this law and other laws and regulations relating to production safety, strengthen the management of production safety, establish and develop production safety accountability system and production safety rules, improve production safety conditions and provide production safety conditions set out in relevant laws, administrative regulation and national or industry standards. An entity that cannot provide required production safety conditions may not engage in production activities.

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LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE MANAGEMENT

The management of foreign exchange system in the PRC is stringent and has undergone several profound changes. Regulations of the PRC on Foreign Exchange Control (中華人民共和國外匯管理條例) (“**Regulations on the Foreign Exchange**”) was promulgated by the State Council since 29 January 1996 and implemented on April 1 in the same year, and its successive amendment were made on 14 January 1997 and 1 August 2008, respectively, with effect from 5 August 2008, being the existing major regulations on the foreign exchange and applicable to the income and expenditures of the foreign exchange or operating activities for the institutions and individuals residing in the PRC as well as the income and expenditures of the foreign exchange or foreign exchange operating activities carried out in China by the institutions and individuals residing aboard. The Regulations on the Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) promulgated by PBOC on 20 June 1996 and implemented on 1 July 1996 stipulates the matters such as settlement and purchase of and payment in foreign exchange as well as the opening of foreign exchange accounts and the overseas payment for the local institutions, resident individuals, foreign institutions established in the PRC and the personnel coming to the PRC.

According to the existing Regulations on the Foreign Exchange, Chinese government allows foreign exchange to be retained by the local institutions and individuals without compulsory sale and settlement, the income from which can be transferred to the PRC or be deposited abroad according to the regulations. The PRC has achieved the exchange for recurring items in RMB. For the recurring income from the foreign exchange items of the local enterprises, they can decide to retain or sell to financial institutions operating foreign exchange settlement and sale business according to their own requirements. For the recurring expenditure incurred for the foreign exchange items of the local enterprises, enterprises pay by its own foreign exchange with valid certificates or by purchasing foreign exchanges from the financial institution operating settlement and sale of foreign exchange according to their requirements. The convertibility of RMB (into foreign currency) for capital account items is not available yet in the PRC and capital account items are still under restriction. Offshore institutions and individuals who directly invest in and issue negotiable securities or derivatives products or carry out related transactions, and the onshore institutions and individuals who directly invest in or issue the negotiable securities or derivatives products or carry out related transactions, shall go through the registration procedures in accordance with the provisions of the foreign exchange administrative department of the State Council. The onshore enterprises borrowing foreign debts or guarantee externally shall go through the registration procedures of foreign debts and external guarantee. Retention or sale of foreign income from capital items to the financial institution operating foreign exchange settlement and sale business shall be approved by the foreign exchange regulatory authorities (except otherwise provided by the relevant state provisions). The capital from the capital item foreign exchange and settlement shall be used according to purpose approved by the related competent authorities and foreign control authorities.

According to the Circular 37, which was promulgated and implemented by SAFE on 4 July 2014 replacing the Circular of the State Administration of Foreign Exchange on Issues Concerning Foreign Exchange Administration Over the Financing and Round Trip Investment by Domestic Residents via Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (Hui Fa [2005] No. 75), effective on 1 November 2005, domestic residents (including domestic institutions and resident individuals) are required to register with the competent local branch of SAFE before they make contribution to any offshore special purpose vehicles with legitimate holdings of domestic or overseas assets or interests. According to Circular 37 domestic residents may handle first foreign exchange registration with the qualified banks instead of local authorities of SAFE for establishing and controlling special purpose corporation.

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According to the Circular of the State Administration of Foreign Exchange 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) (Hui Fa [2016] No.16), which was promulgated by SAFE on 9 June 2016 and implemented on the same date, the tentative percentage of foreign exchange settlement for foreign currency earnings in capital account of domestic institutions is 100%, subject to adjustment of the SAFE in due time in accordance with international revenue and expenditure conditions. The use of foreign exchange incomes of capital accounts by domestic institutions shall follow the principles of authenticity and self-use within the business scope of enterprises. The foreign exchange incomes of capital accounts and capital in Renminbi obtained by the domestic institutions from foreign exchange settlement shall not be used for the following purposes: (i) directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations; (ii) directly or indirectly used for investment in securities or financial schemes other than bank guaranteed products unless otherwise provided by relevant laws and regulations; (iii) used for granting loans to non-connected enterprises, unless otherwise permitted by its business scope; and (iv) used for the construction or purchase of real estate that is not for self-use (except for the real estate enterprises).

REGULATIONS RELATING TO MERGERS AND ACQUISITIONS BY FOREIGN INVESTORS

According to the Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定), which was promulgated by MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, SAT, SAIC, CSRC and SAFE on 8 August 2006 and became effective on 8 September 2006, and was amended on 22 June 2009 and effective on the same date, the following scenarios qualify as an acquisition of a domestic enterprise by a foreign investor: (i) a foreign investor purchases the equity interests of a domestic enterprise without foreign investment or subscribes for the increased capital of such domestic enterprise, and thus converts such domestic enterprise into a foreign-invested enterprise; (ii) a foreign investor establishes a foreign-invested enterprise and use such foreign invested enterprise to purchase by agreement the assets of a domestic enterprise and operates such assets; (iii) a foreign investor purchases by agreement the assets of a domestic enterprise and then contribute such assets as capital to establish a foreign-invested enterprise and operates such assets. Where a foreign investor establishes a foreign-invested enterprise by merging or acquiring a domestic enterprise, it shall be subject to the approval of relevant institutions, and shall apply for registration or change of registration with administrative institutions of registration.

LAWS AND REGULATIONS RELATING TO LENDING AND BORROWING BETWEEN ENTERPRISES

A lending and borrowing agreement between enterprises is subject to the Contract Law of the PRC (中華人民共和國合同法), which took effect on 1 October 1999. According to Article 52 of the Contract Law of the PRC, a contract shall be void under any of the following circumstances: (i) a contract is concluded through the use of fraud or coercion by one party to damage the interests of the state; (ii) malicious collusion is conducted to damage the interests of the state, a collective or a third party; (iii) an illegitimate purpose is concealed under the guise of legitimate acts; (iv) damaging the public interests; or (v) violating the compulsory provisions of laws and administrative regulations.

Pursuant to Article 14 of the Provisions of the Supreme People's Court of Several Issues Concerning the Application of Law in the Trial of 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) (“Provisions”), the people's court shall determine that the private lending contract is void under any of the following circumstances: (i) the lender relends credit funds obtained from a financial institution to the borrower at a high interest rate, and the borrower knows in advance or should have known the fact; (ii) the lender relends the funds borrowed from any other enterprise or collected from employees of its entity to the borrower for the purpose of making

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profits, and the borrower knows in advance or should have known the fact; (iii) the lender provides the loan although the lender knows in advance or should have known that the borrower borrowed the money for illegal or criminal activities; (iv) the contract violates public order or good customs; or (v) any other violation of compulsory provisions on the validity of any law or administrative regulation.

REGULATIONS RELATING TO INTELLECTUAL PROPERTY

Patent Law

According to the Patent Law of the PRC (中華人民共和國專利法), which was promulgated by the SCNPC on 12 March 1984, implemented on 1 April 1985, successively amended on 4 September 1992, 25 August 2000 and 27 December 2008 and implemented on 1 October 2009, the patent administration departments of the State Council is responsible for national patent administration. The patent administration departments of provincial, autonomous region or municipal people's governments are responsible for administering patents within their respective jurisdictions. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. 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. A patent owner shall pay an annual fee from the year in which the patent is granted. If no annual fee has been paid as required, the patent shall be subject to early termination before its expiry. In the event that a patent is exploited without the prior authorization of the patentee, namely an infringement upon the patent right of the patentee, infringers shall commit to stop infringement and make compensation under the applicable regulations.

Trademark Law

According to the Trademark Law of the PRC (中華人民共和國商標法), which was promulgated by SCNPC on 23 August 1982, successively amended on 22 February 1993, 27 October 2001 and 30 August 2013 and became effective on 1 May 2014, the trademark registrant shall enjoy an exclusive right to use the trademark when a certificate of trademark registration has been issued. The valid period of a registered trademark is ten years from the date of the approval for registration. Where the registrant intends to continue to use the registered trademark beyond the expiration of the period of validity, an application for renewal of the registration shall be made within 12 months before the said expiration. The valid period for each renewal of the registration is ten years. Any of the following acts is an infringement upon the right to exclusive use of a registered trademark: using a trademark which is identical with a registered trademark on the same kind of commodities without a license from the registrant of that trademark; using a trademark which is similar to a registered trademark on the same kind of commodities, or using a trademark which is identical with or similar to the registered trademark on the similar commodities without a license from the registrant of that trademark, which is likely to cause confusion; selling the commodities that infringe upon the right to exclusive use of a registered trademark; forging or manufacturing without authorization the marks of a registered trademark, or selling the marks of a registered trademark forged or manufactured without authorization; changing a registered trademark and putting the commodities bearing the changed trademark into the market without the consent of the registrant of that trademark; and deliberately providing convenience for and helping with the acts infringing upon the exclusive right to use a registered trademark; assisting other person to infringe upon the exclusive right. Infringers shall commit to stop infringement, make remedial actions and pay compensation, and may also be held liable to the trademark registrants for compensation and may be subject to fines or even criminal punishment.

LAWS AND REGULATIONS RELATING TO LABOR AND SOCIAL INSURANCE

Labor regulations

According to the Labor Law of the PRC (中華人民共和國勞動法), which was promulgated by SCNPC in 5 July 1994, amended on 27 August 2009 and become effective on the same date, the Labor

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Contract Law of the PRC (中華人民共和國勞動合同法), which was promulgated by SCNPC in 29 June 2007, later amended on 28 December 2012 and become effective on 1 July 2013, and the Regulations on the Implementation of Labor Contract Law of PRC (中華人民共和國勞動合同法實施條例) (State Council Order No.535), which was promulgated by State Council on 18 September 2008 and become effective on the same date. The labor contract is the basic form of employment adopted by PRC enterprises. Employers shall enter into labor contracts with employees within one month since the date of employment.

Social insurance and housing provident fund

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), which was promulgated by SCNPC in 28 October 2010, and became effective on 1 July 2011, the Interim Regulations Concerning the Levy of Social Insurance Fees (社會保險費徵繳暫行條例) promulgated and implemented by State Council on 22 January 1999, the Interim Measures on the Administration of Registration of Social Insurance (社會保險登記管理暫行辦法) promulgated and implemented by the Ministry of Labor and Social Security (revoked) on 19 March 1999, enterprises shall pay the social insurance fees for their employees on time and in full amount covering basic pension insurance, unemployment insurance, basic medical insurance, labor injury insurance and maternity insurance. If an enterprise fails to pay the social insurance premiums on time or in full amount, the social insurance premium collection institution shall order it to make the payment or make up the difference within the stipulated period and impose a daily fine equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If the overdue amount is still not settled within the stipulated time period, a fine with an amount of one to three times of the overdue amount will be imposed by relevant administration authorities.

According to the Regulation on Management of Housing Provident Fund (住房公積金管理條例), which was promulgated and implemented by the State Council on 3 April 1999, later amended on 24 March 2002 and became effective on the same day, a unit shall pay the housing provident fund on time and in full amount for their employees. Where a unit is overdue in the payment and deposit of, or underpays, the housing provident fund, the housing provident fund management centre shall order it to make the payment and deposit within a prescribed time limit; where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

LAWS AND REGULATIONS RELATING TO TAXES

Enterprise income tax (EIT)

According to the EIT Law and EIT Regulation, enterprises are categorized into resident enterprises and non-resident enterprises. Enterprises established inside China in accordance with the PRC law are resident enterprises, and shall pay the EIT at the tax rate of 25% on its income originating from both inside and outside China. Enterprises established under the laws of foreign jurisdiction but with its de facto administrative institution inside China are resident enterprises. Non-resident enterprises that have set up branch offices or establishments in the PRC must pay enterprise income tax in relation to income sourced within the PRC and obtained by such branch offices or establishments, as well as income generated from outside the PRC but with actual connections to such branch offices or establishments at the tax rate of 25%. Non-resident enterprises with no branch offices or establishments in the PRC, or no actual connection between their income and their branch offices or establishments in the PRC, must pay enterprise income tax in relation to income sourced within the PRC at a reduced tax rate of 10%.

According to the Circular of the State Administration of Taxation on the Issues Concerning Implementation of the Preferential Income Tax for High-tech Enterprises (Guo Shui Han [2009] No.203) (國家稅務總局關於實施高新技術企業所得稅優惠有關問題的通知(國稅函(2009) 203號)),

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which was issued by the SAT on 22 April 2009 and implemented from 1 January 2008, and the Administrative Measures for the Certification of High and New Technology Enterprises, which was issued by the Ministry of Science and Technology, the MOF and the SAT on 29 January 2016 and implemented from 1 January 2016, qualified high and new technology enterprises may apply for the preferential enterprise income tax treatments from the year in which the validity period of qualification commences. The enterprise can apply for the registration of reduced or waived tax from the tax competent authorities with the copies of High and New Technology Enterprise Certificate and relevant documents. After completion of the procedures, the High and New Technology Enterprises can file their provisional income tax returns at the rate of 15% or enjoy the transitional preferential tax treatments.

Business tax

According to the Provisional Regulations on Business Tax of the PRC (中華人民共和國營業稅暫行條例), which was promulgated by the State Council on 13 December 1993 and became effective on 1 January 1994, amended on 10 November 2008 and became effective from 1 January 2009, and the Implementation Rules of the Provisional Regulations on Business Tax of the PRC (中華人民共和國營業稅暫行條例實施細則), which was promulgated and implemented by the MOF on 25 December 1993, amended on 28 October 2011 and became effective from 1 November 2011, all enterprises and individuals that provide taxable services and transfer intangible assets or sell real property in the PRC shall be subject to business tax at a rate ranging from 3% to 20%. The taxable services refer to services that should be taxed in transportation industry, construction industry, finance and insurance industry, post and telecommunication industry, culture and sport industry, entertainment industry and service industry.

According to the Circular regarding the Pilot Program on Comprehensive Implementation of Value Added Taxes from Business Taxes Reform (Cai Shui No. [2016]36) (關於全面推開營業稅改徵增值稅試點的通知 (財稅[2016]36 號)), which was promulgated by the MOF and the SAT on 23 March 2016 and became effective from 1 May 2016, enterprises and individuals that sell services, intangible assets or real property in the PRC shall be subject to value-added tax. The value-added tax transferred from business tax shall be collected by the state tax bureau. The taxable service of the taxpayer that applies to the nil tax rate shall report to and apply for tax refund from the competent tax authorities in prescribed time.

Value-added tax

According to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例), which was promulgated by the State Council on 13 December 1993, subsequently amended on 5 November 2008 and 13 January 2016 respectively, published and implemented on 6 February 2016, and the Implementation Rules of the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例實施細則), which was promulgated and implemented by the MOF on 25 December 1993, subsequently amended on 15 December 2008 and 28 October 2011 respectively, and became effective from 1 November 2011, all entities and individuals who sell goods, provide processing services, repair and replacement services or import goods within the territory of the PRC are subject to VAT. The tax rate for general taxpayers selling or importing food grains, edible vegetable oil, tap water, heating, air conditioning, hot water, coal gas, liquefied petroleum gas, natural gas, methane gas, coal or charcoal-based products for household use, books, newspapers, magazines, feeds, chemical fertilizers, agricultural chemicals, agricultural machinery and covering plastic film for farming and other goods as stipulated by the State Council shall be 13%. The tax rate for taxpayers exporting goods shall be 0%, except as otherwise stipulated by the State Council. The tax rate for taxpayers selling or importing goods other than those mentioned above, or providing processing, repair and replacement services shall be 17%.

REGULATORY OVERVIEW

Stamp duty

Pursuant to the Provisional Regulations on Stamp Duty of the PRC (中華人民共和國印花稅暫行條例), which was promulgated by the State Council on 6 August 1988, amended on 8 January 2011 and became effective on the same date, entities and individuals executing or receiving taxable documents listed in this Regulations within the territory of the PRC are subject to stamp duty. Taxable documents include: (i) purchases and sales contracts, the undertaking of processing contracts, contracts for undertaking construction projects, property leasing contracts, commodity transport contracts, warehousing and safekeeping contracts, loan contracts, property insurance contracts, technology contracts and other documents of contractual nature; (ii) property transfer documents; (iii) account books; (iv) certificates of title, licenses; and (v) other documents that are taxable as determined by the MOF. Taxpayers shall pay the tax amount calculated according to the nature of the taxable documents based on a flat tax rate or a fixed amount per document.

Urban maintenance and construction tax and education surcharges

According to the Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharges Paid by Domestic and Foreign-invested Enterprises and Individuals (Guo Fa No. [2010]35) (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知(國發[2010]35號)), which was promulgated by the State Council on 18 October 2010 and became effective from 1 December 2010, the Provisional Regulations on Urban Maintenance and Construction Tax of the PRC (中華人民共和國城市維護建設稅暫行條例) which was promulgated by the State Council on 8 February 1985, amended and became effective on 8 January 2011, and the Provisional Rules on Collection of Education Surcharges (徵收教育費附加的暫行規定), which was promulgated by the State Council on 28 April 1986, subsequently amended on 7 June 1990, 20 August 2005, 29 December 2010 respectively, and issued and became effective on 8 January 2011, the urban maintenance and construction tax and education surcharges shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

Pursuant to the Provisional Regulations on Urban Maintenance and Construction Tax of the PRC, all entities or individuals who are required to pay consumption tax, value-added tax and business tax shall also be subject to urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the amount of the consumption tax, value-added tax and business tax actually paid by the taxpayer and shall be made simultaneously. The rates of urban maintenance and construction tax shall be set at 7%, 5% and 1% for a taxpayer located in a city, in a county town or town and in a place other than a city, county town or town, respectively.

In accordance with the Provisional Rules on the Collection of Education Surcharges, all entities and individuals who pay consumption tax, value-added tax and business tax shall also be subject to education surcharges. The rate of education surcharges is set at 3% of the amount of value-added tax, business tax and consumption tax actually paid by each entity or individual, and the education surcharges shall be paid simultaneously with the value-added tax, business tax and consumption tax.

LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

Pursuant to the Foreign-owned Enterprises Law of the PRC (中華人民共和國外資企業法), which was promulgated by the NPC on 12 April 1986, subsequently amended by the SCNPC on 31 October 2000 and 3 September 2016 respectively and became effective on 1 October 2016, and the Implementation Rules of the Foreign-owned Enterprises Law of the PRC (中華人民共和國外資企業法實施細則), which was promulgated by the State Council on 12 December 1990, subsequently amended on 12 April 2001 and 19 February 2014 respectively and became effective on 1 March 2014, legal profits, other legal income and funds on liquidation obtained by foreign investors from

REGULATORY OVERVIEW

foreign-invested enterprises can be remitted out of the country. Foreign-invested enterprises shall not distribute profits before offsetting losses from previous accounting years; undistributed profits from previous accounting years can be distributed together with the distributable profits of the current accounting year.

According to the Arrangement between the Mainland of the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Incomes (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), which was promulgated by the SAT on 21 August 2006 and became effective from 8 December 2006, 5% withholding tax rate shall apply to the dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident holds at least 25% of the equity interests in the PRC company, and 10% shall apply if the Hong Kong resident holds less than 25% of the equity interests in a PRC company.

Pursuant to the Circular on Relevant Issues Relating to the Implementation of Dividend Clauses in Tax Treaties (Guo Shui Han No. [2009]81) (關於執行稅收協定股息條款有關問題的通知 (國稅函[2009]81號)), which was promulgated by the SAT and became effective on 20 February 2009, all of the following requirements shall be satisfied where a fiscal resident of the other party to a tax treaty needs to be entitled to such tax treaty treatment as being taxed at a tax rate specified in the tax treaty for the dividends paid by a Chinese resident company: (i) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (ii) owner's equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, reach a percentage specified in the tax treaty.

Pursuant to the Administrative Measures on the Tax Treaties Treatment of Non-resident Taxpayers (非居民納稅人享受稅收協定待遇管理辦法), which was issued by the SAT on 27 August 2015 and became effective on 1 November 2015, where a non-resident taxpayer who receives dividends from a PRC resident company would like to enjoy the preferential tax treatment under the tax treaties, such non-resident taxpayer shall submit the relevant reporting forms and documents by himself/herself when paying tax and reporting or through the tax withholder when withholding and reporting. If a non-resident taxpayer is qualified to enjoy the tax treaties treatment but has not enjoyed the same, and has paid more tax because of not enjoying the treatment, the non-resident taxpayer shall require to get refunded from the competent tax authorities by himself/herself or through the tax withholder in prescribed period. At the same time, such non-resident taxpayer shall submit relevant reporting forms and documents and description for making up the tax treatment.

LAWS AND REGULATIONS RELATING TO THE ESTABLISHMENT, OPERATION AND MANAGEMENT OF WHOLLY FOREIGN-INVESTED ENTERPRISE

The establishment, operation and management of corporate entities in China is subject to the PRC Company Law. The Company Law also applies to foreign-invested limited liability companies. Where laws on foreign investment have other stipulations, such stipulations shall prevail.

The Wholly Foreign-owned Enterprises Law of the PRC are applicable to the establishment procedures, verification and approval procedures, registered capital requirements, foreign exchange restrictions, accounting practices, taxation and labor matters of wholly foreign-owned enterprises.

REGULATORY OVERVIEW

Foreign investors and foreign-owned enterprises that conduct any investments in the PRC must comply with the Guidance Catalogue. Pursuant to the Guidance Catalogue, industries for foreign investment can be classified into encouraged, restricted or prohibited industries. Pursuant to the Rules on Guiding the Direction of Foreign Investment, any industry that is not listed in the Guidance Catalogue is a permitted industry for foreign investment. The Catalogue is subject to review and update by the Chinese Government from time to time.

According to the Wholly Foreign-owned Enterprise Law of the PRC which is currently effective, for a wholly foreign-owned enterprise which the special entry administrative measures does not apply to, its establishment, operation duration and extension, separation, merger or other major changes shall be reported for recordation. The special entry administrative measures stipulated by the State shall be promulgated or approved to be promulgated by the State Council.

According to the Provisional Administrative Measures on Filing of Establishment and Modifications of Foreign Investment Enterprises (外商投資企業設立及變更備案管理暫行辦法) promulgated by MOFCOM on 8 October 2016, amended on 30 July 2017 and came into effect on the same date, establishment and modifications of foreign invested enterprises not subject to the approval under the special entry administrative measures shall be reported for recordation. The investment conducted by investors in Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan not subject to the approval under the special entry administrative measures shall refer to these measures.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OUR HISTORY AND DEVELOPMENT

Our history traced back to 31 December 2002, when Jiangsu Chuangxin was established as a wholly foreign-owned enterprise by Full Success in the Chemical Industry Park of the Economic Development Zone located in Yixing, Jiangsu Province, PRC. Jiangsu Chuangxin primarily engages in the business of developing, manufacturing and marketing oil refining agents and fuel additives and had an initial registered capital of US\$1,500,000 which was subscribed by Full Success. Full Success was beneficially jointly owned as to 50% by Mr. Ge and 50% by Ms. Gu at the time of Jiangsu Chuangxin's establishment.

Mr. Ge and Ms. Gu entered the petrochemical industry in 1988 and have accumulated 30 years of industry and management experience. They initially focused their business on the sale of petrochemicals. With more than 15 years of industry expertise, Mr. Ge and Ms. Gu switched their business focus to development and manufacture of oil refining agents and fuel additives and co-founded Jiangsu Chuangxin in 2002.

For more information on the background and relevant experience of Mr. Ge and Ms. Gu, see "Directors and Senior Management."

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 6 July 2017. As part of the Reorganization, on 12 September 2017, China Grand New Material, a wholly-owned subsidiary of Innovative Green Group, which is in turn wholly owned by the Company, acquired all the equity interest in and became the sole equity owner of Jiangsu Chuangxin. Following the Reorganization, the Company indirectly holds all the equity interest in Jiangsu Chuangxin via Innovative Green Group and China Grand New Material. Apart from our Group, our Controlling Shareholders do not have substantial interest in other company which competes or is likely to compete directly or indirectly with the business of our Group.

Since our establishment in 2002, we have formed long-standing relationships with Affiliates of Sinopec, CNPC and CNOOC, which are the state-owned conglomerates that dominate the PRC petrochemical industry. We believe that our business relationships with these customers have led to collaborative efforts in research and development and business opportunities overseas. According to CIC, the top five players in the PRC oil refining agents and fuel additives industry, including us, occupied around 12.1% of the total market in terms of domestic revenue in 2016; our market share was approximately 1.7%.

BUSINESS MILESTONES

The following table illustrates the key milestones and significant business developments of our Group:

Year	Key milestones
2002	Jiangsu Chuangxin was established as a wholly foreign-owned enterprise in China.
2004	Jiangsu Chuangxin formed a collaborative relationship with RIPP and was authorized as a manufacturer and distributor of products developed by RIPP.
2006	Jiangsu Chuangxin was accredited as a High and New Technology Enterprise by the Jiangsu Provincial Department of Science and Technology.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Year	Key milestones
2007	Jiangsu Chuangxin was accredited as the Foreign-Invested Technologically Advanced Enterprise by the Jiangsu Provincial Department of Foreign Trade and Economic Cooperation.
2013	Jiangsu Chuangxin was accredited as a High and New Technology Enterprise by the Jiangsu Provincial Department of Science and Technology, the Department of Finance of Jiangsu Province, SAT and the Jiangsu Local Taxation Bureau with a validity period from 2013 to 2015. Accordingly, Jiangsu Chuangxin was eligible to enjoy a lower tax rate of 15%, as compared to the statutory tax rate of 25%, from 2013 to 2015.
2014	Our acid-type lubricity improvers fully satisfied Sinopec's quality requirement. Jiangsu Chuangxin collaborated with Total and became its authorized distributor in China.
2015	Jiangsu Chuangxin collaborated with International Supplier to distribute desulfurizing agents specifically used to reduce H ₂ S in tail gases emitted by sulfur-production units in oil refineries into the PRC market. Jiangsu Chuangxin also collaborated with EURENCO to distribute VeryOne Cetane Improver to the PRC market and became EURENCO's authorized distributor in China.
2016	Jiangsu Chuangxin was once again accredited as the High and New Technology Enterprise by the Jiangsu Provincial Department of Science and Technology, the Department of Finance of Jiangsu Province, SAT and the Jiangsu Local Taxation Bureau with a validity period from 2016 to 2018.

EVOLUTION OF OUR GROUP

The following sets forth the corporate development of each member of our Group since their respective dates of incorporation.

The Company

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 6 July 2017 with an initial authorized share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each, of which one Share was allotted and issued to and fully paid to the initial subscriber which was transferred to Mr. Ge on the same day. On 18 July 2017, Mr. Ge transferred his one Share, which was fully paid at par, to Innovative Green Holdings. From then on and up to the Latest Practicable Date, the Company has been owned as to 100% by Innovative Green Holdings.

Following the Reorganization, the Company directly holds all the equity interest in Innovative Green Group and indirectly holds all the equity interest in China Grand New Material and Jiangsu Chuangxin.

Innovative Green Group

Innovative Green Group was incorporated in BVI as a company with limited liability on 6 July 2017. As of the date of incorporation, it had an authorized share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, of which one share was allotted and issued to and fully paid by Mr. Ge at par. On 18 July 2017, Mr. Ge transferred his one share, which was fully paid at par, to the Company. From then on and up to the Latest Practicable Date, Innovative Green Group has been owned as to 100% by the Company.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

As of the Latest Practicable Date, Innovative Green Group was an intermediate holding company directly wholly-owned by the Company. Following the Reorganization, Innovative Green Group directly holds all the equity interest in China Grand New Material and indirectly holds all the equity interest in Jiangsu Chuangxin.

China Grand New Material

China Grand New Material was incorporated in Hong Kong with limited liability on 4 August 2017. As of the date of incorporation, it had a share capital of one share which was allotted and issued to and fully paid by Mr. Ge. On 11 September 2017, Mr. Ge transferred his one share to Innovative Green Group. From then on and up to the Latest Practicable Date, China Grand New Material has been owned as to 100% by Innovative Green Group.

As of the Latest Practicable Date, China Grand New Material was an intermediate holding company directly wholly-owned by Innovative Green Group, and held directly all the equity interest in Jiangsu Chuangxin.

Jiangsu Chuangxin

On 31 December 2002, Jiangsu Chuangxin was established in the Chemical Industry Park of the Economic Development Zone, located in Yixing, Jiangsu Province, PRC as a wholly foreign-owned enterprise by Full Success. Jiangsu Chuangxin primarily engages in the business of developing, manufacturing and marketing oil refining agents and fuel additives and had an initial registered capital of US\$1,500,000 which was subscribed by Full Success. Full Success was an investment holding company incorporated in Hong Kong which was owned as to 50% by Mr. Ge and 50% by Ms. Gu at the time of Jiangsu Chuangxin's establishment. Mr. Ge and Ms. Gu incorporated Full Success and paid the initial capital from their own personal funds, which they had accumulated from their salaries and bonus and the monetary gifts from senior family members.

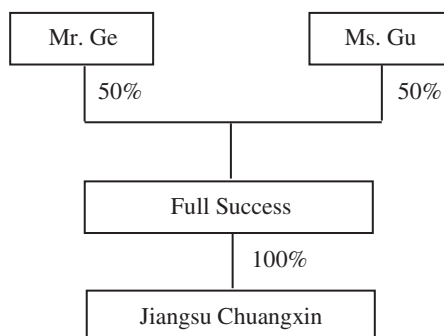
The registered capital of Jiangsu Chuangxin was increased to US\$3,500,000 on 12 July 2005 and was reduced to US\$1,500,000 on 4 April 2006. On 15 June 2007, the registered capital of Jiangsu Chuangxin was again increased to US\$3,500,000, and was further increased to US\$12,000,000 on 22 January 2015. On 29 July 2015, the registered capital of Jiangsu Chuangxin was increased to US\$20,000,000. Among the US\$20,000,000 registered capital, US\$12,000,000 was paid in, and the remaining US\$8,000,000 should be fully contributed by 25 July 2020. Funding for the capital increases over the years were primarily from the profit generated from the businesses of Jiangsu Chuangxin which was distributed to its ultimate Shareholders or reserved for capital increase.

On 12 September 2017, as part of the Reorganization, China Grand New Material acquired all the equity interest in and became the sole equity owner of Jiangsu Chuangxin. Following the Reorganization, Jiangsu Chuangxin has become an indirectly wholly-owned subsidiary of the Company.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

REORGANIZATION

In preparation for the Listing, we carried out a series of restructuring steps in order to establish an offshore and onshore shareholding structure through which the Company will hold all the equity interest in Jiangsu Chuangxin. Below sets forth the corporate structure of our Group immediately before the Reorganization:



In preparation for the Listing, our Group underwent the Reorganization. The main steps of the Reorganization were:

Setting up an Investment Holding Company for Our Controlling Shareholders

1. On 6 July 2017, Innovative Green Holdings was incorporated in accordance with the laws of BVI as an investment holding company and is authorized to issue a maximum of 50,000 shares of US\$1.00 each, of which one share was allotted and issued to and fully paid by Mr. Ge at par.

Incorporation of the Company

2. On 6 July 2017, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with an initial authorized share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each, of which one fully paid Share was allotted and issued to the initial subscriber which was transferred to Mr. Ge on 6 July 2017.

Incorporation of the Intermediate Holding Companies

3. On 6 July 2017, Innovative Green Group was incorporated in BVI as a limited liability company and is authorized to issue a maximum of 50,000 shares of US\$1.00 each, of which one share was allotted and issued to and fully paid by Mr. Ge at par.
4. On 4 August 2017, China Grand New Material was incorporated in Hong Kong with limited liability. As of the date of incorporation, it had a share capital of one share which was allotted and issued to Mr. Ge.

Investment Holding Company Issuing New Share to our Controlling Shareholder

5. On 18 July 2017, Innovative Green Holdings allotted and issued one ordinary share, which was fully paid at par, to Ms. Gu. From then on and up to the Latest Practicable Date, Innovative Green Holdings has been owned as to 50% by Mr. Ge and 50% by Ms. Gu.

Various Transfers of Shares of the Company and the Intermediate Holding Companies

6. On 18 July 2017, Mr. Ge transferred his one Share of the Company, which was fully paid at par, to Innovative Green Holdings. From then on and up to the Latest Practicable Date, the Company has been owned as to 100% by Innovative Green Holdings.

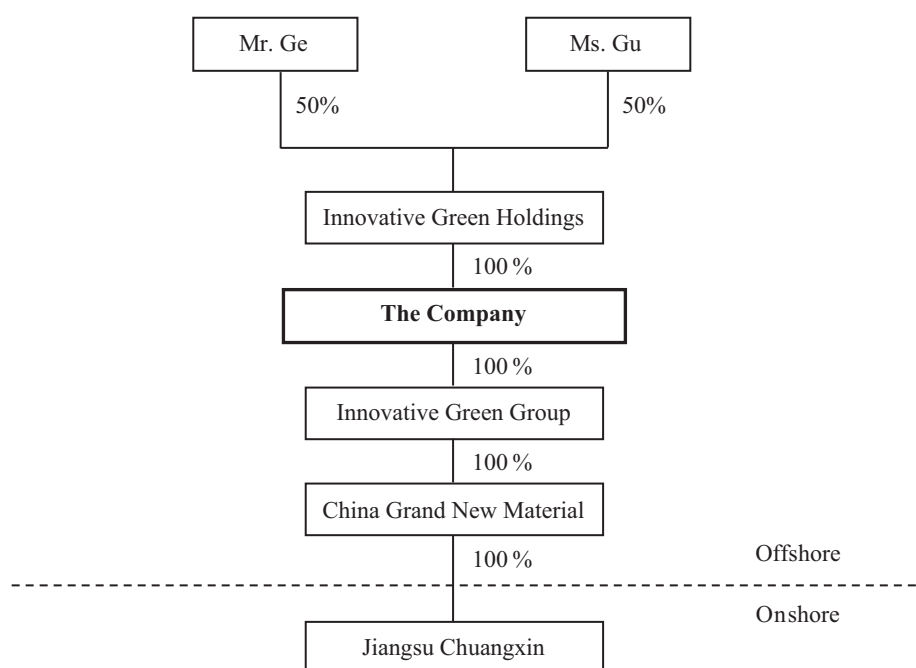
HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

7. On 18 July 2017, Mr. Ge transferred his one share of Innovative Green Group, which was fully paid at par, to the Company. From then on and up to the Latest Practicable Date, Innovative Green Group has been owned as to 100% by the Company.
8. On 11 September 2017, Mr. Ge transferred his one share of China Grand New Material to Innovative Green Group. From then on and up to the Latest Practicable Date, China Grand New Material has been owned as to 100% by Innovative Green Group.

Acquisition of Jiangsu Chuangxin by China Grand New Material

9. On 9 September 2017, China Grand New Material entered into a share transfer agreement with Full Success, pursuant to which China Grand New Material acquired all the equity interest in Jiangsu Chuangxin from Full Success at the nominal consideration of one Hong Kong dollar. Following the Reorganization, Jiangsu Chuangxin becomes an indirect wholly-owned subsidiary of the Company.

As of the Latest Practicable Date, the above steps of the Reorganization had been legally completed. The following diagram shows the shareholding and corporate structure of our Group immediately following completion of the Reorganization but before completion of the Capitalization Issue and the Share Offer:



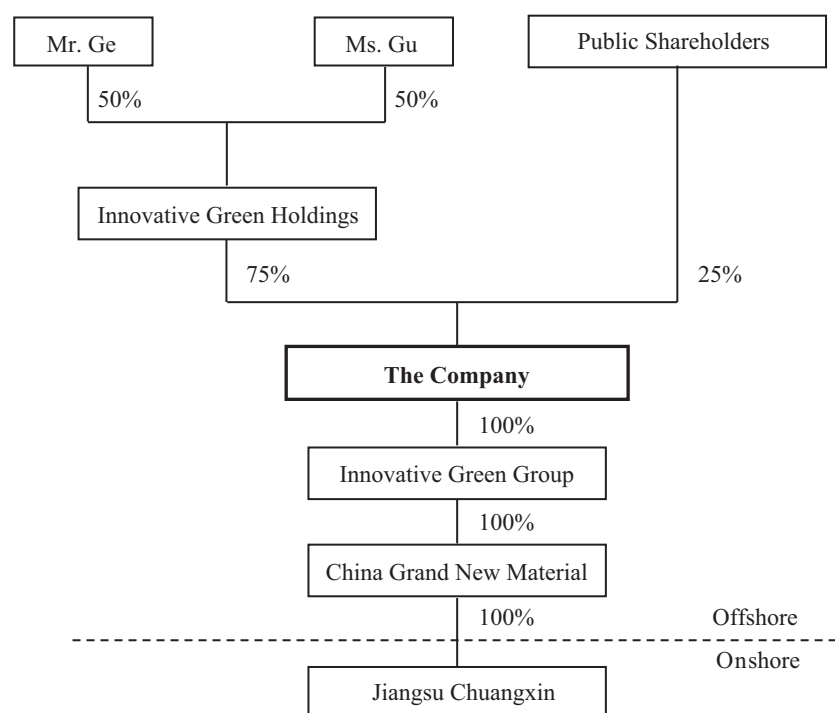
CAPITALIZATION ISSUE AND SHARE OFFER

Conditional upon the share premium account of the Company being credited as a result of the Share Offer or otherwise having sufficient balance, our Directors are authorized to capitalize all or a portion, as the case may be, of the balance of the share premium account and apply such sum in paying up in full at par value a total of 359,999,999 Shares for allotment and issue to the existing Shareholder of the Company whose name appears on the register of members of the Company as of 11 March 2018, namely Innovative Green Holdings. The Company will allot and issue 120,000,000 Shares under and upon the completion of the Share Offer, assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Immediately following the completion of the Capitalization Issue and the Share Offer, assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme, Innovative Green Holdings and the public shareholders will hold 360,000,000 Shares and 120,000,000 Shares, respectively, representing 75% and 25%, respectively, of the enlarged issued share capital of the Company.

The following diagram shows the shareholding and corporate structure of our Group immediately following the completion of the Capitalization Issue and the Share Offer (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme).



PRC LEGAL COMPLIANCE

M&A Rules

On 8 August 2006, six PRC governmental and regulatory agencies, being MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, SAT, CSRC, SAIC and SAFE jointly promulgated the M&A Rules, which became effective on 8 September 2006 and was amended on 22 June 2009. According to Article 2 of the M&A Rules, “mergers and acquisitions of domestic enterprises by foreign investors” referred to in the M&A Rules shall mean that a foreign investor purchases the equity interest of a shareholder in a domestic non-foreign invested enterprise (“**domestic company**”) or subscribes for increased capital of a domestic company so as to convert such domestic company into a foreign-invested enterprise; or a foreign investor establishes a foreign-invested enterprise, through which it purchases and operates the assets of a domestic enterprise by agreement, or a foreign investor purchases the assets of a domestic enterprise by agreement and then invests such assets to establish a foreign-invested enterprise and operates the assets. According to Article 11 of the M&A Rules, the merger and acquisition of a domestic company (“**target company**”) by an overseas company legitimately incorporated or controlled by a domestic company, enterprise or individual that has a related party relationship with the target company, shall be subject to examination and approval by MOFCOM.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

As advised by our PRC Legal Advisers, Jiangsu Chuangxin is a wholly foreign-owned enterprise rather than a domestic company since its establishment in December 2002, and the Controlling Shareholders of our Group, Mr. Ge and Ms. Gu, are Macau permanent residents rather than domestic individuals. Accordingly, our Reorganization is not subject to M&A Rules, and it is not necessary for us to obtain approval from MOFCOM for our Reorganization nor from the CSRC for the Listing and trading of our securities on the Stock Exchange.

SAFE Registration in the PRC

Pursuant to Circular 37, special purpose vehicle (“SPV”) refers to overseas companies directly incorporated or indirectly controlled by domestic residents (including domestic institutions and individual domestic residents) using the assets or rights and interest of domestic companies that they legally possess or the overseas assets or rights and interests they legally possess for the purpose of investments and financing. Circular 37 further requires timely amendments to the registration for any major change in respect of the SPV, including, among other things, any major change of the SPV’s PRC resident shareholder, name of the SPV, term of operation, or any increase or reduction of the SPV’s registered capital contributed by the PRC domestic resident, share transfer or swap, and merger or division.

Our PRC Legal Advisers have confirmed that since Mr. Ge and Ms. Gu are permanent residents of Macau, they are not subject to Circular 37, nor required to undergo its registration procedures.

Our PRC Legal Advisers have also confirmed that we have complied with all applicable PRC rules and regulations and have obtained all relevant approvals from PRC governmental authorities for the Reorganization, and that the acquisitions in the Reorganization have been properly and legally completed and settled.

BUSINESS

You should read this Prospectus in its entirety before you decide to invest in the Offer Shares, and not rely solely on key or summarized information. The financial information in this section has been extracted without material adjustment from “Appendix I — Accountants’ Report.” All market statistics quoted in this Prospectus, unless otherwise specified, are derived from an industry report issued by CIC. For the qualifications of CIC as well as details of the industry report, see “Industry Overview.”

OVERVIEW

We develop, manufacture and market oil refining agents and fuel additives that are primarily applied to reduce undesirable emissions and comply with the evolving regulatory requirements. According to CIC, our products contribute to the environmental sustainability of China’s modern economy. Our oil refining agents are used to refine crude oil and extend the working life of oil refining units, enhancing economic efficiencies and, with respect to oil refineries, reducing undesirable emissions in the form of industrial waste. Our fuel additives are used to assist customers in complying with evermore stringent mandatory emissions regulations while maintaining the quality and efficiency of fuels. Our key oil refining agents are desulfurizing agents and metal passivators, while our key fuel additives are lubricity improvers. Our products generated increasing demand during the Track Record Period. According to CIC, we ranked among the top five players in China’s oil refining agents and fuel additives industry and occupied around 1.7% of the total market in terms of domestic revenue in 2016. Those top five, including us, collectively occupied a market share of approximately 12.1%.

We believe that our long-term customer relationships, research and development capabilities and experienced senior management team have allowed and will continue to allow us to consolidate our market share. We are among the earliest of our peers to enter the PRC oil refining agents and fuel additives industry. Our history parallels the rise of the PRC petrochemical industry and we have accompanied our long-term customers through their respective milestones. Over time we formed long-standing relationships with various Affiliates of three state-owned conglomerates, namely Sinopec, CNPC and CNOOC. The PRC petrochemical industry is dominated by the three state-owned conglomerates, and hence we believe that our relationship with Affiliates of the three state-owned conglomerates is a major strength.

We attribute a significant part of our success to our research and development capabilities. When an existing or potential customer launches a tender, we believe that we are more likely to be awarded contracts as we have accumulated valuable experience in relation to the development and manufacturing of oil refining agents and fuel additives. As of the Latest Practicable Date, we had a qualified research and development department of 13 members, of whom five had bachelor’s degrees. The department includes one Senior Engineer (高級工程師) who supervises the team. Members of our research and development team have earned diplomas or degrees in subject areas key to our operations such as engineering, applied chemistry, petroleum processing and oil refining technology, and our research and development center has been certified as a “Wuxi Technological Research and Development Institution” (無錫市科技研發機構) by the Wuxi Science and Technology Bureau (無錫市科學技術局). We also regularly collaborate with industry and academic professionals from RIPP to pool ideas, information and resources. As of the Latest Practicable Date, we owned three invention patents and 15 utility model patents. The success of our research and development efforts has resulted in two invention patents and 15 utility model patents in China, as well as several awards in recognition of our capabilities. These include, for example, the “2011 Excellent Supplier Award” (2011 年度優秀供應商) from CNPC Dalian Petrochemical Co., Ltd. (中國石油大連石化有限公司), as well as the “6th Project Excellent Supplier Award” (六期工程優秀供應商) in 2013 and the “2014 — 2016 Excellent Supplier Award” (2014 — 2016 年度優秀供應商) in 2017 from SINOPEC Shanghai Petrochemical Co. Ltd. (中國石化上海石油化工股份有限公司). We have been certified as a “High and New Technology Enterprise” (高新技術企業) since 2013.

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We aspire to be a good corporate citizen by bringing forth an innovative, environmentally sustainable generation of oil refining technology. We believe that we benefit from operating in an evolving landscape of enhanced environmental laws. For example, as hydrodesulfurization is now a required part of the refining process, our customers use fuel additives such as our lubricity improvers to compensate for the resulting loss of key fuel characteristics.

Our utilization rates increased generally throughout the Track Record Period. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, our utilization rates for oil refining agents were 52.8%, 54.0%, 58.4% and 99.1%, respectively. This increasing trend was mainly due to a substantial increase in our production volume. We produced more oil refining agents to meet a significant purchase order by one of our customers and the increasing customer demand during the first three quarters of 2017. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, our utilization rates for fuel additives were 46.5%, 64.2%, 89.1% and 95.8%, respectively, primarily due to an increase in the production volume of our lubricity improvers in response to rising customer demand. During the Track Record Period, we experienced rising customer demand for our oil refining agents and fuel additives. In anticipation of the continuously increasing production volume of our products, we intend to upgrade our Yixing Plant and expand our production capacity, investing approximately 41.0%, or approximately HK\$42.8 million, of net proceeds from the Share Offer to do so. For more information, see “Business — Production — Plans to Upgrade our Yixing Plant.”

We experienced substantial revenue growth during the Track Record Period. Our revenue increased from RMB105.1 million for the year ended 31 December 2014 to RMB114.4 million for the year ended 31 December 2015, and further to RMB135.7 million for the year ended 31 December 2016, representing a CAGR of 13.6%. Our revenue increased by 36.5% from RMB107.0 million for the nine months ended 30 September 2016 to RMB146.0 million for the nine months ended 30 September 2017. Our profit for the year also increased from RMB16.4 million for the year ended 31 December 2014 to RMB23.2 million for the year ended 31 December 2015, and further to RMB33.3 million for the year ended 31 December 2016, representing a CAGR of 42.5%. Our profit for the period decreased by 14.5% from RMB27.7 million for the nine months ended 30 September 2016 to RMB23.7 million for the nine months ended 30 September 2017.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed and will continue to contribute to our success:

We are among the top five players in the PRC oil refining agents and fuel additives industry and have long-term customer relationships.

Our products generated increasing demand during the Track Record Period. According to CIC, the top five players in China’s oil refining agents and fuel additives industry, including us, occupied around 12.1% of the total market in terms of domestic revenue in 2016; our market share was approximately 1.7%.

We believe that our success is partly attributable to our early entry in the market. Jiangsu Chuangxin was formally established in 2002, while Mr. Ge, our founder, chief executive officer and Chairman, has worked in this sector since 1988. We believe that such early entry afforded us opportunities to build long-standing relationships with Affiliates of the three state-owned conglomerates that dominate the PRC petrochemical industry, namely Sinopec, CNPC and CNOOC, on the basis of trust over time. Additionally, we believe that our relationships with Affiliates of the three state-owned conglomerates have led to our collaborative efforts in research and development and

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business opportunities overseas. When an existing or potential customer launches a tender, we believe that we are more likely to be awarded contracts as we have accumulated valuable experience in relation to the development and manufacturing of oil refining agents and fuel additives and established better relationship with our customers.

According to CIC, long-standing relationships with Affiliates of Sinopec, CNPC and CNOOC are necessary to succeed or advance in the oil refining agents and fuel additives industry. This represents an entry barrier to market entrants who attempt to enter this market without the advantages of customer relationships, resources and experience. Other entry barriers relate to technological prowess and capital requirements, both of which we also possess. Total has authorized us to distribute their products since 2014, and International Supplier and EURENCO since 2015. We believe that these customers selected us as they recognized the strength of our sales channels, customer relationships and market familiarity and that, in the long term, we will be able to grow our market share with limited new competition from others. We believe that our standing in the industry will further cement over time.

We benefit from operating in an evolving landscape of enhanced environmental laws and regulations.

We attribute our continuous growth partly to the PRC Government's implementation of increasingly stringent environmental laws to enhance the sustainability of the modern economy. On 18 December 2013, the PRC Government promulgated the "China V" Fuel Quality Standard (第五階段車用汽油國家標準), which sets stricter emissions and fuel quality requirements than the "China IV" Fuel Quality Standard (第四階段車用汽油國家標準) previously in force. For example, the "China V" Fuel Quality Standard mandates that by 31 December 2017, members of the petrochemical industry must lower sulfur levels in fuels from 50 ppm, as required under the "China IV" Fuel Quality Standard, to 10 ppm, a reduction of 80%. We expect that the PRC Government will implement even more stringent fuel quality requirements under the "China VI" Fuel Quality Standard.

In February 2016, the NDRC and ten other departments of the PRC Government promulgated the "Notice on Further Promoting the Quality of Refined Oil and Strengthening Market Management" (關於進一步推進成品油質量升級及加強市場管理的通知), setting deadlines for oil refineries to cease the sale of petrochemicals that do not support or conform to the requirements of the "China V" Fuel Quality Standard. Our oil refining agents and fuel additives better enable our customers to navigate the new regulatory landscape. For example, our customers purchase our desulfurizing agents to comply with requirements to lower sulfur levels in fuels, as higher sulfur levels generally result in correspondingly increased levels of undesirable emissions. Our desulfurizing agents aid in the removal of H₂S and other sulfur compounds from natural gas and refinery gas.

The new regulatory environment also presents opportunities to sell our lubricity improvers. The lowering of sulfur levels also reduces the inherent lubricity of fuels. Since diesel engines rely on fuel to lubricate the moving parts of fuel injection equipment, low fuel lubricity may lead to fuel pump wear and engine failure. We believe that customers may use our lubricity improvers to compensate for the loss of this key fuel characteristic.

We believe that we assist members of the petrochemical industry in complying with evermore stringent mandatory emissions regulations while maintaining the quality and efficiency of fuels. We expect that demand for our oil refining agents and fuel additives will continue to grow in the face of the evolving regulatory landscape.

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We have research and development capabilities that allow us to develop innovative, high-quality oil refining agents and fuel additives.

Our management team strives to foster an innovative corporate culture. We have long recognized the importance of research and development to our business. As of the Latest Practicable Date, we had a qualified research and development department of 13 members, of whom five had bachelor's degrees. The department includes one Senior Engineer (高級工程師) who supervises the team. Members of our research and development team have earned diplomas or degrees in subject areas key to our operations such as engineering, applied chemistry, petroleum processing and oil refining technology. We keep abreast of the latest developments in the petrochemical industry and tailor our research and development efforts with a view to commercializing new products and technologies. As of the Latest Practicable Date, we owned three invention patents and 15 utility model patents. The success of our research and development efforts has resulted in two invention patents and 15 utility model patents in China. We also acquired one invention patent from Jiangsu Kechuang Petrochemicals Co., Ltd. (江蘇創科石化有限公司), a company owned by Ms. Gu's brother.

We collaborate with RIPP to pool ideas, information and resources with its industry and academic professionals. RIPP, founded in 1956, has made breakthroughs in modern oil refining technology since the 1960s, including technologies related to, among other things, catalytic cracking and delayed coking contributed significantly to the development of the PRC petrochemical industry. RIPP currently focuses on technologies to produce clean fuel and fewer undesirable emissions. RIPP has authorized us to produce oil refining agents and fuel additives that are the result of RIPP's research and development efforts. RIPP first granted the authorization in 2004 and recently renewed this authorization for the period between 1 January 2017 to 31 December 2021.

In November 2013, the Wuxi Science and Technology Bureau (無錫市科學技術局) certified our research and development center as a "Wuxi Technological Research and Development Institution" (無錫市科技研發機構) for a period of five years. We have received several awards in recognition of our research and development capabilities, such as the "2011 Excellent Supplier Award" (2011年度優秀供應商) from CNPC Dalian Petrochemical Co., Ltd. (中國石油大連石化有限公司), as well as the "6th Project Excellent Supplier Award" (六期工程優秀供應商) in 2013 and the "2014 — 2016 Excellent Supplier Award" (2014 — 2016 年度優秀供應商) in 2017 from SINOPEC Shanghai Petrochemical Co., Ltd. (中國石化上海石油化工股份有限公司). We have been certified as a "High and New Technology Enterprise" (高新技術企業) since 2013. We intend to continue investing in research and development and provide our customers with innovative and high-quality oil refining agents and fuel additives.

We believe that we have an experienced senior management team.

We believe that we have an experienced senior management team with a proven track record, and that their long-standing commitment and vision have allowed us to consolidate our market share. Their foresight and in-depth industry knowledge has, we believe, enabled them to formulate sound business strategies, assess and manage risks, anticipate industry trends and guide us in capturing market opportunities. Our senior management seeks to effectively allocate our resources to reduce operating costs and maximize shareholder value.

Most of the members of our senior management team have at least ten years of experience in our industry. Mr. Ge, our Chairman and chief executive officer, has dedicated himself to the research and development, production and marketing of oil refining agents and fuel additives since 1988. In addition, our research and development department is led by Mr. Huang Lei ("Mr. Huang"), who has extensive technical knowledge of our industry. Mr. Huang, our vice general manager and Research and Development Director, is a Senior Engineer (高級工程師) who worked at Sinopec prior to joining us. He is knowledgeable about the business of our customers and therefore able to lead us in developing technological solutions tailored to their needs. We believe that the professional network, expertise and vision of our senior management team are invaluable and allow us to stand out among our competitors.

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Our senior management team also seeks to abide by a high standard of corporate governance and internal controls. We are committed to being a good corporate citizen and believe that transparency, accountability and consistency are keys to fostering a productive and positive culture. Under their leadership, we believe that we will be able to adapt swiftly to new developments within our own and our customers' industries and take advantage of new opportunities as they arise.

OUR BUSINESS STRATEGIES

We aspire to bring forth an innovative, environmentally sustainable generation of oil refining technology with our oil refining agents and fuel additives. We intend to pursue the following strategies in furtherance of this goal:

Increase our production capacity to meet rising customer demand

We intend to upgrade our Yixing Plant and thereby expand our production capacity. According to CIC, sales volumes for oil refining agents and fuel additives in China increased from 281.4 thousand tons in 2012 to 338.8 thousand tons in 2016, representing a CAGR of 4.7% between 2012 and 2016. Sales volumes are also projected to reach 424.0 thousand tons by 2021, representing a CAGR of 4.6% between 2016 and 2021. We are convinced that, as the PRC Government implements evermore stringent mandatory emissions regulations, demand for our products will continue to grow. We thus require higher production volumes to timely meet customer orders.

We filed our plans to carry out upgrade works and expand our production capacity to 25,000 tons with the Yixing Economic and Information Technology Commission (宜興市經濟和信息化委員會), which were approved on 21 March 2016. On 8 September 2017, the Environmental Protection Bureau of Wuxi City (無錫市環境保護局) issued its approval opinion in relation to the upgrade plans for our Yixing Plant. We will optimize our production lines by increasing our production capacity for our products, including lubricity improvers and desulfurizing agents. We also plan to purchase new sets of machinery, equipment and analytical instruments. We are confident that the plans to upgrade our Yixing Plant will streamline our production processes and enhance efficiencies, allowing us to hone pricing and cost advantages over our competitors. For example, we intend to remodel a part of our desulfurizing agent production line. By modifying the production line rather than constructing a new one from scratch, we aim to utilize the full potential of our available resources. For more information, see “ — Production — Plans to Upgrade our Yixing Plant.”

We plan to invest an aggregate of approximately HK\$42.8 million in our upgrade works, using those funds to purchase the machinery, equipment and analytical instruments that we need. Our upgrade works will be financed with cash flow from our operating activities and proceeds from the Share Offer, and we expect that they will take approximately 12 to 18 months to complete. We are confident that increasing our production capacity will better enable us to capture available market opportunities and grow our market share.

Expand our product mix to create new market opportunities

We currently offer oil refining agents and fuel additives that service our customers in the petrochemical industry with effective technological and environmental solutions. We believe that our success is driven by our ability to adapt swiftly to regulatory developments and seamlessly adopt the latest innovations. We intend to expand our product mix while continuing to enhance the quality of our existing products and technologies. For example, we intend to enter the PRC market for fuel injector cleaners and are currently conducting initial market and technological research. According to CIC, fuel injector cleaners are common in developed countries such as the United States, but have not gained widespread acceptance in China as their use is not mandated by the PRC Government. We believe that once they gain popularity and/or become mandated by the PRC Government, our early

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initiative will allow us to establish our prominence in the market over time and become more technologically competitive. We are confident in the growth potential of the PRC fuel injector cleaners market. According to CIC, the total sales value of fuel injector cleaners increased from RMB2,412.2 million in 2012 to RMB4,132.4 million in 2016, representing a CAGR of 14.4% between 2012 and 2016. Due to growing public awareness of environmental issues, particularly in relation to air pollution, consumers are more willing to use fuel injector cleaners to protect their vehicles and reduce undesirable emissions. CIC projects that total sales value of fuel injector cleaners will continue increasing to reach RMB8,329.4 million by 2021, representing a CAGR of 15.0% from 2016 to 2021.

To successfully enter the PRC market for fuel injector cleaners, we will leverage our research and development capabilities, sales channels and customer relationships. Additionally, we will apply our technical expertise and research and development capabilities to seek other ways to expand our product mix. We believe that doing so will open market opportunities and lead to further revenue and profit growth over time.

Expand our customer base to diversify our revenue sources

During the Track Record Period, we primarily sold oil refining agents and fuel additives to Affiliates of Sinopec, CNPC and CNOOC, and one of our risk management policies was to select customers who are owned or affiliated to national governments. However, according to CIC, as the PRC petrochemical industry develops, a number of non state-owned oil refineries have been seeking to expand and enhance their technological capabilities. We intend to reach out to this pool of potential customers by leveraging our network of relationships within our own and our customers' industries, and seeking introductions with senior managers of non state-owned oil refineries. We will also participate in tenders launched by those potential customers. Furthermore, we believe that our brand, which is well known in our own and our customers' industries, will attract non state-owned oil refineries to utilize our services.

Additionally, we intend to reach out to potential customers overseas. During the Track Record Period, certain opportunities to do business with our current overseas customers came through recommendations from the three state-owned conglomerates. We will seek to further expand our global connections by registering our own fuel additives on the relevant list maintained by S&P Global Platts, S&P Global Platts is an online provider of news, pricing and analytics for the commodities and energy markets. Industry participants in over 150 countries consult S&P Global Platts for its expertise in oil and gas, power and petrochemicals, among other things. We believe that registering ourselves on this platform will raise awareness of our brand and products to potential overseas customers. Moreover, according to CIC, registration with S&P Global Platts is recognized as an achievement in itself in our customers' and our own industries.

By seeking to expand our customer base, our goal is to diversify our revenue sources for the long term while we continue to strengthen our existing customer relationships. We believe our efforts in this area will allow us to consolidate and grow our market share over time.

Extend our upstream reach and produce certain key raw materials

We believe that extending our upstream reach into the supply chain for certain raw materials will allow us to lower procurement costs and exercise greater control over product quality. For example, while tall oil fatty acid is typically used in the production of lubricity improvers, we are seeking to produce a lower-cost substitute, high-purity oleic acid, from domestically-sourced substances.

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According to CIC, the price of tall oil fatty acid is predicted to increase steadily from 2017 to 2021. This is primarily because, with the implementation of the “China V” and “China VI” Fuel Quality Standards, the sulfur concentration in fuels is required to be lowered, which in turn decreases the lubricity of fuels and, therefore, drives up demand for lubricity improvers. As one of the major raw materials of lubricity improvers, tall oil fatty acid is likely to experience greater demand and, accordingly, higher prices. We believe we can better control our cost of lubricity improvers by using high-purity oleic acid as we produce in-house a raw material substitute.

We currently purchase tall oil fatty acid produced overseas as they are generally of higher quality than that produced in China. However, not only is tall oil fatty acid an expensive raw material itself, but in purchasing it we also incur additional procurement costs. With the in-house production of high-purity oleic acid, we will no longer purchase tall oil fatty acid overseas and expect to have sufficient high-purity oleic acid for our lubricity improvers production. The raw material for high-purity oleic acid is plant oleic acid, and we plan to source plant oleic acid for the production of high-purity oleic acid from suppliers in the surrounding areas of Yixing Plant, where, according to CIC, there are abundant sources of soybean oleic acid. We believe that our proposed strategy will enable us to lower our cost of raw materials and allow us to forego additional expenses.

We have already contacted potential providers of the technological know-how for producing high-purity oleic acid in-house. We will construct production facilities specifically for these operations on the property in which our Yixing Plant is located. We have allocated space to do so and will also purchase machinery such as freezers, filters, filter presses and vacuum distillation units. We believe that producing high-purity oleic acid on our own premises will allow us to implement our own quality management procedures, and in turn produce high-caliber lubricity improvers.

In short, we aim to reduce the amount of raw materials we purchase from overseas and develop reliable, quality sources in our home market. In extending our upstream reach, we seek to strengthen supply chain management, optimize our procurement processes and lower our procurement costs. We will therefore be able to invest the resulting savings in other areas of our business and create additional shareholder value.

Continue enhancing our research and development capabilities

We believe that research and development is essential to our continued business growth. We have continuously invested in research and development since our inception, and successfully applied the results of our efforts to consolidate our market share in the oil refining agents and fuel additives industry.

We intend to continue developing innovative, high-quality oil refining agents and fuel additives that enhance our competitiveness. We will also research and develop new technologies that upgrade our existing product range and reduce production costs. To carry out these goals, we will stay ahead of technological developments in our industry by expanding our pool of research and development partners to access more ideas, updated information and resources. While expanding our collaborative network, we will continue to maintain our working relationship with RIPP.

Furthermore, we have designed a professional development initiative under which we seek to target and hire talented individuals with relevant qualifications and industry experience. We believe that this will facilitate our research and development of new technologies that streamline our production processes, thereby reducing our production costs. In our view, these efforts, as well as those made to stay ahead of technological developments in our industry, will be vital to maintaining our market share.

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OUR BUSINESS MODEL

The following flow chart summarizes our business model from research and development to commercialization:



- *Research and development.* We conduct our research and development initiatives in response to industry trends and evolving customers' needs.
- *Procurement.* Once we receive purchase orders for our products, we procure raw materials from overseas and domestic suppliers if they are not readily available in our inventory. We decide on the geographic regions from which we would procure raw materials based on factors such as availability and quality, but the majority of our suppliers are located within the Yangtze River Delta Economic Zone, an economic region that encompasses Jiangsu Province. We enter into procurement contracts with each of our suppliers. Additionally, we are authorized by International Supplier, Total and EURENCO, three global corporations, to sell their oil refining agents and fuel additives.
- *Production processes.* During the Track Record Period, our production processes were carried out in our Yixing Plant. They primarily involve the application of our technological know-how and strict control over all aspects and conditions of production. We currently have four production lines.
- *Quality control.* We administer quality control measures throughout various stages of our business operations, particularly during the procurement of raw materials and our production processes. Prior to entering into procurement contracts, we invite potential suppliers to provide us with samples of raw materials and quote prices for our analysis and evaluation. Even after entering into procurement contracts, our quality control department will test each shipment of raw materials. During our production processes, we require employees to follow our standard operating procedures and record the times at which they perform certain tasks. They conduct regular testing procedures throughout to ensure that all aspects of production are within our control. To avoid the possibility of adding the wrong quantity or type of raw material during our production processes, personnel in charge of distributing raw materials will check the quantity and type being collected against our standard operating procedures. Our quality control personnel will also conduct sample tests of finished products before they are stored and entered into our inventory.
- *Sales and marketing.* Our oil refining agents and fuel additives are sold directly to our customers through our sales department. We have separate sales contracts for overseas and PRC customers, and their differences primarily relate to risk transfer, payment schedules, return policies and delivery. Historically, we have not devoted significant capital expenditures on advertising activities, as we primarily marketed ourselves through interaction with current or potential customers. We believe that our brand is well-known within our own and our customers' industries. During the Track Record Period, a substantial portion of our revenue in China was derived from purchase orders we obtained through participating in tenders. We believe that our customer relationships with Affiliates of Sinopec, CNPC and CNOOC have led to business opportunities overseas.

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OUR PRODUCTS

We offer oil refining agents and fuel additives with desulfurizing agents, lubricity improvers and metal passivators as our key products among those two categories. The following table sets forth the breakdown of our revenue by product category and as a percentage of total revenue for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2014		2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
(unaudited)										
<i>Products sold</i>										
Oil refining agents....	88,154	83.9	83,149	72.8	86,705	64.0	73,573	68.8	89,771	61.5
Fuel additives	16,202	15.4	25,982	22.7	33,973	25.0	24,502	22.9	25,491	17.5
<i>Products distributed</i>										
Oil refining agents....	—	—	2,445	2.1	5,346	3.9	2,236	2.0	16,218	11.0
Fuel additives	774	0.7	2,797	2.4	9,626	7.1	6,704	6.3	14,547	10.0
Total revenue	105,130	100.0	114,373	100.0	135,650	100.0	107,015	100.0	146,027	100.0

The following table sets forth the breakdown of our revenue by major product types and as a percentage of total revenue for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2014		2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
(unaudited)										
<i>Products sold</i>										
Oil refining agents ..	88,154	83.9	83,149	72.8	86,705	64.0	73,573	68.8	89,771	61.5
Desulfurizing agents.....	31,792	30.3	27,424	24.1	24,972	18.5	20,279	19.0	41,631	28.5
Antifouling agents.....	18,698	17.8	16,476	14.4	20,204	14.9	16,815	15.8	16,265	11.1
Metal passivators ...	14,222	13.5	10,760	9.4	14,454	10.7	11,504	10.7	10,163	7.0
Corrosion inhibitors.....	7,109	6.8	7,106	6.2	4,802	3.5	3,863	3.6	7,907	5.4
Others.....	16,333	15.5	21,383	18.7	22,273	16.4	21,112	19.7	13,805	9.5
Fuel additives	16,202	15.4	25,982	22.7	33,973	25.0	24,502	22.9	25,491	17.5
Lubricity improvers	12,787	12.2	24,426	21.3	32,095	23.6	23,266	21.7	25,281	17.4
Others.....	3,415	3.2	1,556	1.4	1,878	1.4	1,236	1.2	210	0.1
<i>Products distributed</i>										
Oil refining agents ..	—	0.0	2,445	2.1	5,346	3.9	2,236	2.1	16,218	11.0
Desulfurizing agents.....	—	0.0	2,445	2.1	5,346	3.9	2,236	2.1	16,218	11.0
Fuel additives	774	0.7	2,797	2.4	9,626	7.1	6,704	6.3	14,547	10.0
Lubricity improvers	—	0.0	659	0.6	4,918	3.6	4,214	4.0	9,351	6.4
Diesel oil cetane number improvers	327	0.3	796	0.7	3,618	2.7	2,138	2.0	5,196	3.6
Others.....	447	0.4	1,342	1.1	1,090	0.8	352	0.3	—	0.0
Total revenue	105,130	100.0	114,373	84.3	135,650	100.0	107,015	100.0	146,027	100.0

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Revenue derived from desulfurizing agents that we sold increased significantly from RMB20.3 million for the nine months ended 30 September 2016 to RMB41.6 million for the nine months ended 30 September 2017 due to the increase in customer demand and a significant purchase order by one of our customers. Revenue derived from desulfurizing agents we distributed also increased significantly from RMB2.2 million for the nine months ended 30 September 2016 to RMB16.2 million for the nine months ended 30 September 2017, mainly because we had seven new customers which, our Directors believe, was due to the evermore stringent mandatory emissions regulations in China.

The following table sets forth the gross profit and gross profit margin by major product types for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2014		2015		2016		2016		2017	
	Gross profit (RMB'000)	Gross profit margin %	Gross profit (RMB'000)	Gross profit margin %	Gross profit (RMB'000)	Gross profit margin %	Gross profit (RMB'000)	Gross profit margin %	Gross profit (RMB'000)	Gross profit margin %
<i>Products sold</i>										
Oil refining agents	35,536	40.3%	38,945	46.8%	46,010	53.1%	38,791	52.7%	33,897	37.8%
Desulfurizing agents	9,875	31.1%	9,108	33.2%	8,130	32.6%	6,147	30.3%	7,590	18.2%
Antifouling agents	8,187	43.8%	9,694	58.8%	12,083	59.8%	9,717	57.8%	8,944	55.0%
Metal passivators	4,851	34.1%	4,765	44.3%	6,379	44.1%	4,889	42.5%	3,548	34.9%
Corrosion inhibitors	3,762	52.9%	3,950	55.6%	2,917	60.7%	2,369	61.3%	4,820	61.0%
Others	8,861	54.3%	11,428	53.4%	16,501	74.1%	15,669	74.2%	8,995	65.2%
Fuel additives	4,915	30.3%	8,894	34.2%	12,074	35.5%	8,292	33.8%	10,330	40.5%
Lubricity improvers	3,126	24.4%	8,150	33.4%	11,206	34.9%	7,444	32.0%	10,231	40.5%
Others	1,789	52.4%	744	47.8%	868	46.2%	848	68.6%	99	47.1%
<i>Products distributed</i>										
Oil refining agents	—	—	185	7.6%	704	13.2%	169	7.6%	4,775	29.4%
Desulfurizing agents	—	—	185	7.6%	704	13.2%	169	7.6%	4,775	29.4%
Fuel additives	161	20.8%	494	17.7%	2,348	24.4%	1,495	22.3%	4,220	29.0%
Lubricity improvers	—	—	21	3.2%	836	17.0%	740	17.6%	2,336	25.0%
Diesel oil cetane number improvers	80	24.5%	166	20.9%	1,250	34.5%	678	31.7%	1,884	36.3%
Others	81	18.1%	307	22.9%	262	24.0%	77	21.9%	—	—
Total gross profit/gross profit margin	40,612	38.6%	48,518	42.4%	61,136	45.1%	48,747	45.6%	53,222	36.4%

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Our gross profit margin for desulfurizing agents we sold decreased from 30.3% for the nine months ended 30 September 2016 to 18.2% for the nine months ended 30 September 2017 primarily because the gross profit margin in relation to the significant purchase order by one of our customers, an independent third party of the Company and a subsidiary of CNOOC, with whom we seek to develop a strategic relationship, was 10.7%, and purchase prices for MDEA, a key raw material, increased.

Our gross profit margin for metal passivators decreased from 42.5% for the nine months ended 30 September 2016 to 34.9% for the nine months ended 30 September 2017 primarily due to the price of its raw material, antimony trioxides, increasing significantly for the nine months ended 30 September 2017.

Our gross profit margin for lubricity improvers we sold increased from 32.0% for the nine months ended 30 September 2016 to 40.5% for the nine months ended 30 September 2017 primarily because the price for tall oil fatty acid decreased for the nine months ended 30 September 2017.

Our gross profit margin for desulfurizing agents we distributed increased from 7.6% for the nine months ended 30 September 2016 to 29.4% for the nine months ended 30 September 2017 primarily due to a decrease in our purchase price as a result of our bigger purchase quantities.

Our gross profit margin for lubricity improvers we distributed increased from 17.6% for the nine months ended 30 September 2016 to 25.0% for the nine months ended 30 September 2017 primarily due to higher selling price achieved by winning a new profitable customer and a decrease in our purchase price.

For the details of our gross profit and gross profit margin of each product category, see “Financial Information — Results of Operations.”

Our products are stable in chemical and physical properties. However, our practice is to recommend that our customers test our products against their quality indexes every 18 months to two years.

Products We Sold

Oil refining agents

Our products under this category are commonly applied to the oil refining process. Our oil refining agents are used to refine crude oil and extend the working life of oil refining units, enhancing economic efficiencies and, with respect to oil refineries, reducing undesirable emissions in the form of industrial waste.

We commenced production of oil refining agents in 2003 at our Yixing Plant. The majority of our revenue was derived from our oil refining agents during the Track Record Period. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, revenue derived from our sales of oil refining agents amounted to RMB88.2 million, RMB83.1 million, RMB86.7 million, RMB73.6 million and RMB89.8 million, respectively, representing 83.9%, 72.8%, 64.0%, 68.8% and 61.5% of our total revenue, respectively. Under this product category, we offer desulfurizing agents, metal passivators, corrosion inhibitors and antifouling agents, among other things. Our oil refining agents should generally be stored in dry, well-ventilated, shady and cool warehouses.

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Oil refining agents that we produce in-house include the following:

- Desulfurizing agents Desulfurizing agents aid in the removal of H₂S and other sulfur compounds from natural gas and refinery gas. As H₂S and other sulfur compounds are highly toxic and corrosive, their removal is necessary to enhance safe handling and environmental sustainability.
- Metal passivators Metal passivators are applied to catalytic cracking units to protect catalysts from being deactivated by metals such as nickel and vanadium, and to reduce the concentration of hydrogen in dry gas.
- Corrosion inhibitors Corrosion inhibitors are applied to prevent the corrosion of metals within oil refining units, thereby extending their working lives.
- Antifouling agents Our antifouling agents may be used on oil refining units such as pipelines, cooling and heating devices, catalytic cracking units, hydrodesulfurization units and delayed coking units. They may reduce fouling in the pipelines of delayed coking units and disperse insoluble matters to prevent sedimentation. Antifouling agents also have the effect of improving heat transfer, thereby reducing energy consumption during the refining process. Additionally, they extend the working lives of oil refining units.
- Other oil refining agents Other oil refining agents that we offer include demulsifiers for separating water and oil, defoaming agents that hinder the formation of foam, metals removers for preventing corrosion by removing metallic ions from crude oil and neutralizing agents that are used to prevent corrosion by raising and stabilizing pH value, among other things.

Fuel additives

As the PRC Government implements evermore stringent mandatory emissions regulations, vehicle manufacturers and oil refineries must modify their production and refining processes to comply with the evolving regulatory requirements. While vehicle manufacturers improve engine technology, oil refineries enhance the quality and efficiency of their fuels. Our fuel additives may aid our customers, who are primarily corporations that operate oil refineries, in these efforts.

We commenced production of fuel additives in 2003 at our Yixing Plant. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, revenue derived from our sales of fuel additives amounted to RMB16.2 million, RMB26.0 million, RMB34.0 million, RMB24.5 million and RMB25.5 million, respectively, representing 15.4%, 22.7%, 25.0%, 22.9% and 17.5% of our total revenue, respectively. Under this product category, we offer lubricity improvers and gasoline stabilizers. Like oil refining agents, our fuel additives should generally be stored in dry, well-ventilated, shady and cool warehouses.

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Fuel additives that we produce in-house include the following:

Lubricity improvers As diesel engines rely on fuel to lubricate the moving parts of fuel injection equipment, low fuel lubricity may lead to fuel pump wear and engine failure. However, emission regulations have compelled members of the petrochemical industry to lower sulfur levels in fuels, thus reducing their inherent lubricity. Our customers use lubricity improvers to protect against engine wear and reduce maintenance costs.

Gasoline stabilizers Fuel instability results from several chemical reactions that occur during the refining process and fuel storage. In particular, olefinic components that are often used to maximize gasoline volumes in oil refineries are unstable to oxidation. Olefinic components may shorten induction periods, which are the slower initial stage of chemical reactions. The shortening of induction periods results in a higher number of chemical reactions within a given period of time.

Olefinic components also cause fuel to be prone to sedimentation, resulting in the darkening of oil. Sediments may be carried forward into the engine system and lead to malfunctioning and breakdown. Our gasoline stabilizers stabilize the fuels by extending the induction period and eliminating the chain reactions involved during oxidation, thus controlling sedimentation. They also improve the stability of diesel oil in relation to its thermal properties and for storage.

Products We Distributed

We are authorized distributors for International Supplier, Total and EURENCO, three global corporations that operate in the petrochemical industry. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 30 September 2017, sales of distributed products amounted to RMB0.8 million, RMB5.2 million, RMB15.0 million, RMB8.9 million and RMB30.8 million, respectively, accounting for 0.7%, 4.5%, 11.0%, 8.3% and 21.0% of our total revenue, respectively. Products from International Supplier, Total and EURENCO accounted for the overwhelming majority of these sales during the Track Record Period.

We are authorized to distribute fuel additives such as lubricity improvers and static dissipater additives from Total, as well as a diesel oil cetane number improver from EURENCO known as the VeryOne Cetane Improver. Since 2015, we have been selling desulfurizing agents from International Supplier that were specifically used to reduce H₂S in tail gases emitted by sulfur-production units in oil refineries. This desulfurizing agent is capable of filtering through other gases to select small accumulations of sulfur compounds, leading to lower operating costs, increased equipment capacity and reduced capital costs for new equipment in the long term. Proper application of this desulfurizing agent may allow shutdowns of gas incinerators and result in energy and cost savings.

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SALES AND MARKETING

Overview

During the Track Record Period, we marketed our oil refining agents and fuel additives directly to our customers through our sales department, which is responsible for business development and providing technical support.

Customers

Our customers are primarily corporations that operate oil refineries in the petrochemical industry. During the Track Record Period, most of our PRC customers were Affiliates of Sinopec, CNPC and CNOOC. Our PRC customer base is spread throughout various regions in China.

According to CIC, the PRC Government is an active player in the petrochemical industry and invests in oil and gas projects worldwide through the three state-owned conglomerates. For example, CNPC and Sudan's Ministry of Energy and Mining once partnered together in a joint venture and incorporated Khartoum Refinery Company Ltd. ("**Khartoum Refinery**") in July 1997; we began supplying Khartoum Refinery with oil refining agents since 2003.

The following table sets forth the breakdown of our revenue, cost of sales and gross profit margin by country and region for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2014		2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<i>China</i>										
Revenue.....	85,579	81.4	94,447	82.6	102,680	75.7	75,652	70.7	124,877	85.5
Cost of sales.....	57,068	88.5	59,592	90.5	65,491	87.9	49,906	85.6	86,823	93.6
Gross profit/gross profit margin	28,511	33.3	34,855	36.9	37,189	36.2	25,746	34.0	38,054	30.5
<i>Sudan</i>										
Revenue.....	17,014	16.2	17,251	15.1	29,555	21.8	27,948	26.1	18,687	12.8
Cost of sales.....	6,188	9.6	5,152	7.8	7,949	10.7	7,284	12.5	5,201	5.6
Gross profit/gross profit margin	10,826	63.6	12,099	70.1	21,606	73.1	20,664	73.9	13,486	72.2
<i>Others</i> ⁽¹⁾										
Revenue.....	2,537	2.4	2,675	2.3	3,415	2.5	3,415	3.2	2,463	1.7
Cost of sales.....	1,262	1.9	1,111	1.7	1,074	1.4	1,078	1.9	781	0.8
Gross profit/gross profit margin	1,275	50.3	1,564	58.5	2,341	68.6	2,337	68.4	1,682	68.3
Total revenue.....	105,130	100.0	114,373	100.0	135,650	100.0	107,015	100.0	146,027	100.0
Total cost of sales.....	64,518	100.0	65,855	100.0	74,514	100.0	58,268	100.0	92,805	100.0
Total gross profit/gross profit margin .	40,612	38.6	48,518	42.4	61,136	45.1	48,747	45.6	53,222	36.4

Note:

- (1) Other countries and regions in which we had sales during the Track Record Period included Chad, Niger and Algeria in Africa. We sell our products to certain of our customers in these countries and regions through their designated agents.

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During the Track Record Period, our gross profit margins of overseas sales were relatively higher than those of domestic sales primarily because we were able to sell our products at relatively higher prices mainly due to the fact that the only functioning oil refinery in Sudan, Khartoum Refinery, was constructed by CNPC, and CNPC intended to maintain long-term partnerships with reputable suppliers who provided high-quality products. We believe we are one of these reputable suppliers and we have been the supplier for Khartoum Refinery for 15 years. Moreover, the technical personnel working in Khartoum Refinery were trained by Chinese suppliers, including us. Therefore, we believe we had built up a trustworthy relationship with Khartoum Refinery and enjoyed strong bargaining power with respect to Khartoum Refinery.

Most of our PRC customers are Affiliates of the three state-owned conglomerates a reflection of the unique landscape of the PRC petrochemical industry. According to CIC, around 72% of China's oil refining market was occupied by Sinopec, CNPC and CNOOC in terms of oil refining volume in 2016. Sales to Affiliates of the three state-owned conglomerates accounted for a significant portion of our total revenue during the Track Record Period. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, sales to Affiliates of Sinopec, CNPC and CNOOC amounted to RMB97.0 million, RMB105.9 million, RMB125.7 million and RMB128.1 million, respectively, accounting for 92.2%, 92.6%, 92.7% and 87.7% of our total revenue, respectively. We generated more revenue from sales to Affiliates of CNPC than from respective sales to Affiliates of Sinopec or CNOOC for the years ended 31 December 2014, 2015 and 2016. We generated more revenue from sales to Affiliates of Sinopec than from respective sales to Affiliates of CNPC or CNOOC for the nine months ended 30 September 2017. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, sales to Affiliates of Sinopec amounted to RMB30.0 million, RMB46.5 million, RMB55.9 million and RMB55.7 million, respectively, representing 28.5%, 40.6%, 41.2% and 38.1% of our total revenue, respectively. On the other hand, for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, sales to Affiliates of CNPC amounted to RMB63.4 million, RMB53.5 million, RMB64.1 million and RMB52.4 million, respectively, representing 60.3%, 46.7%, 47.3% and 35.9% of our total revenue, respectively. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, sales to Affiliates of CNOOC amounted to RMB3.6 million, RMB6.0 million, RMB5.7 million and RMB20.1 million, respectively, representing 3.4%, 5.3%, 4.2% and 13.8% of our total revenue, respectively.

For more information, see “Risk Factors — Risks Relating to Our Business and Industry — Most of our revenue is derived from a concentrated customer base.”

Despite the customer concentration, our Directors are of the view that such concentration would not impact our suitability for the Listing having considered the following factors:

- (i) According to CIC, the PRC oil and gas industry was directly controlled by the PRC Government until early 1980s. The state-owned oil refineries and other oil and gas businesses in China were gradually merged into Sinopec, CNPC and CNOOC following the establishment of these three state-owned conglomerates in the 1980s. The PRC oil and gas industry was not open to the private sector in China until very recently. The three state-owned conglomerates accounted for approximately 72% of China's oil refining

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volume in 2016. Therefore, it is not uncommon for the manufacturers of oil refining agents and fuel additives to have a large portion of sales to the oil refineries affiliated with these three state-owned conglomerates. As such, the risk of reliance is not specific to us but all the companies in the same line of business;

- (ii) According to CIC, as stated above, the three state-owned conglomerates dominated and are expected to continue to dominate the oil and gas industry going forward. However, as the PRC petrochemical industry develops, a number of non state-owned oil refineries are expanding and enhancing their technological capabilities. We intend to reach out to these potential customers by leveraging the network of relationships in our own industry and our customers' industries. We are currently actively expanding our customer base to diversify our revenue sources from non state-owned oil refineries and will start to build up connections with senior managers of these oil refineries. For more information, see “ — Expand our customer base to diversify our revenue sources;”
- (iii) According to CIC, these three state-owned conglomerates have adopted increasingly higher standards for their raw materials due to the evermore stringent environmental requirements. Smaller suppliers or new entrants to the market can hardly satisfy such requirements. Our Directors believe that we are a significant supplier to the Affiliates of the three state-owned conglomerates, given our long-standing relationships and proven record of good quality, and will continue to procure raw materials from us; and
- (iv) As explained in “ — Sales and Marketing — Marketing,” tenders are used by Affiliates of Sinopec, CNPC and CNOOC for engaging suppliers of oil refining agents and fuel additives. When an existing or potential customer launches a tender, we believe that we are more likely to be awarded contracts because we have accumulated valuable experience in relation to the development and manufacturing of oil refining agents and fuel additives. We expect that the revenue derived from these three state-owned conglomerates will increase due to the increasing market demand and their increasingly high standards for the quality of raw materials.

We believe that our long-standing relationships with Affiliates of the three state-owned conglomerates have benefited us and are the result of consistent business development efforts over time. We have worked with Affiliates of Sinopec and CNPC since 2003 and CNOOC since 2008. During the Track Record Period, one of our risk management policies was to select customers who are owned or affiliated to national governments.

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Our Five Largest Customers

The following table sets forth the details of our five largest customers for the year ended 31 December 2014:

Rank	Customer	Group company	Major products sold	Approximate years of business relationship with our Group as of 31 December 2014	Credit term	Revenue contribution	Percentage of total revenue
						RMB'000	%
1	Customer A	CNPC	Oil refining agents and fuel additives	5	Cash on delivery ("COD")	21,218	20.2
2	Khartoum Refinery ⁽¹⁾	CNPC ⁽¹⁾	Oil refining agents	12	Open account ("OA") 90 days ("OA 90 days")	17,014	16.2
3	Customer C ⁽²⁾	CNPC ⁽²⁾	Oil refining agents	12	COD	15,493	14.7
4	Customer D	Sinopec	Oil refining agents	12	OA 30 days	12,714	12.1
5	Customer E	Sinopec	Oil refining agents	12	OA 30 days	4,992	4.8

The following table sets forth the details of our five largest customers for the year ended 31 December 2015:

Rank	Customer	Group company	Major products sold	Approximate years of business relationship with our Group as of 31 December 2015	Credit term	Revenue contribution	Percentage of total revenue
						RMB'000	%
1	Customer C ⁽²⁾	CNPC ⁽²⁾	Oil refining agents and fuel additives	13	COD	19,621	17.2
2	Customer D	Sinopec	Oil refining agents and fuel additives	13	OA 90 days	18,457	16.1
3	Khartoum Refinery ⁽¹⁾	CNPC ⁽¹⁾	Oil refining agents	13	OA 90 days	15,747	13.8
4	Customer A	CNPC	Oil refining agents and fuel additives	6	COD	11,396	10.0
5	Customer E	Sinopec	Oil refining agents and fuel additives	13	OA 90 days	9,292	8.1

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The following table sets forth the details of our five largest customers for the year ended 31 December 2016:

Rank	Customer	Group company	Major products sold	Approximate years of business relationship with our Group as of 31 December 2016	Credit term	Revenue contribution	Percentage of total revenue
						RMB'000	%
1	Khartoum Refinery ⁽¹⁾	CNPC ⁽¹⁾	Oil refining agents	14	OA 90 days	29,555	21.8
2	Customer D	Sinopec	Oil refining agents and fuel additives	14	OA 90 days	24,177	17.8
3	Customer C ⁽²⁾	CNPC ⁽²⁾	Oil refining agents and fuel additives	14	COD	17,244	12.7
4	Customer E	Sinopec	Oil refining agents and fuel additives	14	OA 90 days	10,476	7.7
5	Customer A	CNPC	Oil refining agents and fuel additives	7	COD	10,208	7.5

The following table sets forth the details of our five largest customers for the nine months ended 30 September 2017:

Rank	Customer	Group company	Major products sold	Approximate years of business relationship with our Group as of 30 September 2017	Credit term	Revenue contribution	Percentage of total revenue
						RMB'000	%
1	Customer F	CNOOC	Oil refining agents	10	OA 30 days	18,973	13.0
2	Khartoum Refinery ⁽¹⁾	CNPC ⁽¹⁾	Oil refining agents	15	OA 90 days	17,260	11.8
3	Customer C ⁽²⁾	CNPC ⁽²⁾	Oil refining agents and fuel additives	15	COD	16,712	11.4
4	Customer D	Sinopec	Oil refining agents and fuel additives	15	OA 90 days	16,131	11.1
5	International Supplier	—	Oil refining agents	3	OA 45 days	8,284	5.7

Notes:

- (1) Khartoum Refinery is a joint venture company of CNPC. CNPC indirectly held 50% of interests of Khartoum Refinery between July 1997 and May 2015, and has indirectly held 10% interests of Khartoum Refinery since May 2015.
- (2) Customer C is held as to 28.44% indirectly by CNPC.

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For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, sales to our five largest customers amounted to RMB71.4 million, RMB74.5 million, RMB91.7 million and RMB77.4 million, respectively, accounting for 68.0%, 65.2%, 67.6% and 53.0% of our total revenue, respectively. To the best knowledge of our Directors, Shareholders and senior management, none of our Directors, their close associates or our Shareholders who hold more than 5% of our issued share capital had any interest in our five largest customers during the Track Record Period.

The PRC oil and gas industry was previously directly controlled by the PRC Government until early 1980s. The state-owned oil refineries and other oil and gas businesses in China were gradually merged into Sinopec, CNPC and CNOOC following the establishment of these three state-owned conglomerates in the 1980s. As such, although approximately 90% of our revenue during the Track Record Period was derived from Sinopec, CNPC or CNOOC's Affiliates, each of these oil refineries operates independently from each other, even when they belong to the same conglomerate. The oil refineries owned by Sinopec, CNPC or CNOOC are mutually independent at both financial and operational levels. Our five largest customers before aggregating respective sales to the companies that were Affiliates of the state-owned conglomerates during the Track Record Period adopted different procurement channels, pricing strategies, tendering processes and internal management systems. Their procurement policies were independent from and had not been affected by their respective headquarters because each of the oil refineries affiliated with CNPC or CNOOC had its own tender invitation criteria, awarded tenders independently and made payments from its independent bank account. Although Sinopec sent out tender invitations on behalf of its Affiliates, each oil refinery placed orders and made payments independently. Because oil refineries processed different crude oils with different production facilities, they generally had different demands for oil refining agents and fuel additives.

The following table sets forth the aggregated sales to the five largest customers under the same group for the year ended 31 December 2014 for illustration purpose only:

Rank	Customer	Major products sold	Revenue contribution	Percentage of total revenue
			RMB'000	%
1	CNPC ⁽¹⁾⁽²⁾⁽³⁾	Oil refining agents and fuel additives	63,422	60.3
2	Sinopec ⁽³⁾	Oil refining agents and fuel additives	29,969	28.5
3	Customer G	Oil refining agents	4,870	4.6
4	CNOOC ⁽³⁾	Oil refining agents	3,618	3.4
5	Customer H	Oil refining agents	898	0.9

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The following table sets forth the aggregated sales to the five largest customers under the same group for the year ended 31 December 2015 for illustration purpose only:

Rank	Customer	Major products sold	Revenue contribution	Percentage of total revenue
			RMB'000	%
1	CNPC ⁽¹⁾⁽²⁾⁽³⁾	Oil refining agents and fuel additives	53,455	46.7
2	Sinopec ⁽³⁾	Oil refining agents and fuel additives	46,464	40.6
3	CNOOC ⁽³⁾	Oil refining agents	6,026	5.3
4	Customer G	Oil refining agents	4,722	4.1
5	International Supplier	Oil refining agents	1,331	1.2

The following table sets forth the aggregated sales to the five largest customers under the same group for the year ended 31 December 2016 for illustration purpose only:

Rank	Customer	Major products sold	Revenue contribution	Percentage of total revenue
			RMB'000	%
1	CNPC ⁽¹⁾⁽²⁾⁽³⁾	Oil refining agents and fuel additives	64,139	47.3
2	Sinopec ⁽³⁾	Oil refining agents and fuel additives	55,859	41.2
3	CNOOC ⁽³⁾	Oil refining agents	5,741	4.2
4	Customer G	Oil refining agents	3,524	2.6
5	International Supplier	Oil refining agents	1,725	1.3

The following table sets forth the aggregated sales to the five largest customers under the same group for the nine months ended 30 September 2017 for illustration purpose only:

Rank	Customer	Major products sold	Revenue contribution	Percentage of total revenue
			RMB'000	%
1	Sinopec ⁽³⁾	Oil refining agents and fuel additives	55,614	38.1
2	CNPC ⁽¹⁾⁽²⁾⁽³⁾	Oil refining agents and fuel additives	52,388	35.9
3	CNOOC ⁽³⁾	Oil refining agents	20,112	13.8
4	International Supplier	Oil refining agents	8,284	5.7
5	Customer I	Oil refining agents	5,820	4.0

Notes:

- (1) Khartoum Refinery is a joint venture company of CNPC. CNPC indirectly held 50% of interests of Khartoum Refinery between July 1997 and May 2015, and has indirectly held 10% interests of Khartoum Refinery since May 2015.
- (2) Customer C is held as to 28.44% indirectly by CNPC.
- (3) The aggregated sales under the same group included sales to the companies that were subsidiaries of the state-owned conglomerate and sales to the companies that the state-owned conglomerate invested in.

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The PRC oil refining industry is primarily dominated by these three state-owned conglomerates and, according to CIC, they are expected to continue to dominate the PRC oil refining industry in the next few years. It is the market practice that they do not enter into long-term contracts with their suppliers. However, these state-owned conglomerates intended to maintain long-term partnerships with reputable suppliers who provided high-quality products. We believe we are one of these reputable suppliers. Given the fact that most of the oil refineries in the PRC market are Affiliates of Sinopec, CNPC or CNOOC, it is not uncommon for the manufacturers of oil refining agents and fuel additives to have a large portion of sales to the oil refineries affiliated with these three state-owned conglomerates. On the other hand, following the recent trend of opening the oil and gas industries to privately-owned businesses, we are actively expanding our customer base to diversify our revenue sources. After the Track Record Period and as of the Latest Practicable Date, we had developed three potential new customers that were not related to the three state-owned conglomerates. For more detailed information, please refer to “Business — Our Business Strategies — Expand our customer base to diversify our revenue sources.”

Long-Term Agreements With Khartoum Refinery

During the Track Record Period, we signed a long-term framework sales contract with Khartoum Refinery. The principal terms of such long-term agreement are summarized below:

- *Duration.* The agreement is valid for two-year terms and comes into force on the date of signature by both parties.
- *Payment terms.* Khartoum Refinery will make full payment for each batch of goods by bank transfer within 90 days from the date of export.
- *Quality inspection and claims.* Upon delivery, Khartoum Refinery will inspect the goods using quality indexes that we previously agreed on. Khartoum Refinery will have the right to claim for replacement or compensation within 60 days after arrival of the goods at the destination.
- *Delivery.* Our products are shipped in batches upon notification from the Khartoum Refinery at least two months in advance on a C&F basis.
- *Others.* All bank charges, taxes, and duties in connection with the execution of the long-term agreement within China are borne by us. All bank charges, taxes and duties arising outside of China in connection with the execution of the contract are borne by Khartoum Refinery.

During the Track Record Period and up to the Latest Practicable Date, we were unaware of any material breach of our long-term agreements by us or by Khartoum Refinery. The current sales contract with Khartoum Refinery expires in September 2018, and we expect to renew the long-term sales contract upon expiration.

Customer Service

We provide technical support to our customers, and periodically follow up to obtain feedback on our products. We make ourselves accessible to customers who have questions or concerns regarding the technical application of our oil refining agents and fuel additives. We undertake to physically arrive at the premises of our PRC customers within 48 hours if the issue cannot be resolved via email or telephone communication.

Payment Method and Credit Terms

During the Track Record Period, our customers paid us by bank transfer and/or bankers' acceptance bills. We issued invoices after our customers accepted delivery and examined the quality

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of our products. Our credit periods ranged from 30 to 90 days, calculated from the dates that our invoices were issued. Our overseas customers generally paid in full within a specified period upon receipt of our shipping documents; for example, Khartoum Refinery paid within 90 days from that point in time.

We also had two customers to whom we sold products on a consignment basis. We delivered our oil refining agents and fuel additives to those customers, retaining title, and issued invoices once they informed us that they consumed our delivery of oil refining agents and fuel additives. Upon receipt of our invoices, they paid us within 30 to 60 days in accordance with our contracts. The revenue generated from the consignment arrangements for the years ended 31 December 2014, 2015 and 2016 and nine months ended 30 September 2017 amounted to RMB1.3 million, RMB2.8 million, RMB2.6 million and RMB2.6 million, respectively, representing 1.3%, 2.4%, 1.9% and 1.8% of our total sales, respectively. For more information, see “Risk Factors — Risks Relating to Our Business and Industry — We had negative net operating cash flow for the nine months ended 30 September 2017 and are subject to credit and liquidity risk in relation to account receivables” and “Financial Information — Liquidity and Capital Resources — Selected items of the consolidated statements of financial position — Trade and other receivables.”

Pricing Policy

If we are selling under contracts awarded through participating in tenders, then our customers may determine prices for our oil refining agents and fuel additives with reference to the prices quoted in our tender submissions. When we prepare our tender submissions, we determine our prices taking into consideration, among other things, the cost of our raw materials, delivery costs, the length of our credit periods, prevailing market conditions, labor and production costs, supply and demand and our profit margin. We avoid quoting at or below our cost prices. The prices of certain of our raw materials are tied to the prices of crude oil or metals, which have been decreasing in recent years. As such, our product prices may vary in accordance with market conditions. For more information, see “ — Marketing — Tenders” and “Industry Overview.” Some of our sales contracts also include a price adjustment mechanism that is triggered when raw material prices fluctuate by, for example, more than 10% within a pre-determined period. When we are not selling under contracts awarded through participating in tenders, prices are determined based on arm’s length negotiations.

Returns or Exchanges

Our customers test our products on delivery and prior to acceptance. We arrange to submit potential disputes with PRC customers to selected third-party institutions, who will test our products against their quality indexes. We may grant a warranty period of 12 months from the date of acceptance. For our overseas customers, we may grant the right to claim for replacement or compensation within 30 to 60 days that the goods arrive at the destination, should they find that our goods do not conform to quantity and quality specifications in our contracts.

We handle compensation or replacement via one or several of the following methods: (i) we accept the return request and refund the full payment to the customer, bearing all losses and expenses incurred during the process; (ii) the customer may negotiate with us to lower the price of the goods, taking into account the nature of the quality defect or the extent of damage or loss; and/or (iii) we may arrange exchanges or restoration services to handle the quality defect, bearing all expenses and risks. We bear liability for product defects and only deliver products that pass our quality control procedures. During the Track Record Period, we did not experience any material product recalls or returns.

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Delivery

During the Track Record Period, we delivered our products to overseas customers via seagoing vessels on a C&F, CIF or FOB basis. Delivery to PRC customers is usually completed through third-party logistics services. We undertake responsibility for our delivery fees.

We contract with third-party logistics service providers, and select them based on factors such as delivery record, quality and safety, timeliness and price. In the event that our products are lost or damaged during delivery, we are indemnified by our third-party logistics service providers. During the Track Record Period, we did not have any material disputes with our third-party logistics services providers or major delays in delivery of our products.

Products Sold as Authorized Distributors

We have been authorized by International Supplier, Total and EURENCO, three global corporations that operate in the petrochemical industry, to sell their oil refining agents and fuel additives. Total has authorized us to distribute their products since 2014, and International Supplier and EURENCO since 2015. We believe that these customers selected us due to the strengths of our sales channels, customer relationships and market familiarity. International Supplier has authorized us to exclusively distribute a type of desulfurizing agent to Sinopec and its subsidiaries in China.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we were not involved in any disputes with either International Supplier, Total or EURENCO. We are unaware of any material breaches of our authorized distributorship contracts, sales contracts and authorization certificates that occurred during the Track Record Period, nor do we expect any material difficulties in renewing our authorized distributorship contracts with them. Some of our terms of dealing with International Supplier, Total and EURENCO are set forth below:

	<u>International Supplier</u>	<u>Total</u>	<u>EURENCO</u>
Duration	Our contracts and authorization certificates are valid for one- or two-year terms.	Our contracts are valid for one-year terms.	Our authorization certificates are valid for about one year.
Exclusivity	We are exclusively authorized to distribute a type of desulfurizing agent to Sinopec and its subsidiaries in China. We are not to, either directly or indirectly, sell or solicit orders from persons outside of China or the gas-treating market within the petrochemical industry.	N/A	N/A
Delivery and payment	Delivery occurs on CIF terms and we pay in full within 60 days of receipt of shipment.	We are required to pay in full before the products leave Total's warehouses.	Delivery occurs on CIF terms and we pay EURENCO on a documents against payment basis.

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	International Supplier	Total	EURENCO
Quality inspection and claims	We examine the products upon delivery. Upon discovering any damage, non-conformity as to specifications or shortfall in delivery or non-receipt of the products, we must provide written notice to International Supplier within 30 days of receipt. We may return the products once our claims have been verified by International Supplier's authorized agent or an independent professional inspector. Failure to provide written notice within 30 days will signify unqualified acceptance.	On the discovery of any packaging issues, we must provide written notice to Total by the day after receipt of Total's products to make exchanges. On the discovery of any issues as to quality, we must provide written notice within ten days of receipt of Total's products.	We have the right to request replacements on the evidence of the Inspection Certificates issued by the China's Entry-Exit Inspection & Quarantine Bureau should there be issues as to quality, specifications or quantity with the products within 30 calendar days of arrival at the port of destination.
Competing activities	We agree not to, directly or indirectly, engage or have an interest in the development, production, manufacture, promotion, marketing or supply of products similar to, competing with or likely to compete with the products that we are authorized to sell in China.	We agree not to manufacture, distribute, sell, supply or act as a sales agent of products similar to, competing with or likely to compete with the products that Total authorized us to sell, unless we have Total's written authorization.	N/A
Use of intellectual property	We agree to use trademarks only as specified in our contract to advertise the products. We acknowledge that we have no other rights in or to the trademarks and guarantee that we will not use them in ways which might prejudice their distinctiveness, validity or goodwill.	We acknowledge that the trademarks and business names belong to Total and we only use the trademarks and business names as authorized by Total to distribute, promote, advertise and protect the products.	EURENCO retains full ownership of all intellectual property inherent in the products sold to us. We agree not to use or reproduce EURENCO's trademark for any purpose not expressly authorized beforehand.

The product that we sell under the distributorship contracts with International Supplier is MS-300 desulfurizing agent, the patent of which is owned by International Supplier. MS-300 is a type of desulfurizing agent specially formulated to remove H₂S with high selectivity resulting in very low H₂S residual (<10 ppm) and additional CO₂ slippage from Claus tail gas, which is the tail gas generated from the process of recovering elemental sulphur from gaseous H₂S; while the desulfurizing agents we produce have both H₂S and CO₂ removal effect and are formulated for refinery gas, resulting in low H₂S residual (<300 ppm) and CO₂. Therefore, the desulfurizing agent that we sell under the distribution contracts with International Supplier is significantly distinguished from the desulfurizing agents that we produce in terms of their respective applications and the technical characters and effects. As such, our Directors believe there is no competition between the two products.

The product that we sell under the distributorship contracts with Total is diesel fuel additive PC32, which is the designated fuel additive used by certain oil refineries in producing diesel oil for export. The diesel fuel additive that we produce cannot be used for producing diesel oil for export. The fuel additives produced by us and Total target different markets and customers. The product that we are authorized to distribute by EURENCO is cetane improver. We do not have the technology nor the ability to produce such cetane improver. As a result, there is no competition between us and EURENCO.

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Although there is no competition between us and our suppliers, we continue to ensure the compliance with the competing clauses in the distributorship contract by implementing our relevant internal policy, which requires regular training on such non-competition clauses, specifies detailed supervisory processes in procurement, quality control, research and development, production and sales departments, and clarifies the corresponding responsibilities.

Marketing

Advertising and brand development

Historically, we have not devoted significant capital expenditures on advertising activities, as we primarily market ourselves through interaction with current or potential customers, participation in industry-wide conferences and our regularly-updated website. We believe that our brand is well-known within our own and our customers' industries.

Tenders

During the Track Record Period, a substantial portion of our revenue in China was derived from purchase orders we obtained through participating in tenders. Tenders are used by Affiliates of Sinopec, CNPC and CNOOC for engaging suppliers of oil refining agents and fuel additives. When an existing or potential customer launches a tender, we believe that we are more likely to be awarded contracts because we have accumulated valuable experience in relation to the development and manufacturing of oil refining agents and fuel additives.

Our customers launch tenders from time to time. We have designated members of our sales department to monitor the websites on which related announcements are made. Affiliates of the three state-owned conglomerates structure the tendering process slightly differently. The parent organization for Sinopec will issue invitations to tender on behalf of all of its Affiliates, and sign contracts with the successful tenderer. However, Affiliates of CNPC and CNOOC will issue invitations to tender and sign contracts independently of the parent organization.

The invitations to tender will include qualification requirements for potential tenderers as to matters such as financial strength and past performance. When we apply to make a bid, we must also demonstrate that we meet those qualifications with supporting documents. We will only be able to make a tender once our application passes review.

We are experienced in the tendering process and make bids three to five times per month on average. Potential customers may use a publicly accessible enterprise resource planning system from Sinopec to view our record of successful tenders and reach out to us of their own initiative. The terms of the contracts awarded through tendering range from less than six months to approximately two years. The vast majority of the contracts awarded through tendering were for approximately one year to one and a half years.

Based on our experience with Sinopec, CNPC and CNOOC, we adopt different tendering strategies for each state-owned conglomerate. For instance, Sinopec tends to focus on the potential supplier's technological strength. In order to increase the success rate of tenders with Sinopec, we emphasize our research and development and put efforts in distinguishing our products in terms of technology. CNPC and CNOOC tend to award their contracts to bidders with lower price. However, we are unwilling to sacrifice our profit margin and will only bid at a price no less than the cost plus

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a satisfactory profit margin. The table below sets forth the number of tenders submitted and the success rates during the Track Record Period.

	Year ended 31 December						Nine months ended 30 September 2017		Total		Success rate
	2014		2015		2016		Submitted	Awarded	Submitted	Awarded	
	Tenders submitted	Tenders awarded	Tenders submitted	Tenders awarded	Tenders submitted	Tenders awarded	Tenders submitted	Tenders awarded	Tenders submitted	Tenders awarded	
Sinopec.....	15	15	28	28	13	11	4	4	60	58	96.7%
CNPC.....	24	12	20	10	36	9	24	7	104	38	36.5%
CNOOC.....					1		6	3	7	3	42.9%
Non state-owned refineries	3	3							3	3	100.0%
Subtotal.....	42	30	48	38	50	20	34	14	174	102	58.6%
Success rate.....	71.4%		79.2%		40.0%		41.2%		58.6%		

During the Track Record Period, we enjoyed a success rate of 96.7% of tenders with Sinopec, which we believe was due primarily to our technological strength. Due to the fact that we are not willing to compete by unreasonably lowering our price, we experienced relatively low success rates of tenders with CNPC and CNOOC. We believe our focus on technological superiority and unwillingness to compete on the basis of lower prices are the reasons our prices and profit margins were higher than those of others in the industry. The success rates of tenders for the year ended 31 December 2016 and the nine months ended 30 September 2017 were relatively lower compared to prior periods because CNPC and CNOOC sought more tender submissions from us during those periods of time, while the number of tenders subsequently awarded remained stable. Although we knew that CNPC and CNOOC tended to award their contracts to the bidder with the lowest price, we were not willing to sacrifice our profit margin and still participated in the tendering process to maintain our relationship with them and brand awareness. As a result, the total success rates of tenders for the year ended 31 December 2016 and the nine months ended 30 September 2017 were lower compared to prior periods.

RAW MATERIALS AND COMPONENTS AND SUPPLIERS

Raw Materials

Our oil refining agents and fuel additives are produced with 50 to 60 types of raw materials, which include MDEA, tall oil fatty acid, antimony trioxides and T154, among other things. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, the cost of our raw materials represented 95.2%, 89.9%, 80.7%, 84.6% and 74.6% of our total cost of sales, respectively.

To monitor the price fluctuations of raw materials, we regularly analyze market price trends by inquiring prices from our suppliers and monitoring the prices of raw materials online. We are able to manage our exposure by reviewing the website of Asian Metal Ltd. at <http://www.asianmetal.com/>. It provides updated information on pricing, news and other data or statistics for the metals market and is considered authoritative among industry professionals. For example, we will consider the prices of antimony trioxides set forth on the website and select suppliers whom we believe offer reasonable terms. The price of antimony trioxides corresponds to the availability of antimony in the market. Moreover, we inquire the prices of raw materials with the selected suppliers periodically based on the price trend of each kind of raw material. For example, if the price of a certain raw material is likely

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to decrease, based on the information we have collected and analyzed, we would subsequently negotiate with our suppliers to obtain a favorable price that corresponds to the expected market trend. In addition, we keep in touch with multiple suppliers and generally retain at least two of them for each kind of raw material in order to avoid reliance on any single source of supply.

To the extent that we cannot manage price fluctuations, we will pass cost increases onto our customers through price adjustment mechanisms or by accounting for the possibility of such fluctuations in setting prices for our own products. For more information, see “ — Sales and Marketing — Pricing Policy.” For a sensitivity and breakeven analysis in relation to changes in our raw material costs, see “Financial Information — Sensitivity and Breakeven Analysis.” During the Track Record Period, we did not experience any major shortages or delays in our supply of raw materials. However, in 2017 we experienced price fluctuations in antimony trioxides due to factors beyond our control. Such factors included (i) the fluctuation of non-ferrous metal price in 2017, and (ii) the suppliers’ anticipation that the production of antimony trioxides was going to be restricted by a national environmental inspection in early 2017. The price of antimony trioxides subsequently decreased in the second half of 2017 due to the decreased market demand caused by the high price earlier this year. According to CIC, the price of antimony trioxides will steadily increase in the long term, due to the increasing market demand driven by the Chinese economic recovery. We are subject to risks as described in “Risk Factors — Risks Relating to Our Business and Industry — We may experience shortages of supply or price fluctuations in our raw materials.”

Our Suppliers

The majority of our raw materials are obtained from qualified PRC suppliers. We also source supplies of tall oil fatty acid from Finland. We decide on the geographic regions from which we would purchase our raw materials based on factors such as availability, price and quality. In selecting our suppliers, we consider factors such as location, reputation, product quality, pricing and terms of dealing, and regularly review our list of suppliers based on those same factors. We are also constantly searching for better raw materials with which to produce our oil refining agents and fuel additives. For more information on inventory control measures related to our raw materials, see “Business — Inventory Management.”

We enter into procurement contracts with each of our suppliers. Prior to doing so, we invite potential suppliers to provide samples of raw materials to us for analysis by our quality control department. We will then test raw materials that pass the preliminary examination by using them in our production processes. We also engage our suppliers in an informal tendering process where they quote prices for our evaluation. These procedures are completed within a week. Even after entering into procurement contracts, our quality control department will test the raw materials each time we receive shipments from our suppliers. We will not accept delivery of those that do not pass this examination. We believe that these measures assure the quality and reliability of our raw materials, and are confident that the informal tendering process allows us to hone cost and pricing advantages over our competitors. During the Track Record Period, we did not experience any material defects in our raw materials. For more information, see “Risk Factors — Risks Relating to Our Business and Industry — Our risk management, quality control and internal control systems may not be able to completely eliminate non-compliance matters or product defects.”

We also distribute certain products from International Supplier, Total and EURENCO. For details, see “Business — Products Sold as Authorized Distributors.”

Our procurement contracts differ for individual suppliers, which may be on a one-off basis or for terms of various duration. During the Track Record Period, we did not enter into any long-term or framework procurement contracts. We maintain a list of suppliers for the raw materials we use. We use antimony trioxides to produce metal passivators. According to CIC, there are many suppliers dealing

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in this raw material as it is a mineral resource commonly found in China; however, we only purchase from those suppliers who offer products conforming to our quality standards. We seek to build stable, long-term working relationships with our suppliers and generally pay them by bank transfer upon delivery.

Although the duration of our procurement contracts varies, they generally contain the following major terms:

- *Unit Price.* The unit prices of raw materials under most procurement contracts are fixed subject to certain adjustment. The unit prices are normally the pre-determined sums per metric ton, depending on the specific type of goods.
- *Quality Requirement.* When suppliers deliver the raw materials, they are required to provide us with the Certificate of Qualification, the Inspection Certificate and/or the Certificate of Analysis, and other specifications if necessary.
- *Delivery.* In our contracts, the port of shipment and the port of destination are specified. The cost of delivery may be borne by the supplier or us as agreed.
- *Payment.* Our procurement contracts specify payment methods such as bank transfers and telegraphic transfers, with the details of the banks of both parties. The payment schedule is normally upon the sight of documents against payments, or payment within 30 days.

Our Five Largest Suppliers

The following table sets forth the details of our five largest suppliers for the year ended 31 December 2014:

Rank	Supplier	Major products purchased	Approximate years of business relationship with our Group as of 31 December 2014	Purchase amount RMB'000	Percentage of total purchases %
1	Supplier A	MDEA	4	21,201	31.8
2	Supplier B	Antimony trioxides	11	5,036	7.6
3	Supplier C	T154	6	4,292	6.4
4	Supplier D	Solvent oil	11	3,689	5.5
5	Supplier E	Tall oil fatty acid	1	3,234	4.9

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The following table sets forth the details of our five largest suppliers for the year ended 31 December 2015:

Rank	Supplier	Major products purchased	Approximate years of business relationship with our Group as of 31 December 2015	Purchase amount RMB'000	Percentage of total purchases %
1	Supplier A	MDEA	5	12,718	17.4
2	Total	Lubricity improver, conductivity enhancer and cetane improver ⁽¹⁾	3	9,201	12.6
3	Supplier G	MDEA	5	8,724	11.9
4	Supplier B	Antimony trioxides	12	4,458	6.1
5	Supplier H	Sulfolane	1	4,250	5.8

Note:

- (1) Conductivity enhancer and cetane improver refer to static dissipater additives and diesel oil cetane number improvers, respectively. Product names used in the table are those that were used in the contracts or authorization certificates.

The following table sets forth the details of our five largest suppliers for the year ended 31 December 2016:

Rank	Supplier	Major products purchased	Approximate years of business relationship with our Group as of 31 December 2016	Purchase amount RMB'000	Percentage of total purchases %
1	Total	Lubricity improver, conductivity enhancer and cetane improver ⁽¹⁾	4	21,867	23.6
2	Supplier A	MDEA	6	16,982	18.3
3	Supplier B	Antimony trioxides	13	6,233	6.7
4	International Supplier	Desulfurizing agents	2	5,817	6.3
5	Supplier G	MDEA	6	5,527	6.0

Note:

- (1) Conductivity enhancer and cetane improver refer to static dissipater additives and diesel oil cetane number improvers, respectively. Product names used in the table are those that were used in the contracts or authorization certificates.

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The following table sets forth the details of our five largest suppliers for the nine months ended 30 September 2017:

Rank	Supplier	Major products purchased	Approximate years of business relationship with our Group as of 30 September 2017	Purchase amount RMB'000	Percentage of total purchases %
1	Supplier A	MDEA	7	36,150	33.4
2	International Supplier	Desulfurizing agents	3	13,504	12.5
3	Supplier K	Tall oil fatty acid	3	12,031	11.1
4	Supplier B	Antimony trioxides	14	5,822	5.4
5	EURENCO	Diesel oil cetane number improver	4	5,430	5.0

For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, purchases from our five largest suppliers amounted to RMB37.5 million, RMB39.4 million, RMB56.4 million and RMB72.9 million, respectively, representing 56.2%, 53.7%, 60.9% and 67.4% of our total purchases, respectively. To the best knowledge of our Directors, Shareholders and senior management, none of our Directors, their close associates or our Shareholders who hold more than 5% of our issued share capital had any interest in our five largest suppliers during the Track Record Period. Additionally, we did not experience any material disputes with our suppliers during the Track Record Period.

Major Supplier Who Was Also Our Customer

During the Track Record Period, International Supplier purchased desulfurizing agents from us while supplying us with, and authorizing us to distribute, a type of desulfurizing agent specifically used to reduce H₂S in tail gases emitted by sulfur-production units in oil refineries. We made this arrangement primarily because we wished to maintain a long-term and mutually beneficial collaborative relationship with International Supplier. International Supplier purchased our desulfurizing agents, which differ from the specific type of desulfurizing agent it sold to us, for use in its production processes. We have maintained a business relationship with this customer since 2015. For the years ended 31 December 2015 and 2016 and the nine months ended 30 September 2017, sales to International Supplier amounted to RMB1.3 million, RMB1.7 million and RMB8.3 million, respectively, accounting for 1.2%, 1.3% and 5.7% of our total revenue, respectively. For the years ended 31 December 2015 and 2016 and the nine months ended 30 September 2017, distributed goods purchased from International Supplier amounted to RMB2.3 million, RMB4.6 million and RMB11.4 million, respectively, accounting for 3.4%, 6.2% and 12.3% of our cost of sales for the same periods, respectively. For the years ended 31 December 2015 and 2016 and the nine months ended 30 September 2017, our gross profit from sales to International Supplier amounted to RMB0.1 million, RMB(0.1) million and RMB1.0 million, respectively. Our Directors confirm that the terms of sale to and purchase from this customer were negotiated on an arm's length basis. Although the gross profit margins of sales to International Supplier were relatively low during the Track Record Period, our Directors are of the view that the transactions with International Supplier were at arm's length given

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the fact that maintaining a great business relationship with International Supplier is important to keep us as International Supplier's exclusive distributor in China. Our Directors further confirm that they did not have any interest in this customer during the Track Record Period. Apart from this customer, none of our other customers supplied us with raw materials during the Track Record Period.

PRODUCTION

Overview

Our production processes primarily involve the application of our technological know-how and our strict control over all aspects and conditions of production. We hold a License for the Safe Use of Hazardous Chemicals for the hazardous chemicals that we use, which include hydrogen peroxide, triethanolamine, acetic acid and monoethanolamine. During the Track Record Period, our production processes were carried out at our Yixing Plant, which consists of three workshops and seven warehouses for the storage of finished products and raw materials. Our three workshops house four production lines. For the production cycle for each type of oil refining agents and fuel additive, please refer to “ — Production Process.”

The tables below set forth data relating to our Yixing Plant for the periods indicated:

Oil refining agents

	Year ended 31 December			Nine months ended 30 September 2017
	2014	2015	2016	
	Production capacity (tons) ⁽¹⁾	8,350.0	8,350.0	8,350.0
Production volume (tons)	4,409.6	4,506.4	4,872.6	6,206.1
Utilization rate (%)	52.8	54.0	58.4	99.1

Fuel additives

	Year ended 31 December			Nine months ended 30 September 2017
	2014	2015	2016	
	Production capacity (tons) ⁽¹⁾	2,100.0	2,100.0	2,100.0
Production volume (tons)	976.4	1,348.3	1,870.5	1,508.8
Utilization rate (%)	46.5	64.2	89.1	95.8

Note:

- (1) Utilization rate is calculated by dividing production volume for the year or period by production capacity for the year or period.

Our utilization rates increased generally throughout the Track Record Period. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, our utilization rates for oil refining agents were 52.8%, 54.0%, 58.4% and 99.1%, respectively. This increasing trend was mainly due to a substantial increase in our production volume. We produced more oil refining agents to meet a significant purchase order by one of our customers and the increased demand was mainly

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from our existing customers which, our Directors believe, was because of the evermore stringent mandatory emissions regulations during the first three quarters of 2017, which utilized 27.0% and 13.7% of our production capacity, respectively. For the nine months ended 30 September 2017, excluding the significant purchase order by one of our customers and only considering the rising customer demand, our production volume was 4,516.5 tons with a utilization rate of 72.1%. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, our utilization rates for fuel additives were 46.5%, 64.2%, 89.1% and 95.8%, respectively, primarily due to an increase in the production volume of our lubricity improvers in response to rising customer demand. In anticipation of the continuously increasing production volume of our products, we intend to upgrade our Yixing Plant and expand our production capacity, investing approximately 41.0%, or approximately HK\$42.8 million, of our net proceeds from the Share Offer to do so. For more information, see “Business — Production — Plans to Upgrade our Yixing Plant.”

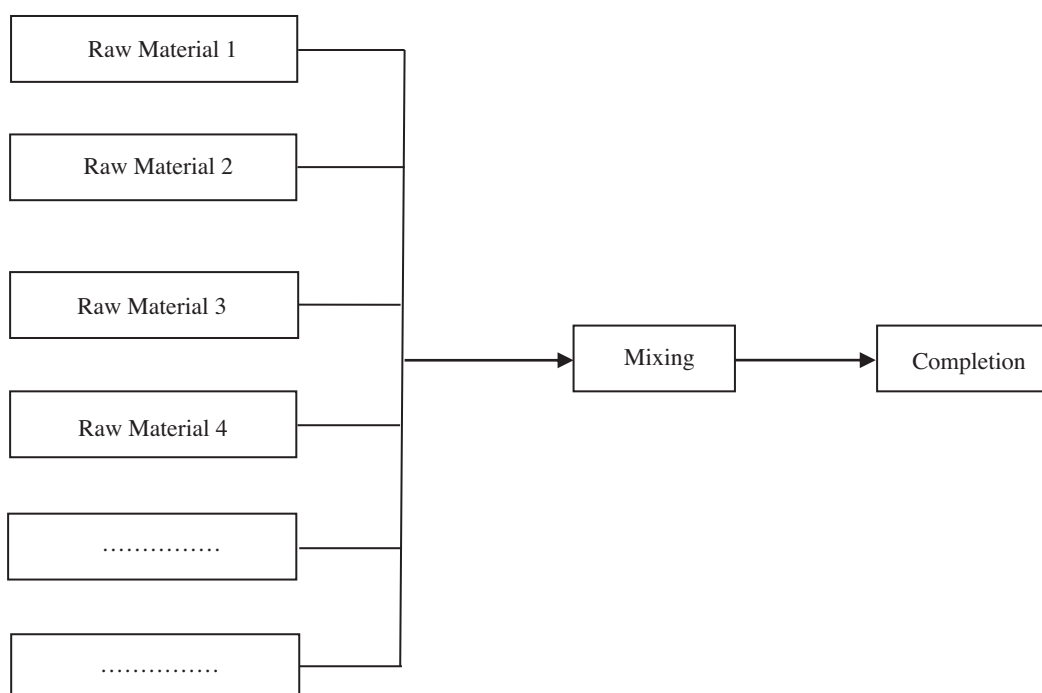
During the Track Record Period, the major machineries we used at our Yixing Plant were purchased in China. The production lines for water-soluble oil refining agents, oil-soluble oil refining agents, fuel additives and desulfurizing agents have five, four, four and one reactor(s), respectively. Our lubricity improver production line has a molecular distillation unit, furnace, feed pump and dehydrator. Under our depreciation policy, our machines have a useful life of approximately ten years. We conduct regular maintenance and repair works to extend their useful life. They are upgraded from time to time as we deem necessary.

Production Processes

Oil refining agents

The average production time for oil refining agents is between 2.5 hours and 4.0 hours. The following diagrams summarize the production processes for our desulfurizing agents, metal passivators and antifouling agents, our three main products under this category.

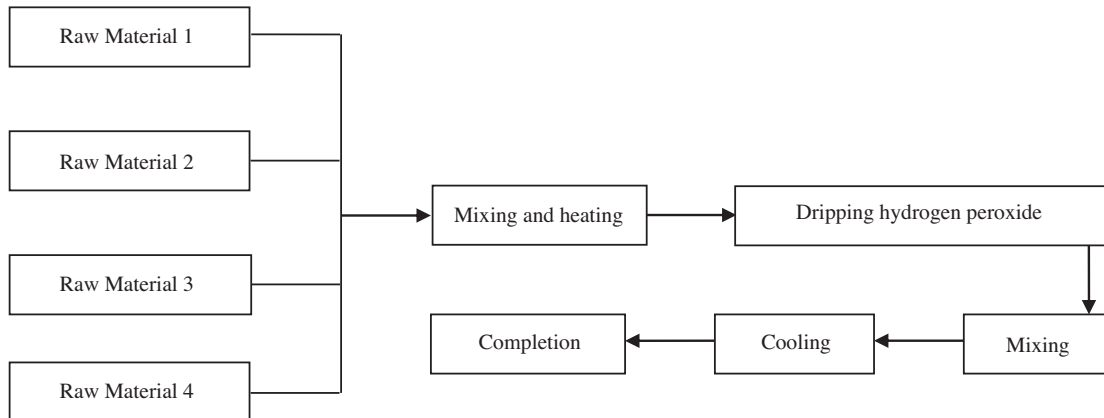
Desulfurizing agents



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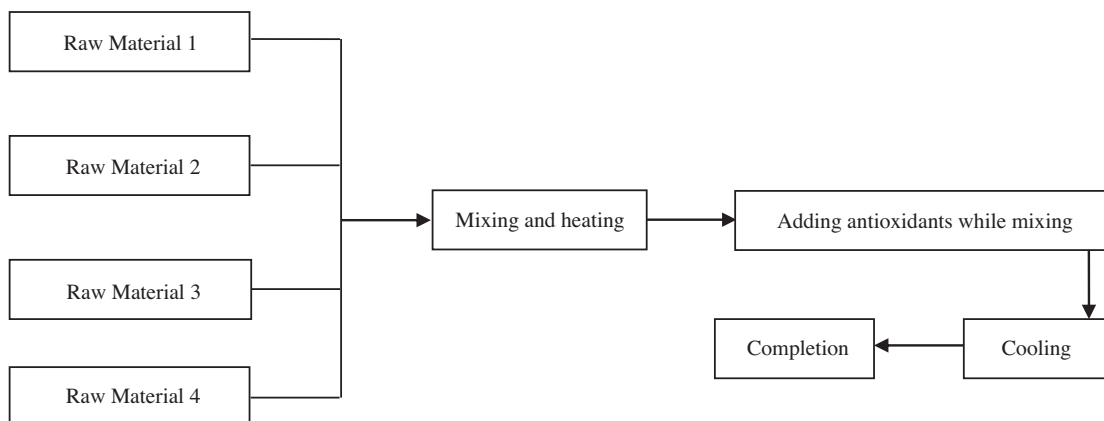
- *Mixing* — Different raw materials of varying portions are mixed and blended together at room temperature, a stage requiring at least 30 minutes.
- *Completion* — After mixing, our desulfurizing agents are packaged and stored in well-ventilated, dry, shady and cool warehouses.

Metal passivators



- *Mixing and heating* — We mix our raw materials together for at least ten minutes while heating the mixture to at least 100 degrees Celsius.
- *Dripping hydrogen peroxide* — We add hydrogen peroxide into the mixture through a dripping technique, which requires 30 to 120 minutes.
- *Mixing* — We continue mixing for at least 30 minutes.
- *Cooling* — We cool the mixture for approximately 60 minutes.
- *Completion* — Once the mixture is cooled, our metal passivators are packaged and stored in well-ventilated, dry, shady and cool warehouses.

Antifouling agents



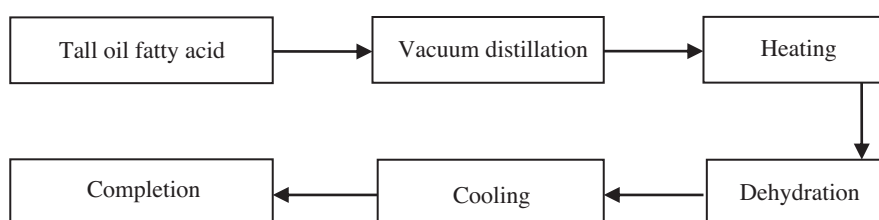
- *Mixing and heating* — We mix our raw materials together for at least 120 minutes while heating the mixture to at least 80 degrees Celsius.
- *Adding antioxidants while mixing* — We then add antioxidants into the heated mixture, a stage which requires at least 30 minutes.

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- *Cooling* — We cool the mixture for approximately 40 minutes.
- *Completion* — Once the mixture is cooled, our antifouling agents are packaged and stored in well-ventilated, dry, shady and cool warehouses.

Fuel additives

Our lubricity improver production line involves several stages of production. Each stage begins at a different chronological point and lasts throughout the rest of the production process. The average production rate for fuel additives is approximately 350 kilograms per hour. Our lubricity improver production line is designed to produce 350 kilograms of lubricity improvers per hour. The following diagram summarizes the various stages of our production process for lubricity improvers:



- *Vacuum distillation* — We carry out vacuum distillation, which involves distilling a substance under reduced pressure to lower its boiling point.
- *Heating* — We heat the mixture to at least 130 degrees Celsius.
- *Dehydration* — We dehydrate the mixture.
- *Cooling* — We cool the mixture to approximately 50 degrees Celsius.
- *Completion* — Once the mixture is cooled, our lubricity improvers are stored in well-ventilated, dry, shady and cool warehouses.

Production Lines

We have four production lines at our Yixing Plant, among which production of our oil refining agents and fuel additives are divided based on their chemical makeup, raw materials and similarity of production processes. The production lines for water-soluble oil refining agents, oil-soluble oil refining agents, fuel additives and desulfurizing agents have five, four, four and one reactor(s), respectively. Our lubricity improver production line has a molecular distillation unit, furnace, feed pump and dehydrator. Employees must operate our production lines in accordance with our standard operating procedures, which involve adding specific amounts of raw materials at proper times and in correct order as well as monitoring reactor temperatures. Our production line for lubricity improvers is automated, and our employees monitor and operate computers to control the stages of production.

Plans to Upgrade our Yixing Plant

We filed our plans to upgrade our Yixing Plant and expand our production capacity to 25,000 tons with the Yixing Economic and Information Technology Commission (宜興市經濟和信息化委員會), which were approved on 21 March 2016. On 8 September 2017, the Environmental Protection Bureau of Wuxi City (無錫市環境保護局) issued its approval opinion in relation to the upgrade plans for our Yixing Plant. We will optimize our production lines such that part of the one for desulfurizing agents is remodeled into a lubricity improver production line, while the remainder will continue to be used for producing desulfurizing agents. Upon the completion of our upgrade works, we expect our production capacities for desulfurizing agents and lubricity improvers to increase. We no longer use the part of the desulfurizing agent production line that we intend to remodel, because it was previously used for producing desulfurizing agents through less cost-efficient methods. We also have plans to

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purchase new sets of machinery, equipment and analytical instruments. There is expected to be sufficient demand for the additional products from the planned increase in the production capacity of oil refining agents and fuel additives in the next few years because the demand for oil refining agents and fuel additives is expected to increase due to the continuous growth of the PRC automobile industry and the PRC Government's higher standard for fuel quality in the forecast period.

Our Yixing Plant is unlikely to be relocated in spite of the Scheme. Our Yixing Plant is located in the Chemical Industry Park, which is not within the Taihu Protection Area that the Scheme covers. The Chemical Industry Park is specifically designed for the manufacturers of chemical-related products, whose production processes meet the stringent environmental requirements of the government. The Yixing Economic Development Zone Supervisory Bureau for Safe Production and Environmental Protection (宜興經濟技術開發區安全生產和環境保護局) in a letter dated 21 June 2017 specifically stated that our Yixing Plant complies with the governmental industry policy and the safety and environmental requirements of the Chemical Industry Park and meets the designated purpose of the Chemical Industry Park. Yixing Economic Development Zone is a national economic development zone according to the public information on the official websites of the Ministry of Commerce (<http://www.mofcom.gov.cn>) and Yixing Economic Development Zone (<http://www.yixing.gov.cn>). According to the 11th Five-year Plan Guidelines for Economic and Social Development of State Economic and Technological Development Zones (國家級經濟技術開發區經濟社會發展“十一五”規劃綱要) (“**11th Five-Year Plan Guidelines**”) issued by the MOFCOM and the Ministry of Land and Resources on 21 July 2006, the management authorities of national development zones may not be the same entities as the management institutions of the administrative areas. The management authorities of the national development zones are generally the local dispatched offices of the people's government at or above the municipal level, which exercise the duties and functions of the administrative examination and approval and the coordination of economics and administrative management empowered by the people's government at the same level. Based on the 11th Five-Year Plan Guidelines and the Decision on Empowerment List of Examination and Approval Authorities to the State Economic and Technological Development Zones by Jiangsu Provincial Government (江蘇省政府關於公佈國家級開發區全鏈審批賦權清單的決定), which was further confirmed by the telephone interview with the director of the Yixing Economic Development Zone Supervisory Bureau for Safe Production and Environmental Protection, our PRC Legal Advisers confirm that the Yixing Economic Development Zone Supervisory Bureau for Safe Production and Environmental Protection is the competent authority to confirm the Company's compliance with the relevant requirements. Moreover, we have obtained approvals from different levels of local governments regarding our Yixing Plant's expansion plan. If our Yixing Plant is under any risk of relocation, such approvals would be nearly impossible to obtain. In addition, in the unlikely scenario where our Yixing Plant was indeed affected by the Scheme, the current stringent environmental requirements that we have complied with ensure that we would be able to meet the environmental requirements of the Scheme. As a result, the likelihood of our Yixing Plant being relocated is low.

INVENTORY MANAGEMENT

Our inventory comprises raw materials, works in progress, finished goods and consignment goods. Our inventory balance as of 31 December 2014, 2015 and 2016 and 30 September 2017 amounted to RMB11.2 million, RMB12.0 million, RMB17.0 million and RMB17.4 million, respectively, while our average inventory turnover days were 81.1 days, 64.1 days, 70.9 days and 50.8 days, respectively. Some of our key inventory management procedures include documenting the dates on which raw materials enter our inventory, as well as the type and amount. We also conduct a monthly inventory count and seasonal aging analysis for raw materials and finished products, documenting the results for the review of our finance department. Additionally, we determine our raw material procurement plan based on our order volumes. We estimate the demand from our customers based on the contracts awarded in tendering processes, which specify the demand of our products for the year

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or the amount of a one-off order. In practice, we normally request our customers to place their orders two weeks before delivery. Once we obtain purchase orders our sales and marketing department will create a sales plan for our production management department. Members of our production management department will then list the type and quantity of raw materials required to successfully execute the sales plan. Our inventory management personnel will use the list as a basis for distributing raw materials and maintains the reasonably minimum amount of inventory. In addition to facilitating our inventory management, this allows us to avoid the possibility of adding the wrong quantity or type of raw material during our production processes.

QUALITY CONTROL

Quality Control Measures

We believe that high quality and standards are crucial to our success and administer quality control measures throughout various stages of our business operations. As of the Latest Practicable Date, our quality control department consisted of eight personnel, the leader of which is an engineer. We have set up a laboratory within our facilities specifically for their use.

On 18 January 2010, we obtained the GB/T 19001-2008/ISO9001:2008 quality certification for the development and production of our oil refining agents and fuel additives from Beijing Zhong Da Hua Yuan Certification Center and successfully renewed such certification on 15 January 2013 and 14 January 2016. Our quality certification is currently valid until 15 September 2018. We believe that it signifies we have established a systematic approach to quality control, and that we are able to satisfy objective standards imposed by third parties for assessing the effectiveness of our measures. During the Track Record Period, we did not experience any material customer complaints, claims or product recalls due to quality control issues.

The following is a summary of key quality control measures that we have implemented throughout our operations:

- *Procurement of raw materials.* Prior to entering into procurement contracts, potential suppliers provide samples of raw materials to us for analysis by our quality control department. We will then test raw materials that pass the preliminary examination by using them in our production processes. We also engage our suppliers in an informal tendering process where they quote prices for our evaluation. These procedures are completed within a week. Even after entering into procurement contracts, our quality control department will test the raw materials each time we receive shipments from our suppliers. We will not accept delivery of those that do not pass this examination. Our quality control department will also regularly review and compare the product quality of our suppliers in accordance with the quality standards represented by our ISO certifications.
- *Production processes.* We have a three-tier training curriculum for employees within our production department. All of them must be trained and examined in technical knowledge and safety before being entrusted with responsibilities in their respective posts. Additionally, we have established standard operating procedures and require our employees to record the times at which they perform certain required tasks. For example, they conduct regular testing procedures throughout to ensure that all aspects of production are within our control. To avoid the possibility of adding the wrong quantity or type of raw material during our production processes, we established a system whereby personnel specifically in charge of distributing raw materials will check the quantity and type being collected against standard operating procedures for each product.

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- *Inspection of finished products.* Our quality control personnel conduct sample tests of finished products to ensure that they consistently meet the quality standards represented by our ISO certifications. Furthermore, our finished products must pass final examination and testing before delivery.

RESEARCH AND DEVELOPMENT

Overview

We conduct our research and development initiatives in response to industry trends and evolving customers' needs. As the PRC Government implements evermore stringent mandatory emissions regulations, our customers in the petrochemical industry have had to enhance the quality and efficiency of their fuels to comply with the evolving regulatory requirements. Our role is to provide oil refining agents and fuel additives that assist them in doing so.

We believe that our success in research and development is the result of collaborative efforts between our research and development department and RIPP. As of the Latest Practicable Date, our research and development department consisted of 13 members, of whom five had bachelor's degrees. Members of our research and development team have earned diplomas or degrees in subject areas key to our operations such as engineering, applied chemistry, petroleum processing and oil refining technology. The department is supervised by Mr. Huang, our vice general manager and Research and Development Director. Mr. Huang is a Senior Engineer (高級工程師) who worked at Sinopec prior to joining us.

As of the Latest Practicable Date, we owned three invention patents and 15 utility model patents in China. We also possess know-how and trade secrets in relation to the production of oil refining agents and fuel additives, as our products are in the nature of mixtures that are developed for specific functions and applications. We have received several awards in recognition of our research and development capabilities, such as the "2007 — 2008 Top Hundred Enterprises in the Chemical Industry" (2007 — 2008 化工百強百佳企業) in 2008, the "2011 Excellent Supplier Award" (2011年度優秀供應商) from CNPC Dalian Petrochemical Co., Ltd. (中國石油大連石化有限公司), as well as the "6th Project Excellent Supplier Award" (六期工程優秀供應商) in 2013 and the "2014 — 2016 Excellent Supplier Award" (2014 — 2016 年度優秀供應商) in 2017 from SINOPEC Shanghai Petrochemical Co., Ltd. (中國石化上海石油化工股份有限公司). We have been certified as a "High and New Technology Enterprise" (高新技術企業) since 2013. In November 2013, our research and development center was certified as a "Wuxi Technological Research and Development Institution" (無錫市科技研發機構) by the Wuxi Science and Technology Bureau for a period of five years.

As of the Latest Practicable Date, we owned three invention patents and 15 utility model patents. During the Track Record Period and up to the Latest Practicable Date, we completed 16 research projects in total, for which we developed 14 utility model patents and one invention patent. Our research and development efforts were primarily focused on the following key areas:

- *Catalytic cracking compound antifouling agents.* It is a new antifouling agent and injection device to provide an economical, effective and easy solution to the heavy crude oil catalytic cracking unit, for which we hold one utility model patent. We conducted the research from April 2014 to August 2015 at an expense of RMB1.6 million.
- *Compound neutralizing corrosion inhibitors.* It is a type of amine solution recovery system for compound neutralizing corrosion inhibitors, for which we hold one utility model patent. We conducted the research from January 2015 to December 2015 at an expense of RMB1.6 million.
- *Multifunctional metal passivator.* It is a new-type of metal passivator with a more effective and stable passivating effect. We plan to apply a patent for the passivator. We conducted the research from March 2016 to August 2017 at an expense of RMB1.5 million.

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Our total research and development expenses for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017 amounted to RMB4.8 million, RMB5.2 million, RMB5.5 million, RMB3.5 million and RMB5.4 million, respectively, representing 4.6%, 4.5%, 4.1%, 3.2% and 3.7% of our total revenue, respectively. We used our cash flows from operations to cover these expenses. We expect to allocate approximately RMB7.0 million and RMB7.5 million in 2017 and 2018, respectively, to support our research and development efforts. Our research and development expenditures are recognized as expenses when incurred. For more information on the nature of our research and development expenses, see “Financial Information — Description of Components of Results of Operations — Research and development expenses.”

Collaboration with RIPP

RIPP, founded in 1956, has made breakthroughs in modern oil refining technology since the 1960s, including technologies related to, among other things, catalytic cracking and delayed coking contributed significantly to the development of China’s oil refining industry. RIPP currently focuses on technologies to produce clean fuel and fewer undesirable emissions.

Starting from 2004, we worked with RIPP on the technology and know-how for corrosion inhibitors, defoaming agents and metals removers. Our internal research and development department provided theories on technology and application while the researchers at RIPP carried out the relevant tests and experiments.

Our arrangements with RIPP are based on the certificate authorizing us to produce oil refining agents and fuel additives that are the result of its research and development efforts, which is signed and renewed every four to five years. We have been so authorized from 2004 onwards, and RIPP recently renewed this authorization for the period between 1 January 2017 to 31 December 2021. Such arrangements with RIPP focus on the collaboration of research and development efforts for our products, and we did not sell any products to RIPP in the past.

Products Under Development

Our research and development efforts are primarily focused on the technologies that are expected to achieve long-term and sustainable growth by enhancing our product performance, reducing our production costs and expanding the applications of our products. As of the Latest Practicable Date, we had six ongoing research and development projects. We will focus our research and development activities on the following key areas:

- *Demulsifiers for crude oil.* Demulsifiers are primarily used to separate water and oil. We started the research and development on the product in January 2017 and plan to complete the research by April 2018 at an estimated expense of RMB1.3 million.
- *Wax-oil hydrogenation antisludging agent.* According to CIC, wax-oil hydrogenation antisludging agent is one of the most efficient and economical ways to delay the formation of glue scale and at the same time maintain a high thermal efficiency. We started the research and development on the product in August 2017 and plan to complete the research by May 2018 at an estimated expense of RMB1.8 million.
- *Fuel injector cleaners.* We intend to enter the PRC market for fuel injector cleaners and are currently conducting initial market and technological research. Fuel injector cleaners are fuel additives applied directly into the fuel of vehicles. Over time, thick deposits can build up in the fuel line due to sediments and other chemical reactions. Fuel injector cleaners will mix with the fuel to dissolve buildup and thereby increase engine efficiency. We started the research and development on the product in September 2017 and plan to complete the research by October 2018 at an estimated expense of RMB1.6 million.

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INTELLECTUAL PROPERTY

We believe that intellectual property rights are critical to our continued success. As of the Latest Practicable Date, we held three invention patents and 15 utility model patents in China. Two of our invention patents were derived from our research and development efforts, while another was transferred to us from Jiangsu Kechuang Petrochemicals Co., Ltd. (江蘇科創石化有限公司), a company owned by Ms. Gu's brother. We have also registered one domain name, www.jsctxsh.cn. Furthermore, since our products are in the nature of mixtures developed for specific functions and applications, we possess know-how and trade secrets in relation to the production of oil refining agents and fuel additives. We have developed a system that provides detailed guidelines for intellectual property management and protection. Our employees are required to enter into confidentiality agreements, which strictly prohibit them from disclosing our proprietary technologies, trade secrets and know-how. In addition, we are entitled to the full ownership of any intellectual property that is developed by our technical personnel. We have also implemented a security system to prevent unauthorized access to our IT system and we use code names instead of the actual names of certain chemicals in our operation manual to prevent disclosure of our products' chemical compositions.

During the Track Record Period, we were not subject to any infringement of our intellectual property rights or allegations of infringement by third parties. For more information, see "Appendix V — Statutory and General Information — Further Information about the Business of Our Group — 8. Intellectual Property Rights of Our Group."

AWARDS

We have achieved recognition in our industry as a result of our efforts in research and development. The following table sets forth notable awards and accreditations we received during the Track Record Period:

<u>Name of award or recognition</u>	<u>Year of award or recognition</u>	<u>Awarding entity</u>
SINOPEC "Three Chemical Agents" Supplier Network Membership Certificate (中國石化 "三劑" 協作網成員企業)	2004	Scientific and Technology Development Department of China Petrochemical Corporation (中國石油化工股份有限公司科技開發部), Commodity and Equipment Department of China Petrochemical Corporation (中國石油化工股份有限公司物資裝備部)
Certificate of Foreign-Invested Technologically Advanced Enterprise (外商投資先進技術企業確認證書)	2007	Jiangsu Provincial Department of Foreign Trade and Economic Cooperation (江蘇省對外貿易經濟合作廳)

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Name of award or recognition	Year of award or recognition	Awarding entity
2007 — 2008 Top Hundred Enterprises of the Chemical Industry (2007 — 2008化工百強百佳企業)	2008	Wuxi Statistics Bureau (無錫市統計局), Wuxi Federation of Industry and Commerce (無錫市工商業聯合會), Wuxi Business Association (無錫市總商會), Wuxi Jiaqiang Enterprise Estimate and Consulting Co., Ltd. (無錫市佳強企業評價諮詢有限公司)
2011 Excellent Supplier Award (2011年度優秀供應商)	2012	CNPC Dalian Petrochemical Co., Ltd. (中國石油大連石化有限公司)
6 th Project Excellent Supplier Award (六期工程優秀供應商)	2013	SINOPEC Shanghai Petrochemical Co., Ltd. (中國石化上海石油化工股份有限公司)
High and New Technology Enterprise (高新技術企業)	2013	Jiangsu Provincial Department of Science and Technology (江蘇省科學技術廳), Department of Finance of Jiangsu Province (江蘇省財政廳), Jiangsu Provincial Office, SAT (江蘇省國家稅務局), Jiangsu Local Taxation Bureau (江蘇省地方稅務局)
High and New Technology Enterprise (高新技術企業)	2016	Jiangsu Provincial Department of Science and Technology (江蘇省科學技術廳), Department of Finance of Jiangsu Province (江蘇省財政廳), Jiangsu Provincial Office, SAT (江蘇省國家稅務局), Jiangsu Local Taxation Bureau (江蘇省地方稅務局)
2014 — 2016 Excellent Supplier Award (2014 — 2016年度優秀供應商)	2017	SINOPEC Shanghai Petrochemical Co., Ltd. (中國石化上海石油化工股份有限公司)

COMPETITION

According to CIC, the oil refining agents and fuel additives industry has enjoyed rapid development in the past several decades. Driven in part by the increasing demand for petrochemicals in China, total sales value for the oil refining agents and fuel additives industry grew from RMB5,706.5 million in 2012 to RMB6,151.2 million in 2016, representing a CAGR of 1.9%. The oil refining agents and fuel additives industry is expected to reach RMB7,486.2 million in 2021 in terms of sales value, representing a CAGR of 4.0% from 2016.

There are high entry barriers to the oil refining agents and fuel additives industry. These include, among other things, long-term customer relationships, technological prowess, capital requirements and access to talent. According to CIC, the top five players in China's oil refining agents and fuel additives industry, including us, occupied around 12.1% of the total market in terms of domestic revenue in 2016; our market share was approximately 1.7%.

Our competitors may have stronger capital resources, larger customer bases, greater brand or name recognition, greater expertise in regional markets, and greater financial, technical, marketing and public relations resources than we do. As a result, such competitors may be better positioned to develop superior products, offer more favorable pricing to customers and adapt to market developments than we are. However, we believe that our competitive advantages are our long operating history and competitive track record, long-standing relationships with Affiliates of the three

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state-owned conglomerates, namely Sinopec, CNPC and CNOOC, our offering of environmentally-friendly products that assist our customers in navigating the regulatory landscape, strong research and development capabilities and with foreign brands such as International Supplier, Total and EURENCO.

We have accumulated valuable experience in relation to the development and manufacturing of oil refining agents and fuel additives, preparing tender submissions and providing after-sales services. We believe that we are more likely to be awarded contracts on the basis of our competitive track record and reputation in the industry, which are founded on our first-mover advantage, professionalism and the high quality of our products. These factors are taken seriously into account by our current and potential customers in deciding to whom they will award contracts. Our most competitive products on the market are our desulfurizing agents, metal passivators, antifouling agents and lubricity improvers.

During the Track Record Period, we were able to form long-standing relationships with various Affiliates of the three state-owned conglomerates. We believe that this offers us a stable revenue source as their output of petroleum products represented over 50% of the total output of petroleum products in China in 2016. Production volumes by Affiliates of Sinopec, CNPC and CNOOC are relatively stable each year. Additionally, we have developed relationships with International Supplier, Total and EURENCO, three global corporations that operate in the petrochemical industry. Certification as their authorized distributor gives us a strong competitive edge because such global corporations prefer to work with one or two distributors per market. While the PRC Government implements evermore stringent fuel quality and mandatory emissions regulations, we expect that there will be higher demand for imported oil refining agents and fuel additives going forward.

OCCUPATIONAL HEALTH AND SAFETY

We have in place policies to ensure that our operations are safe and that we comply with relevant PRC laws and regulations. During the Track Record Period, we conducted our operations in accordance with standards represented by our GB/T 28001-2011/OHSAS18001:2007 certification, which we first obtained on 20 January 2015 and successfully renewed on 10 May 2017. Our GB/T 28001-2011/OHSAS18001:2007 certification is valid for a period of three years and expires on 9 May 2020. We were also certified as an “III-Grade Enterprise of Work Safety Standardization” (安全生產標準化三級企業) by the Wuxi Supervisory Bureau for Safe Production (無錫市安全生產監督管理局) for the period between 20 January 2017 to 19 January 2020.

We have formulated occupational health and safety policies for employees in various roles and responsibilities. These may include employees that handle hazardous chemicals, members of our procurement department, guards and inventory custodians. We believe that all of our employees, in whatever position, have a role in ensuring the safety of our working environment. We also address in detail issues such as basic fire safety, accident prevention and emergency response. In particular, our production processes may place employees under inherent occupational risks and hazards in relation to operating machinery.

We have implemented a system for recording and handling accidents, categorizing them by type and detailing which authority is responsible for which. Our accident categories include, among other things, personal injuries, production-related injuries, fires, explosions and traffic accidents. We also define what we believe to be low, medium and high degrees of severity. Each accident is handled differently based on category and degree. In general, our employees are required to report immediately to the relevant authority and to assist in mitigating the situation. After the accident, we also investigate its cause and effect, and our employees will produce a report for our review and record.

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Additionally, we regularly evaluate our equipment and production facilities and train our production department on safety procedures. Before they are entrusted with responsibilities in their respective posts, they must pass a three-tier training curriculum and obtain the relevant certifications. We require our employees to undergo regular physical examinations and provide them with full sets of safety gear including helmets, uniforms, shoes, masks and goggles. Our uniforms are resistant to static electricity.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material accidents involving personal injury or property damage; moreover, to the best knowledge of our Directors, we were not subject to any material claims, lawsuits, penalties or disciplinary actions as a result of any material accidents and were in compliance with the relevant occupational health and safety laws and regulations.

ENVIRONMENTAL PROTECTION

We are committed to environmental protection and have adopted and implemented measures to ensure that we meet the standards represented by our ISO certifications. On 14 May 2014, we obtained the ISO14001:2015 from the Beijing Zhong Da Hua Yuan Certification Center and successfully renewed such certification on 10 May 2017. Our certification expires on 9 May 2020. We are also subject to regular inspections from the Beijing Zhong Da Hua Yuan Certification Center every 12 months. Additionally, we have passed inspection procedures by the Wuxi Clean Production Audit Office (無錫市清潔生產審核領導小組辦公室) and acquired the Clean Production Audit Certificate in April 2014, which certified that we use clean, environmentally-safe production processes in 2013. The certification itself is valid for five years.

We consistently strive to ensure that our business operations comply with the relevant PRC environmental laws and regulations. For example, we ensure that our emissions are within the mandated indexes; additionally, as required by local administrative bodies in Yixing we have installed alarm systems in relation to combustible gases. We use water filtration systems to drain and separate the flow of rainwater and domestic sewage, sending the latter to a sewage treatment plant in Yixing. As of the Latest Practicable Date, we held the Permit for the Discharge into Drainage Networks of Urban Sewage (城鎮污水排入排水管網許可證) and the Permit for the Discharge of Sewage (排污許可證) required for doing so and they remained valid and effective. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, our annual cost of compliance with environmental rules and regulations amounted to RMB71,885.4, RMB22,694.1, RMB30,141.0 and RMB50,002.9, respectively. We incurred these expenses primarily through operating and maintaining our water filtration systems. We anticipate that our cost of compliance with environmental rules and regulations will amount to RMB0.3 million by the end of 2017, to address new regulations related to discharging sewage. For more details, see “Regulatory Overview — Laws Relating to Environmental Protection.”

EMPLOYEES

We believe that our long-term growth depends on the expertise, experience and professional development of our employees. During the Track Record Period, we did not experience any difficulty in recruiting employees. We recruit our employees through recruitment websites and talent databases maintained by the Ministry of Human Resources and Social Security, while employees in operational functions are recruited from within the local neighborhood. We require candidates for forklift truck drivers and electricians or for positions related to boiler operation, pressure vessel operation, the handling of hazardous chemicals and procurement to obtain certain qualifications or licenses.

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We provide introductory training for new employees and training on operational issues such as technical knowledge and safety. Within our production department, new employees must pass a three-tier training curriculum before being entrusted with responsibilities in their respective posts.

As of the Latest Practicable Date, we had a total of 76 employees, 17 of whom were rehired after retirement age. All of our employees were based in China. The following table sets forth the number and breakdown of our full-time employees by function:

	<u>Number of employees</u>
Management.....	5
Administrative	18
Finance	4
Sales and marketing.....	5
Procurement	4
Inventory management	3
Production management	16
Quality control.....	8
Research and development	13
Total	<u><u>76</u></u>

During the Track Record Period, we did not experience any material labor disputes with our employees. We also have a labor union that protects employees' rights. Save as disclosed in “ — Legal Proceedings and Compliance — Compliance,” we have complied in all material respects with the applicable PRC laws and regulations.

PROPERTIES

The carrying amount of our property interests, as defined in Rule 5.01(3) of the Listing Rules, amounted to RMB11.4 million, accounting for 6.8% of our total assets as of 30 September 2017, the latest reporting period end of our consolidated financial statements. As such, we have not included a property valuation report in this Prospectus.

As of the Latest Practicable Date, we owned land use rights for one parcel of land in Yixing with a total site area of 68,653.2 m². We also owned nine properties in Yixing with an aggregate gross floor area of 10,791.77 m², which was mainly used as our plant and office premises. As advised by our PRC Legal Advisers, we are entitled to occupy and use the property within the scope of use specified in the building ownership certificates.

As of the Latest Practicable Date, we did not have any rented properties. As of 30 September 2017, our certain properties with a carrying amount of RMB5.3 million and land use rights with a carrying amount of RMB3.5 million were pledged to secure a bank loan of 18.0 million. For more information, see Note 11 and Note 12 to the Accountants' Report as set out in Appendix I to this Prospectus.

INSURANCE

During the Track Record Period, we maintained a range of insurance policies in relation to our business. We have purchased insurance policies in respect of our inventory, buildings and production machinery. We will also purchase insurance for our products when they are delivered overseas on a C&F basis. Such insurance policies are subject to standard deductibles, exclusions and limitations.

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Consistent with customary practice in China, we do not carry any business interruption insurance or litigation insurance. We also do not carry product liability insurance for our oil refining agents and fuel additives. Our Directors believe that our existing insurance coverage is in line with the industry norm and sufficient for our present operations. During the Track Record Period, we did not make any material claims on any insurance policies. However, there is no assurance that the insurance policies we maintain are sufficient to cover all of our operational risks. For more information, see “Risk Factors — Risks Relating to Our Business and Industry — Our insurance may not be sufficient to cover the risks connected with our operations and potential losses.”

INFORMATION TECHNOLOGY

Our information technology systems are critical to carrying out business operations such as finance and accounting, production management, inventory management and sales and marketing. To carry out our financial management operations, we currently use the Kingdee KIS (金蝶KIS專業版) software.

During the Track Record Period, we did not suffer any failures in our information technology system. However, we may face risks arising from the improper performance or malfunction of our information technology systems. For more information, see “Risk Factors — Risks Relating to Our Business and Industry — We may experience failures in our information systems.”

CERTIFICATES, LICENSES AND PERMITS

According to the relevant PRC laws and regulations, we are required to obtain and maintain various certificates, licenses and permits in relation to our operations. Our Directors and PRC Legal Advisers confirm that, during the Track Record Period: (i) our Group has obtained all necessary certificates, licenses, permits and approvals required for our business operations in all material respects; (ii) such licenses, permits, and certificates were valid and subsisting; and (iii) our Group has complied with all applicable laws and regulations in all material respects, and we did not experience any material difficulty in renewing the various licenses, certificates and permits necessary for our business operations. As advised by our PRC Legal Adviser, we do not expect to encounter any legal impediments in renewing the necessary certificates, licenses and permits when they expire.

Our major certificates, licenses and permits are as follows:

Certificate/License/Permit	Registered Number	Latest Grant Date	Expiry Date
Certificate of Registration for Customs Declaration (中華人民共和國海關報關單位註冊登記證書)	3222940892	26 February 2015	N/A
License for the Safe Use of Hazardous Chemicals (危險化學品安全使用許可證) ⁽¹⁾	Su (Xi) An Wei Hua Shi Zi B00009 Hao	21 November 2017	20 November 2020
License for the Safe Operation of Businesses Dealing in Hazardous Chemicals (危險化學品經營許可證) ⁽¹⁾	Su (Xi) Wei Hua Jing Zi (Yi) 00762	23 May 2017	22 May 2020

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Certificate/License/Permit	Registered Number	Latest Grant Date	Expiry Date
Permit for the Discharge into Drainage Networks of Urban Sewage (城鎮污水排入排水管網許可證)	Su Yi 2017 Zi No. 010	24 May 2017	25 May 2022
Permit for the Discharge of Sewage (排污許可證)	3202822017030017A	26 May 2017	26 May 2018
Work Safety Standardization Certificate (安全生產標準化證書)	AQB320282WHIII 2014000030	20 January 2017	19 January 2020

Note:

- (1) Although we hold licenses in relation to hazardous chemicals, we do not manufacture oil refining agents or fuel additives with hazardous properties.

BUSINESS ACTIVITIES IN COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

The U.S. and other jurisdictions or organizations, including the EU, UN and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organizations within such countries.

During the Track Record Period, we sold our products, namely oil refining agents and fuel additives, to certain customers in Sudan. Sudan was previously subject to very comprehensive economic sanctions until 12 October 2017, when OFAC permanently lifted broad sanctions that were imposed under the SSR, including restrictions over transactions denominated in U.S. dollars and processed through the U.S. financial system. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, our revenue derived from sales to customers in Sudan amounted to RMB17.0 million, RMB17.3 million RMB29.6 million and RMB18.7 million, respectively, representing approximately 16.2%, 15.1%, 21.8% and 12.8% of our total revenue, respectively.

Sanctions Risk

U.S.

When the U.S. Government imposes economic sanctions against a foreign country, entity, or individual, U.S. law generally prohibits U.S. companies or U.S. persons from engaging in any transaction with or providing almost any goods or services for the benefit of the targeting country, entity or individual. In the case of U.S. sanctions applicable to Sudan during the Track Record Period, OFAC previously maintained a comprehensive sanctions program against Sudan under the SSR, 31 CFR Part 538. The SSR imposed a comprehensive trade embargo on Sudan, prohibiting the facilitation by a U.S. person of the exportation or re-exportation of goods, technology, or services to Sudan from any location. The U.S. sanctions against Sudan were eased on 17 January 2017 upon the issuance of a general license authorizing most transactions with Sudan, including transactions denominated in U.S. dollars and processed through the U.S. financial system, and unblocking previously blocked property. The general license authorized all transactions prohibited by the SSR, including those

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involving property in which the Government of Sudan has an interest. On 12 October 2017, OFAC permanently lifted broad sanctions that were imposed under the SSR. This means that most transactions by U.S. persons involving Sudan are no longer prohibited, assuming they do not otherwise involve Specially Designated Nationals and Blocked Persons targeted by different OFAC sanctions programs (such as those designated for global terrorism, weapons proliferation, dealings in narcotics or other sanctions) or are otherwise prohibited by U.S. export control laws. However, Sudan remains designated as a state sponsor of terrorism and is subject to broad restrictions under U.S. export control laws.

Upon the advice of our International Sanctions Legal Advisers, on 19 September 2017, we submitted a VSD to OFAC, because certain U.S. dollar payments that we received during 2013 and 2014 from two customers in relation to our sales to Sudan which were processed in the U.S. financial system before receipt by our Group appear to be potential violations of U.S. sanctions on Sudan under the SSR at that time. To be certain that all of our Group's issues under International Sanctions laws had been identified and addressed in the VSD filing, and that no other International Sanctions law or regulations had been implicated by our operations, our International Sanctions Legal Advisers performed the following procedures on our historical sales to Countries subject to International Sanctions: (a) reviewed our documents that evidence the sale of our products to Sudan during the past five years; (b) confirmed that none of our customers of our sales to Sudan during the Track Record Period are on such lists of persons and organisations subject to International Sanctions maintained by the U.S., the EU, UN or Australia; and (c) received written confirmation from us that all relevant documentation regarding the sales to Sudan had been provided to our International Sanctions Legal Advisers, and that neither our Group nor any of our affiliates conducted during the Track Record Period any business dealings in or with any other countries or persons that are the subject of International Sanctions except for the sales for which all documentation was provided.

OFAC is currently reviewing our VSD, and we have not received responses from OFAC as to its rulings or applicable penalty. Our International Sanctions Legal Advisers are working actively to make sure that OFAC has all the required information to resolve this issue. Our International Sanctions Legal Advisers have advised us that, based on their experience in working with companies presenting similar facts before OFAC, that there are a few limited potential outcomes from our VSD submission. First, the most likely result of the VSD will be a cautionary letter issued by OFAC to close out the case without the imposition of any penalty. In the second and less likely outcome, we could be required to pay an administrative penalty for these transactions. The potential penalties for violations of the U.S. sanctions regulations in this case include a monetary fine of up to US\$438,968 based on the relevant enforcement guidelines and the payments identified by the Company as possibly being processed through the U.S. financial system, although any such amount likely would be further reduced by OFAC during the negotiated settlement process by taking into account mitigating factors and the most likely amount would range from US\$6,000 to US\$150,000 after mitigation. Based on the value of the five payments that may have been processed through the U.S. financial system, and our discussions with our International Sanctions Legal Advisers, our Directors are of the view that the maximum administrative penalty that we could be required to pay would not have a material adverse effect on our financial condition or results of operations. Our International Sanctions Legal Advisers have indicated that in order for any criminal penalties to be assessed on us under the applicable U.S. laws and regulations, there would have to be a finding that our actions constituted wilful wrongdoing, and that there are no facts in our case that would support such a finding as confirmed by the Company. As a result, other than the potential administrative penalty, our International Sanctions Legal Advisers believe that no other criminal or civil penalties are foreseeable based on the USD payments we received from customers in Sudan.

In terms of U.S. export control laws, the U.S. Commerce Department's Bureau of Industry and Security ("**BIS**") imposes comprehensive export control restrictions on Sudan under the U.S. Export

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Administration Regulations (“**EAR**”), and Sudan remains designated by the U.S. Government as a state sponsor of terrorism. The EAR applies to exports of commodities, software and technology from the United States to foreign countries and to re-exports from one foreign country to another. In addition, it applies to shipments from one foreign country to another of foreign-made products that incorporate more than *de minimis* amount of controlled U.S. origin parts, components or materials, or are the foreign direct product of certain controlled U.S. technology. As advised by our International Sanctions Legal Advisers, these U.S. export controls do not apply to our Group because our Group (a) does not export products, software or technology from the U.S., (b) does not deal with parties on the BIS Entity List, Denied Parties List, or Unverified List, or (c) does not incorporate 10% (which is the applicable *de minimis* threshold to Sudan) or more of U.S.-origin products, software or technology into its exports, nor are the Group’s products the foreign direct products of certain controlled U.S. technology. For details of the competitive landscape of the oil refining agents and fuel additives industry in Sudan, please refer to “Industry Overview — Overview of the Competitive Landscape of the Oil Refining Agents and Fuel Additives in Sudan.”

UN

UN sanctions measures are adopted via a Resolution of the UN Security Council and are binding upon all members of the UN. During the Track Record Period, the measures imposed against Sudan include prohibitions on the export of arms and related materials to any person in Sudan, and asset freeze and travel ban against persons designated by the 1591 Committee.

On the basis that the Sudanese counterparties are not specifically designated under any existing UN sanctions regime, and the Company’s dealings in Sudan relate solely to the sales of oil refining agents and fuel additives, upon the advice of our International Sanctions Legal Advisers, our business dealings do not implicate restrictive measures adopted by the UN.

EU

Under EU sanction measures, there is no “blanket” ban on doing business in or with a jurisdiction targeted by sanctions measures. It is not generally prohibited or otherwise restricted for a person or entity to do business (involving non-controlled or unrestricted items) with a counterparty in a country subject to EU sanctions where that counterparty is not a Designated Person or engaged in non-Prohibited Activities. During the Track Record Period the EU imposed an arms embargo on Sudan which also covers technical and financial assistance related to arms supplies.

Upon the advice of our International Sanctions Legal Advisers, our business dealings with respect to the identified customers relating to our sales to Sudan do not trigger the prohibitions or wider restrictions adopted by the EU, including those extended to the United Kingdom’s Overseas Territories, since such business activities were not undertaken by the EU or the United Kingdom’s Overseas Territories persons or entities.

Australia

The Australian restrictions and prohibitions arising from the sanctions laws apply broadly to any person in Australia, any Australian anywhere in the world, companies incorporated overseas that are owned or controlled by Australians or persons in Australia, and/or any person using an Australian flag vessel or aircraft to transport goods or transact services subject to UN sanctions. Australia fully implements the UN Security Council sanctions regime in relation to Sudan, and has not imposed any targeted autonomous sanctions in relation to Sudan.

Upon the advice of our International Sanctions Legal Advisers, on the basis that neither the Company nor any of its subsidiaries are connected to Australia in ways mentioned above, our activities do not implicate the prohibitions or wider restrictions under International Sanctions measures administered and enforced by the Government of Australia.

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Our VSD Filing

As noted under “Business Activities in Countries subject to International Sanctions — Sanctions Risk — U.S.” above, we formerly received payments in U.S. dollars from two customers in Sudan that may have violated International Sanctions in 2013 and 2014. However, as advised by our International Sanctions Legal Advisers, we have disclosed these transactions to OFAC in our VSD filing, and believe that no material adverse effect on our financial condition will result from these potential violations. These transactions occurred prior to the Track Record Period. As advised by our International Sanctions Legal Advisers after performing the procedures and analyses set out above, and subject to the results of our VSD filing, our sales to customers in Sudan during the Track Record Period do not implicate restrictions under International Sanctions. Further, given the scope of our Share Offer and the expected use of proceeds as set out in this Prospectus, our International Sanctions Legal Advisers are of the view that the involvement by parties in the Share Offer will not implicate any applicable International Sanctions on such parties, including the Company, the Company’s investors, shareholders, the Stock Exchange and its Listing Committee and group companies, or any person involved in the Share Offer and accordingly, the sanction risk exposure to the Company, its investors and shareholders, and persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of the Company’s shares (including the Stock Exchange, its Listing Committee and related group companies) is very low.

OFAC is currently reviewing our VSD. As of the Latest Practicable Date, our Directors confirm that we have not been notified that any International Sanctions penalties will be imposed on us for our sales and/or deliveries to Sudan. Furthermore, none of the counterparties involved in our Sudan sales are specifically identified on the Specially Designated Nationals and Blocked Persons by OFAC or other restricted parties lists maintained by the EU, Australia and UN and therefore would not be deemed as sanctioned targets. Finally, such sales do not involve industries or sectors that were subject to International Sanctions at the time they occurred and therefore are not deemed to be prohibited activities under the relevant International Sanctions law and regulations.

Our Internal Control Procedures

We will continuously monitor and evaluate our business and take measures to protect the interest of our Group and our Shareholders. Given the fact that comprehensive sanctions against Sudan were permanently lifted effective 12 October 2017, we believe that the Group’s ongoing and future sales in Sudan do not present any risk of sanctions violations, provided that no Special Designated Nationals and Blocked Persons under the SDN List are involved and no violations of the export control laws take place. We intend to continue our sales and/or deliveries to customers in Sudan, subject to our strict adherence to the following measures that have been fully implemented as of the date of this Prospectus:

- we have set up and maintained a separate bank account, which is designated for the sole purpose of the deposit and deployment of the proceeds from the Share Offer or any other funds raised through the Stock Exchange;
- to further enhance our existing internal risk management functions, the Company has established a risk management committee. The members of such committee comprise Mr. Ge, Mr. Huang, and Mr. Tan Qian, and their responsibilities include, among other things, monitoring our exposure to sanctions risks and our implementation of the related internal control procedures. Our risk management committee will hold at least two meetings each year to monitor our exposure to sanctions risks;
- we will evaluate the sanctions risks prior to determining whether we should embark on any business opportunities in Countries subject to International Sanctions and with Sanctioned Persons. According to our internal control procedures, the risk management committee

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needs to review and approve all relevant business transaction documentation from customers or potential customers from Countries subject to International Sanctions and with Sanctioned Persons. In particular, the risk management committee will review the information (such as identity and nature of business as well as its ownership) relating to the counterparty to the contract along with the draft business transaction documentation. The risk management committee will check the counterparty against the various lists of restricted parties and countries maintained by the U.S., the EU, UN or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions which lists are publicly available, and determine whether the counterparty is, or is owned or controlled by, a person located in Countries subject to International Sanctions or a Sanctioned Person. If any potential sanctions risk is identified, we will seek advice from reputable external international legal counsel with necessary expertise and experience in International Sanctions matters;

- our Directors will continuously monitor the use of proceeds from the Share Offer, as well as any other funds raised through the Stock Exchange, to ensure that such funds will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, Countries subject to International Sanctions or Sanctioned Persons where this would be in breach of International Sanctions;
- the risk management committee will periodically review our internal control policies and procedures with respect to sanctions matters. As and when the risk management committee considers necessary, we will retain external international legal counsel with necessary expertise and experience in sanctions matters for recommendations and advice; and
- if necessary, external international legal counsel will provide training programs relating to the sanctions to our Directors, our senior management and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations. Our external international legal counsel will provide current list of Countries subject to International Sanctions and Sanctioned Persons to our Directors, senior management and other relevant personnel, who will in turn disseminate such information throughout our domestic operations and overseas offices and branches.

Our International Sanctions Legal Advisers have reviewed and evaluated these internal control measures and are of the view that these measures are adequate and effective for the Company to ensure its compliance with applicable International Sanctions laws.

Having taken the advice of our International Sanctions Legal Advisers into account, our Directors are of the view that the above measures provide a reasonably adequate and effective internal control framework to assist us in identifying and monitoring any material risk relating to sanctions laws so as to protect the interests of our Shareholders and us. After undertaking the relevant due diligence, subject to the full implementation and enforcement of such measures and taking into account the advice of the International Sanctions Legal Advisers, the Sole Sponsor is of the view that these measures will provide a reasonably adequate and effective internal control framework to assist our Group in identifying and monitoring any material risk relating to sanction laws.

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LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We may from time to time be involved in legal, arbitration or administrative proceedings in the ordinary course of our business. We are not involved in any legal proceedings and spend no more than RMB50,000 annually on legal fees. During the Track Record Period and up to the Latest Practicable Date, there were no legal, arbitration or administrative proceedings pending or threatened against us or any of our Directors which could have a material and adverse effect on our financial condition or results of operations.

Compliance

As confirmed by our PRC Legal Advisers, except for the non-compliance incidents disclosed below, we have complied with all relevant PRC laws and regulations in all material respects and obtained all material requisite licenses, approvals and permits from relevant regulatory authorities for our business operations in China during the Track Record Period and up to the Latest Practicable Date. For more information, see “Regulatory Overview.”

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Non-compliance incident(s)	Reason(s) for the non-compliance incident(s)	Consequences of non-compliance incident(s)	Current status and rectification	Remedies and internal control measures
<p><i>1. Housing provident fund contributions</i></p>				
<p>During the Track Record Period, we failed to register with the relevant housing provident fund authority, and did not make housing provident fund contributions for all eligible employees as required under PRC law. We estimate that the aggregate outstanding amount of housing provident fund contributions was RMB0.9 million as of 30 September 2017.</p>	<p>This non-compliance incident was caused by the inadvertent and unintentional oversight of PRC laws and regulations by our human resources department. Additionally, some of our employees declined to make their housing provident fund contributions based on actual income, for which we would have been required to make matching contributions.</p>	<p>According to the Regulation on the Administration of Housing Provident Fund of the PRC (住房公積金管理条例), the relevant authority may demand that we pay all outstanding housing provident fund contributions within a specified period. The relevant authority may also impose a fine of no less than RMB10,000 and up to RMB50,000 for any failure to open housing provident fund accounts. If we fail to pay within the specified period, the relevant authority may apply to the People's Court to compel us to do so.</p>	<p>In June 2017, we duly registered with the relevant housing provident fund authority and opened our account for the housing provident fund. From June 2017 onwards, we contributed to housing provident funds for all of our eligible employees. On 11 September 2017, we received written confirmation from the Yixing Branch of the Wuxi Housing Provident Fund Management Center (無錫市住房公積金管理中心宜興市中心) that we are in compliance with all applicable PRC laws and regulations or local requirements.</p> <p>Our PRC Legal Advisers have advised us that we are in compliance with all applicable PRC laws and regulations or local requirements in relation to housing provident fund contributions.</p> <p>Our PRC Legal Advisers have advised us that the likelihood of the relevant housing provident fund authorities requiring us to make the outstanding payments or imposing any penalties upon us is remote, based on the following: (i) the interview with the Yixing Branch of the Wuxi Housing Provident Fund Management Center (無錫市住房公積金管理中心宜興市中心) on 5 September 2017, when the regulator confirmed that it will not initiate any administrative action in relation to our non-compliance during the Track Record Period against us; (ii) the fact that the Yixing Branch of the Wuxi Housing Provident Fund Management Center (無錫市住房公積金管理中心宜興市中心) is the competent authority; (iii) the fact that we contributed to housing provident funds for all of our eligible employees from June 2017 onwards;</p>	<p>We have internal control policies in relation to our housing provident fund contributions. Our human resources department will prepare monthly reports regarding employee salaries and contribution amounts. The head of our finance department reviews such reports to avoid future non-compliance. We also conduct internal training on the PRC laws and regulations applicable to this issue, and will emphasize this issue in other company-wide trainings conducted from time to time.</p>

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Non-compliance incident(s)	Reason(s) for the non-compliance incident(s)	Consequences of non-compliance incident(s)	Current status and rectification	Remedies and internal control measures
			<p>and (iv) the fact that as of the Latest Practicable Date, there has been no administrative action initiated nor any fine or penalty imposed against us in relation to this non-compliance incident and the Company has not received any order to settle the outstanding housing provident fund contributions.</p> <p>Out of prudence, we have set aside a provision amount of RMB0.9 million for outstanding contributions accrued during the Track Record Period. In addition, our Controlling Shareholders have agreed to indemnify us for costs, expenses and losses exceeding the provision amount of RMB0.9 million due to this matter. Based on the above, our Directors confirm that this would not have any material and adverse impact on our business and financial condition.</p>	

Non-compliance incident(s)	Reason(s) for the non-compliance incident(s)	Consequences of non-compliance incident(s)	Current status and rectification	Remedies and internal control measures
<p>2. <i>Social insurance contributions</i></p> <p>During the Track Record Period, we did not fully make social insurance fund contributions for all eligible employees, as required under PRC law. We estimate that the aggregate outstanding amount of social insurance fund contributions was RMB1.8 million as of 30 September 2017.</p>	<p>This non-compliance incident was caused by the inadvertent and unintentional oversight of PRC laws and regulations by our human resources department. Additionally, some of our employees declined to make their social insurance contributions based on actual income, for which we would have been required to make matching contributions.</p>	<p>According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), the relevant authority may demand that we pay all outstanding social insurance contributions within a specified period. We may also be subject to a surcharge at a daily rate of 0.05% on the outstanding amount, accruing from when the social insurance funds are due. If we fail to make such payments within the specified period, the relevant authority may impose an additional fine of one to three times the outstanding amount.</p>	<p>Since September 2017, we have already contributed to the social insurance funds for all of our eligible employees. On 14 September 2017, we obtained a written confirmation from the Yixing Social Insurance Fund Management Center (宜興市社會保險基金管理中心) that we are in compliance with applicable PRC laws and regulations or local requirements. Our PRC Legal Advisers have advised us that we are in compliance with applicable PRC laws and regulations or local requirements in relation to social insurance contributions.</p> <p>Based on the interview with the Yixing Social Insurance Fund Management Center (宜興市社會保險基金管理中心) on 5 September 2017 and the written confirmation from the Yixing Labor Security Supervision Authority (宜興市勞動保障監察大隊) on 8 September 2017, our PRC Legal Advisers understand that: (i) the Yixing Social Insurance Fund Management Center (宜興市社會保險基金管理中心) and Yixing Labor Security Supervision Authority (宜興市勞動保障監察大隊) are the respective competent authorities; (ii) no complaint, report nor administrative penalty had been imposed on Jiangsu Chuangxin; (iii) as of the Latest Practicable Date, there has been no administrative action initiated nor any fine or</p>	<p>We have internal control policies in relation to our social insurance fund contributions. Our human resources department will prepare monthly reports regarding employee salaries and contribution amounts. The head of our finance department reviews such reports to avoid future non-compliance, and we conduct internal training on the PRC laws and regulations applicable to this issue.</p>

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Non-compliance incident(s)	Reason(s) for the non-compliance incident(s)	Consequences of non-compliance incident(s)	Current status and rectification	Remedies and internal control measures
			<p>penalty imposed in relation to this non-compliance incident and we have not received any order to settle the outstanding social insurance contributions; and (iv) no enforcement actions has been pursued against us in relation to this non-compliance incident during the Track Record Period. In this regard, our PRC Legal Advisers have advised us that the likelihood that the relevant social insurance authorities will require us to make the outstanding payment or impose any penalty on us is remote.</p> <p>Out of prudence, we have set aside a provision amount of RMB1.8 million for outstanding contributions accrued during the Track Record Period. In addition, our Controlling Shareholders have agreed to indemnify us for costs, expenses and losses exceeding the provision amount of RMB1.8 million due to this matter. Based on the above, our Directors confirm that this would not have any material and adverse impact on our business and financial condition.</p>	

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RISK MANAGEMENT AND INTERNAL CONTROL

We are exposed to various risks during our operations. For more details, see “Risk Factors.” We have established risk management systems with relevant policies and procedures that we believe are appropriate for our business operations. Our policies and procedures relate to managing our procurement, production, sales as well as monitoring our inventories and product quality, among other things.

Our Board oversees and manages the risks associated with our business. We have established an audit committee to review and supervise our financial reporting process and internal control system. The audit committee consists of three members, namely Mr. Guan Dongtao, who serves as chairman of the committee, Mr. Fan Peng and Ms. Wu Yan. For more information, see “Directors and Senior Management.”

In order to improve our corporate governance and to prevent the recurrence of non-compliance incidents in the future, 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 such as effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control system include the following:

- Our Directors and senior management attended a training session on 12 September 2017 in relation to the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong;
- We have adopted various policies to ensure compliance with the Listing Rules, including those in relation to risk management, continuing connected transactions and information disclosure;
- We have implemented internal control policies in relation to financial management;
- We have implemented a series of internal rules and regulations in relation to our business operations, including those in relation to the management of our quality control, sales and marketing, production, procurement, research and development, human resources and information on technology systems; and
- We have implemented relevant policies in relation to our social insurance fund and housing provident fund to ensure future compliance. See “ — Legal Proceedings and Compliance — Compliance.”

We have engaged an internal control consultant to perform certain agreed-upon procedures in relation to our internal control policies with respect to entity-level controls, financial and accounting procedures, recovery of trade receivables, cash management procedures, procurement procedures, intellectual property protection, human resources management procedures, fixed asset management procedures and other general control measures. Our internal control consultant performed the work and put forward recommendations in July 2017 based on the review of our internal control policies. We have implemented all of the material rectification and improvement measures in August 2017, as the case may be, in response to these findings and recommendations. From 4 September to 8 September 2017, our internal control consultant has also completed procedures to follow up on the actions we took in relation to our internal control system.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalization Issue and the Share Offer, assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon exercise of any share options which may be granted under the Share Option Scheme, Innovative Green Holdings will be directly interested in 75% of the enlarged issued share capital of the Company, and Mr. Ge and Ms. Gu will be indirectly collectively interested in 75% of the enlarged issued share capital of the Company through Innovative Green Holdings, an investment holding company. Hence, Mr. Ge, Ms. Gu and Innovative Green Holdings will be our Controlling Shareholders pursuant to the Listing Rules immediately following the Share Offer. Mr. Ge is one of the executive Directors and the Chairman of the Board, and Ms. Gu is one of the executive Directors. Mr. Ge and Ms. Gu are spouses and a group of Controlling Shareholders. For the background of Mr. Ge and Ms. Gu, see “Directors and Senior Management.”

Each of our Controlling Shareholders has confirmed that, save for engaging in the Restricted Business (as defined below) through our Group, none of them or their respective close associates (other than members of our Group) has any interest in a business which competes with, or is likely to compete with, our Group, whether directly or indirectly, which would otherwise require disclosure under Rule 8.10 of the Listing Rules. Each of our Controlling Shareholders has further confirmed that, none of the companies referred to in Note 23 “Related party transactions” to the Accountants’ Report in Appendix I to this Prospectus, which were controlled by our Controlling Shareholders as of the Latest Practicable Date, was engaged in any business which competes or is likely to compete with the business of our Group. Hence, our Directors are of the view that there is a clear delineation between the businesses operated by our Controlling Shareholders and our Group.

NON-COMPETITION UNDERTAKING

In order to ensure that our Controlling Shareholders will not engage in any business undertaking in competition with our Group, each of Mr. Ge, Ms. Gu and Innovative Green Holdings (“**Covenantors**”) has given an irrevocable non-competition undertaking in favor of the Company (for itself and on behalf of each of the members of our Group) under the Deed of Non-Competition pursuant to which, each of the Covenantors has irrevocably, unconditionally and severally undertaken with the Company that, among others, with effect from the Listing Date and for as long as the Shares remain listed on the Stock Exchange and the Covenantors are individually or collectively with any of their respective close associates interested directly or indirectly in not less than 30% of the issued ordinary share capital of the Company (“**Restricted Period**”), each Covenantor shall not, and shall procure that their respective close associates (other than members of our Group) will not:

- (i) save for engaging in the Restricted Business (as defined below) through our Group, directly or indirectly, whether on its own account or in conjunction with or on behalf of any person, carry on, develop, invest in, engage in, participate or be interested in or acquire or hold any right or interest in or otherwise be involved in the development, manufacturing and marketing of oil refining agents and fuel additives or any business (whether as owner, director, operator, licensor, licensee, partner, shareholder, joint venture partner, employee, consultant, agent or otherwise) in competition with or likely to be in competition with the existing business carried on by our Group in the PRC and any part of the world (“**Restricted Business**”); and/or

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (ii) directly or indirectly take any action which constitutes an interference with or a disruption of the Restricted Business including, but not limited to, (a) soliciting our Group's customers, suppliers or personnel of any member of our Group; (b) inducing or soliciting any person to induce any competition or suspension of the business of our Group; and (c) engaging in any business or activity on its own account or jointly with any person, that uses any trade name or trademark (registered or non-registered) of our Group, or any name of our Group that is used in association with our Group's business or activity at intervals, or any fraudulent imitations (except for circumstances in which our Group is involved).

Each of the Covenantors also undertakes to procure that, during the Restricted Period, any business investment or other commercial opportunity within and/or outside the PRC relating to the Restricted Business ("**Business Opportunity**") identified by or offered to the Covenantors and/or any of their close associates ("**Offeror**") is first referred to the Company in the following manner:

- (i) the Covenantors are required to, and shall procure their close associates to, refer, or procure the referral of, the Business Opportunity to the Company, and shall give written notice to the Company of any Business Opportunity containing all information reasonably necessary for the Company to consider whether (a) the Business Opportunity would constitute competition with its core business and/or any other new business which our Group may undertake at the relevant time, and (b) it is in the interest of our Group to pursue the Business Opportunity, including but not limited to the nature of the Business Opportunity and the details of the investment or acquisition ("**Offer Notice**"); and
- (ii) the Offeror will be entitled to pursue the Business Opportunity only if (a) the Offeror has received a written notice from the Company declining the Business Opportunity and confirming that the Business Opportunity would not constitute competition with its core business, or (b) the Offeror has not received the notice from the Company within 20 days from the receipt of the Offer Notice, provided that the principal terms by which the Offeror subsequently pursues the Business Opportunity are not more favorable than those made available to the Company; if there is a material change in the terms and conditions of the Business Opportunity pursued by the Offeror, the Offeror shall refer to the Business Opportunity as so revised to the Company again in the manner as set out above as if it were a new Business Opportunity.

Upon receipt of the Offer Notice, the Company shall seek opinions and decisions from its Board (other than Directors who have a material interest in the matter) as to whether (a) such Business Opportunity would constitute competition with the Company's core business, and (b) it is in the interest of the Company and its Shareholders as a whole to pursue the Business Opportunity. Any Director who has material interest in the Business Opportunity shall abstain from voting at, and shall not be counted towards the quorum for, any meeting or part of a meeting convened to consider such Business Opportunity.

Notwithstanding the aforesaid, the non-competition undertaking as set out above shall not prevent the Covenantors and/or their respective close associates from holding or being interested in a direct or indirect shareholding interest of in aggregate not more than 5% of the issued shares in a company listed on a recognized stock exchange and engaged in any Restricted Business provided that the relevant Covenantors and/or their respective close associates do not control the majority of the composition of the board of directors of that company.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

The Company will adopt the following measures to manage the conflict of interests arising from our Controlling Shareholders and to safeguard the interests of our Shareholders:

- (i) as part of our preparation for the Share Offer, we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provide that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (ii) our independent non-executive Directors will review, on an annual basis, the compliance with the undertaking by the Covenantors under the non-competition undertaking set out in “ — Non-competition Undertaking” in this section;
- (iii) pursuant to Rule 3A.19 of the Listing Rules, we have appointed Orient Capital (Hong Kong) Limited as our compliance adviser with effect from the date of Listing;
- (iv) the Covenantors undertake to provide all information requested by the Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the non-competition undertaking set out in “ — Non-competition Undertaking” in this section;
- (v) the Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the undertaking of the Covenantors under the non-competition undertaking set out in “ — Non-competition undertaking” in this section in the annual reports of the Company;
- (vi) if our independent non-executive Directors consider it necessary or desirable, they may also engage professional advisors (including an independent financial advisor) at the costs of the Company to advise them on matters relating to the non-competition agreement or on any business opportunities which may be referred to us by our Controlling Shareholders; and
- (vii) the Covenantors will make an annual declaration in compliance with their undertaking under the non-competition undertaking set out in “ — Non-competition Undertaking” in this section in the annual reports of the Company.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Our Directors consider that our Group is capable of carrying on its business independent of, and does not place undue reliance on, our Controlling Shareholders and their close associates for the following reasons:

Management Independence

Our Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors. Although two of our Directors, Mr. Ge and Ms. Gu, are also our Controlling Shareholders, all of our other Directors and senior management possess relevant management and/or industry-related experience to act as Directors or senior management of the Company and to make management decisions independent from our Controlling Shareholders. For more information, see “Directors and Senior Management.”

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

In addition, each of our Directors is aware of his/her fiduciary duties as a Director of the Company which requires, among other things, that he/she acts for the benefit and in the best interests of our Group and does not allow any conflict between his/her duties as a Director and his/her personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of the Company in respect of such transactions and shall not be counted in the quorum. In addition, we have a senior management team to make business decisions independently. Our independent non-executive Directors will also bring independent judgment to the decision-making process of our Board.

Based on the above, our Directors are of the view that our Board, as a whole, together with our senior management team, are capable of managing our business independently from our Controlling Shareholders.

Operational Independence

Our Directors consider that our operations do not depend on our Controlling Shareholders for the following reasons:

- (i) we have independent access to sources of supplies or raw materials for the production of our products and also independent access to our customers;
- (ii) we have established a set of internal controls to facilitate the effective operation of our business and an audit committee to oversee the implementation of our internal control system;
- (iii) we have our own registered patents which we can use for producing our products. We are registering trademarks which we can use for marketing our products and services;
- (iv) there is no competing business between our Group and our Controlling Shareholders; and
- (v) there is no continuing connected transaction between our Controlling Shareholders or their associates and any member of our Group.

Based on the above, our Directors are of the view that we are capable of carrying on our business independently of our Controlling Shareholders and their respective close associates.

Financial Independence

Our Group has an independent financial system and makes financial decisions based on our Group's own business needs. We have our own internal control and accounting systems and accounting and finance department to perform independent treasury function on cash receipts and payments, independent accounting and reporting functions and independent internal control function. We are able to obtain financing from third parties or from our internally generated funds without reliance on our Controlling Shareholders.

There are no outstanding loans or guarantees provided by, or granted to, any of our Controlling Shareholders or their respective close associates.

Based on the aforementioned, our Directors are of the view that we are financially independent of our Controlling Shareholders.

DIRECTORS AND SENIOR MANAGEMENT

Our Board currently consists of nine Directors, comprising five executive Directors, one non-executive Director and three independent non-executive Directors. The functions and duties of our Board include convening general meetings, implementing the resolutions passed at the general meetings, determining business and investment plans, formulating our annual financial budget and final accounts and formulating our proposals for profit distributions, as well as exercising other powers, functions and duties as conferred by our Articles.

Our senior management is responsible for the day-to-day management and operation of our business.

The following table sets forth certain information in respect of our Directors and senior management:

Name	Age	Date of appointment as a Director or senior management	Year and month of joining our Group	Current position in the Company	Responsibilities	Relationship with other Directors or senior management
Ge Xiaojun (葛曉軍)	54	18 September 2017	December 2002	Chairman of the Board, executive Director and chief executive officer	Responsible for supervising the overall management, strategic planning and day-to-day operations of our Group	Spouse of Ms. Gu Jufang
Gu Jufang (顧菊芳)	54	18 September 2017	December 2002	Executive Director and general manager	Responsible for supervising the overall management and day-to-day operations of our Group	Spouse of Mr. Ge Xiaojun
Huang Lei (黃磊)	49	18 September 2017	September 2010	Executive Director and vice general manager	Responsible for research and development of our Group	None
Jiang Caijun (蔣才君)	48	18 September 2017	January 2003	Executive Director and vice general manager	Responsible for sales and marketing of our Group	None
Fan Yaqiang (范亞強)	46	18 September 2017	January 2003	Executive Director and sales manager	Responsible for sales of our products	None
Gu Yao (顧耀)	32	18 September 2017	September 2017	Non-executive Director	Responsible for overseeing the strategic development of our Group	Nephew of Ms. Gu Jufang

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Date of appointment as a Director or senior management	Year and month of joining our Group	Current position in the Company	Responsibilities	Relationship with other Directors or senior management
Fan Peng (樊鵬)	35	7 March 2018	March 2018	Independent non-executive Director	Providing independent views on management of our Group	None
Guan Dongtao (管東濤)	46	7 March 2018	March 2018	Independent non-executive Director	Providing independent views on management of our Group	None
Wu Yan (吳燕)	41	7 March 2018	March 2018	Independent non-executive Director	Providing independent views on management of our Group	None
Li Jianjun (李建軍)	43	1 August 2004	August 2004	Financial controller	Responsible for financial matters of our Group	None
Tan Qian (談前)	47	18 September 2017	February 2007	Company secretary	Responsible for international trade matters and assisting overall management and day-to-day operations of our Group	None

DIRECTORS

Executive Directors

Mr. Ge Xiaojun (葛曉軍), aged 54, is the chairman of the Board, the executive Director and chief executive officer of the Company. Mr. Ge is primarily responsible for supervising the overall management, strategic planning and day-to-day operations of our Group. Mr. Ge has more than 30 years of sales and management experience in the oil refining agents and fuel additives industry. Prior to joining our Group, Mr. Ge held various positions in Yixing HanGuang Group (宜興市漢光集團) from February 1985 to August 1998, where he last served as a sales manager and was primarily responsible for sales of oil refining agents and fuel additive products. From August 1998 to December 2002, Mr. Ge was the supervisor of Yixing Innovation Refining Agent Co., Ltd (宜興市創新煉化助劑有限公司) and primarily responsible for the overall management and operations. Mr. Ge has been serving as the executive director of Jiangsu Chuangxin since December 2002 and is primarily responsible for supervising the overall management, strategic planning and day-to-day operations. From December 2009 to June 2015, Mr. Ge served as a director and general manager of Jiangsu Suiquan Financing Assurance Co., Ltd. (江蘇穗全融資擔保有限公司). Mr. Ge also served as the chairman of the board of directors and general manager of Dalian Free Trade Zone Innovation Refining Agent Co., Ltd (大連保稅區創新煉化助劑有限公司) (“**Dalian Innovation**”) since April

DIRECTORS AND SENIOR MANAGEMENT

2002. Mr. Ge held 38.76% of equity interest and served as a director in Dalian Innovation, with a capital contribution of RMB1.0 million. Dalian Innovation's business license was revoked in June 2006 due to the fact that it did not complete the annual enterprise inspection. The company was deregistered on 12 December 2017. Our Directors confirm that Dalian Innovation was solvent upon the deregistration. Mr. Ge graduated with a bachelor degree (remote-education) of business administration from China University of Petroleum (Beijing) (中國石油大學(北京)) in January 2016. Mr. Ge is qualified with a Senior Economist Certificate issued by Jiangsu Province Personnel Department (江蘇省人事廳) in 2009. Mr. Ge was awarded the title of Wuxi Outstanding Private Entrepreneur (優秀民營企業家) by Wuxi Municipal People's Government (無錫市人民政府) in April 2009.

Mr. Ge is the spouse of Ms. Gu. Immediately following the completion of the Capitalization Issue and the Share Offer (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon exercise of any share options which may be granted under the Share Option Scheme), Mr. Ge will hold 50% interest in Innovative Green Holdings, a Controlling Shareholder holding 75% interest in the Company.

Ms. Gu Jufang (顧菊芳), aged 54, is the executive Director and the general manager of the Company. Ms. Gu is primarily responsible for supervising the overall management and day-to-day operations of our Group. Ms. Gu has approximately 30 years of management experience in the oil refining agents and fuel additives industry. Prior to joining our Group, Ms. Gu held various positions in Yixing HanGuang Group from February 1985 to August 1998, where she last served as the vice office manager and was primarily responsible for daily administrative affairs. Ms. Gu also served as a director of Dalian Innovation since April 2002. Ms. Gu has been serving as the general manager of Jiangsu Chuangxin since December 2002 and is primarily responsible for supervising the overall management and day-to-day operations. Ms. Gu has also been the supervisor of Jiangsu Suiquan Financing Assurance Co., Ltd. from December 2009 to June 2015. Ms. Gu graduated from Suzhou Worker University of Science and Technology (蘇州職工科技大學) in July 2000 with a bachelor's degree and China University of Petroleum (Beijing) in January 2013 with a diploma (remote-education), both majoring in business administration.

Ms. Gu is the spouse of Mr. Ge. Immediately following the completion of the Capitalization Issue and the Share Offer (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon exercise of any share options which may be granted under the Share Option Scheme), Ms. Gu will hold 50% interest in Innovative Green Holdings, a Controlling Shareholder holding 75% interest in the Company.

Mr. Huang Lei (黃磊), aged 49, is the executive Director and vice general manager of the Company. Mr. Huang is primarily responsible for research and development of our Group. Mr. Huang has more than 26 years of research and development experience in the oil refining agents and fuel additives industry. Prior to joining our Group, Mr. Huang held various positions in Sinopec Jiujiang Branch (中國石化九江分公司) from July 1990 to August 2010, where he last served as the vice manager of technology department and was primarily responsible for technology research. Mr. Huang has been the vice general manager of Jiangsu Chuangxin since September 2010 and is primarily responsible for technology research and development. Mr. Huang was granted Senior Engineer Qualification by China Petrochemical Corporation (中國石油化工集團公司) in November 2001. Mr. Huang was one of the main participants of several projects which were issued awards such as Advance Technology Award (Third Class) by China Petrochemical Corporation in 2007. Mr. Huang graduated with a bachelor degree of chemical engineering from Dalian University of Technology (大連理工大學) in July 1990.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Jiang Caijun (蔣才君), aged 48, is the executive Director and vice general manager of the Company. Mr. Jiang is primarily responsible for sales and market development of our Group. Mr. Jiang has more than 20 years of sales and management experience. From 1988 to 2002, Mr. Jiang held various positions in Yixing HanGuang Group, where he last served as the office manager and the assistant general manager and was primarily responsible for daily administrative affairs. Mr. Jiang has been the vice general manager of Jiangsu Chuangxin since January 2003 and is primarily responsible for sales and marketing management.

Mr. Fan Yaqiang (范亞強), aged 46, is the executive Director and sales manager of the Company. Mr. Fan is primarily responsible for sales of our products. Mr. Fan has more than 14 years of sales experience in the oil refining agents and fuel additives industry. Prior to joining our Group, from September 1998 to December 1999, Mr. Fan served as the sales personnel at the sales department of Yixing HanGuang Group (宜興市漢光集團). From January 2000 to December 2002, Mr. Fan served as the sales manager of Yixing Chuangxin Lianhua Zhuji Co., Ltd (宜興市創新煉化助劑有限公司). Mr. Fan has been the sales manager of Jiangsu Chuangxin since January 2003 and is primarily responsible for sales and market development. Mr. Fan graduated from China University of Petroleum (Beijing) in July 2016, with a diploma (remote-education) majoring in chemical engineering and technology.

Non-executive Director

Mr. Gu Yao (顧耀), aged 32, is the non-executive Director of the Company. Mr. Gu is primarily responsible for overseeing the strategic development of our Group. Mr. Gu has more than eight years of investment and financial management experience. Prior to joining our Group, Mr. Gu served as the finance manager of Yixing HanGuang Hi-Tech Petrochemical Co., Ltd (宜興漢光高新石化有限公司) from September 2008 to December 2011. From January 2012 to July 2016, Mr. Gu served as the investment manager of Shanghai Shambhala Investment Management Co., Ltd (上海尚寶投資管理有限公司). Mr. Gu has been the investment manager of Topsearch Printed Circuits (HK) Ltd (至卓飛高綫路板(香港)有限公司) since August 2016 and is primarily responsible for market development in the PRC. Mr. Gu graduated from Shanghai University of Finance and Economics (上海對外貿易學院) in July 2008, majoring in finance.

Independent Non-executive Directors

Mr. Fan Peng (樊鵬), aged 35, was appointed as our independent non-executive Director on 7 March 2018. Mr. Fan has over ten years of experience in accounting and corporate financing. Since October 2017, he has been the chief financial officer of CashBUS (Cayman) Limited. Prior to that, he was the Head of Investor Relations and Capital Markets of Dali Foods Group Company Limited, a company listed on the Stock Exchange (stock code: 3799), and was responsible for investor relations, corporate development, mergers and acquisitions. Before that, Mr. Fan Peng was vice president of the corporate finance division of the Hong Kong Branch of Deutsche Bank AG. From May 2007 to December 2007, he was an analyst in the investment banking department of HSBC Markets (Asia) Limited. Mr. Fan was a business analyst in the investment banking group of Macquarie Investment Advisory (Beijing) Co, Ltd. from July 2006 to May 2007. Mr. Fan graduated from Tsinghua University, with a bachelor's degree in accounting and master's degree in business administration in July 2004 and July 2006, respectively.

Mr. Guan Dongtao (管東濤), aged 46, was appointed as our independent non-executive Director on 7 March 2018. Mr. Guan has over 24 years of experience in accounting and corporate financing. From September 1993 to August 1999, Mr. Guan served as the audit manager of Jiangsu Yixing Accounting Firm (江蘇宜興會計事務所). From August 1999 to August 2001, Mr. Guan served as the financial manager of Jiangsu Hengxin Technology Co., Ltd (江蘇亨鑫科技有限公司). From October 2001 to August 2007, Mr. Guan served as the financial manager of Shunte Electronic Co., Ltd (順特電氣有限公司). From August 2007 to July 2008, Mr. Guan served as the chief accountant of

DIRECTORS AND SENIOR MANAGEMENT

Qianjiang Electronic Group Co., Ltd (錢江電氣集團股份有限公司). From September 2008 to December 2012, Mr. Guan served as the financial manager of Jiangsu Junzhi Jishu Co., Ltd (江蘇俊知技術有限公司), a company listed on the Stock Exchange (stock code: 01300). Since December 2012 till present, Mr. Guan is the chief financial officer of Flying Technology Co., Ltd (展鵬科技股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603488). Mr. Guan graduated from Soochow University in June 1993, with a bachelor's degree in economics (major in accounting). Mr. Guan was qualified as a certified public accountant of the People's Republic of China in 1994 and obtained a professional accounting certificate in 1998.

Ms. Wu Yan (吳燕), aged 41, was appointed as our independent non-executive Director on 7 March 2018. Ms. Wu has over 17 years of experience serving as a lawyer. Ms. Wu has served as a director in Jiangsu Manxiu Law office (Yixing) (江蘇漫修(宜興)律師事務所) since February 2008. She also worked at Jiangsu Jingxi Law office (江蘇荆溪律師事務所) from January 2001 to December 2007. Ms. Wu graduated from National Judges College (國家法官學院), with a college diploma of economics law in July 2000. Ms. Wu was qualified as a lawyer of the People's Republic of China in June 2001. She served as an independent non-executive director of Jiangsu Zhongchao Holding Co., Ltd. (江蘇中超控股有限公司) (stock code: 002471) since March 2015, and Jiangsu Gaoke Petrochemical Company Limited (江蘇高科石化股份有限公司) (stock code: 002778) since March 2017, both listed on the Shenzhen Stock Exchange.

Disclosure Required under Rule 13.51(2) of the Listing Rules

Save as disclosed above, none of our Directors:

- (i) held any other positions in the Company or other members of our Group as of the Latest Practicable Date;
- (ii) had any other relationship with any Directors, senior management or substantial shareholders or Controlling Shareholders of the Company as of the Latest Practicable Date; and
- (iii) held any other directorships in listed public companies in the three years prior to the Latest Practicable Date.

Except for such interests of the executive Directors in the Shares which are disclosed in “Substantial Shareholders” and “Appendix V — Statutory and General Information — Further Information about Our Directors — 11. Disclosure of Interests,” none of our Directors has any interest in the Shares within the meaning of Part XV of the SFO or is a director or an employee of a company which has an interest or short position in the Shares and underlying Shares of the Company.

Each of our Directors has confirmed that none of them is engaged in, or interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business.

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

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

For biographical details of Mr. Ge, Ms. Gu, Mr. Huang Lei, Mr. Jiang Caijun and Mr. Fan Yaqiang, see “ — Directors — Executive Directors.”

Mr. Li Jianjun (李建軍), aged 43, is the financial controller of the Company. Mr. Li is primarily responsible for financial matters of our Group. Mr. Li has more than 20 years of financial accounting experience. Mr. Li has been the financial controller of Jiangsu Chuangxin since August 2004 and is primarily responsible for financial matters of our Group. Mr. Li graduated from Soochow University (蘇州大學) in July 1999, majoring in accounting. Mr. Li is an intermediate-level accountant certified by MOF.

Mr. Tan Qian (談前), aged 47, is the company secretary of the Company. Mr. Tan is primarily responsible for international trade matters, assisting the overall management and day-to-day operations of our Group. Mr. Tan has more than 20 years of international trade and administrative management experience as well as accounting experience. Prior to joining Jiangsu Chuangxin during the period from March 1995 to January 2007, Mr. Tan worked in Yixing Shunlang Property Development Co., Ltd. (宜興順浪物業發展有限公司) as the chief accountant and the assistant to the general manager, and was primarily responsible for accounting matters. Mr. Tan has been the international trade manager of Jiangsu Chuangxin since February 2007 and is currently also the supervisor and assistant to general manager of Jiangsu Chuangxin. Mr. Tan is primarily responsible for international trade matters, assisting the overall management and day-to-day operations. Mr. Tan graduated from Jiangsu Agricultural Broadcasting and Television School (江蘇省農業廣播電視學校) majoring in finance in July 1994 and from Nanjing Normal University majoring in English in December 1999. Mr. Tan was issued the Certificate of Accounting Profession by Yixing Municipal Finance Bureau (宜興市財政局) in 2005.

JOINT COMPANY SECRETARIES

Mr. Young Ho Kee, Bernard (楊浩基), aged 36, has been our joint company secretary since 18 September 2017. Mr. Young is an assistant vice president of SW Corporate Services Group Limited and is responsible for assisting listed companies in professional company secretarial work. Mr. Young is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. Young holds a Bachelor's degree in Accountancy from the Hong Kong Polytechnic University. He has over 10 years of experience in company secretarial management and compliance.

Mr. Tan Qian (談前), aged 47, has been our joint company secretary since 18 September 2017. For biographical details of Mr. Tan, please see “ — Senior Management.”

BOARD COMMITTEES

Each of the three Board committees has written terms of reference. The committees operate in accordance with the terms of reference established by our Board.

Audit Committee

We have established an audit committee pursuant to a resolution of our Board passed on 11 March 2018. Our audit committee has written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report (“CG Code”) set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee of the Company are to make recommendations to our Board on the appointment and dismissal of the external auditor, monitor and review the financial statements and information and oversee the financial reporting system, risk management and internal control systems of the Company. At present, our audit committee consists

DIRECTORS AND SENIOR MANAGEMENT

of three members: Mr. Guan Dongtao, Mr. Fan Peng and Ms. Wu Yan, all being our independent non-executive Directors. The chairman of the audit committee is Mr. Guan Dongtao, who is appropriately qualified as required under the Note to Rule 3.10(2) and Rule 3.21 of the Listing Rules.

Remuneration Committee

We have established a remuneration committee pursuant to a resolution of our Board passed on 11 March 2018. The Company has written terms of reference in compliance with the CG Code. The primary duties of the remuneration committee of the Company are to make recommendation to our Board on the overall remuneration policy and structure for all Directors and senior management of our Group, review remuneration and ensure none of our Directors determine their own remuneration. At present, the remuneration committee consists of three members: Ms. Wu Yan, Mr. Guan Dongtao and Ms. Gu. The chairman of the remuneration committee is Ms. Wu Yan.

Nomination Committee

We have established a nomination committee pursuant to a resolution of our Board passed on 11 March 2018. The Company has written terms of reference in compliance with the CG Code. The primary duties of the nomination committee of the Company are to review the structure, size, composition and diversity of our Board at least annually and make recommendation to our Board regarding candidates to fill vacancies on our Board and/or in senior management. At present, the nomination committee consists of three members: Mr. Ge, Ms. Wu Yan and Mr. Guan Dongtao. The chairman of the nomination committee is Mr. Ge.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The Directors and senior management receive compensation from our Group mainly in the form of fees, salaries, contributions to retirement schemes, allowances and benefits in kind. The aggregate remuneration (including fees, salaries, contributions to retirement schemes, discretionary bonuses, allowances and other benefits in kind) we paid to our Directors for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017 was RMB165,000, RMB165,000, RMB164,000 and RMB566,000, respectively. Further information on the remuneration of each Director during the Track Record Period is set out in Note 8 to the Accountants' Report as set out in Appendix I to this Prospectus.

Under the arrangements currently in force, the aggregate amount of remuneration (excluding any discretionary bonus which may be paid) payable to the Directors for the year ended 31 December 2017 is estimated to be approximately RMB902,000.

The aggregate remuneration (including fees, salaries, contributions to retirement schemes, discretionary bonuses, housing and other allowances and other benefits in kind) we paid to our senior management for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017 was RMB1.1 million, RMB1.0 million, RMB1.0 million and RMB0.8 million, respectively.

The five highest paid individuals of our Group in respect of the three years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017 included one Director, one Director, one Director and three Directors, respectively, whose remunerations are included in the aggregate amount of fees, salaries, contributions to retirement schemes, discretionary bonuses, housing and other allowances and other benefits in kind we paid to the relevant Directors set out above.

DIRECTORS AND SENIOR MANAGEMENT

During the Track Record Period, no remuneration was paid to the Directors or the five highest paid individuals as an inducement to join or upon joining our Group. No compensation was paid to, or receivable by, the Directors or past directors or the five highest paid individuals during the Track Record Period for the loss of office as 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.

Save as disclosed above, no other payments have been paid or are payable in respect of the Track Record Period to the Directors by our Group. None of the Directors waived any emoluments during the Track Record Period.

The Company will regularly review and determine the remuneration and compensation packages of our Directors and senior management. After Listing, the remuneration committee of the Company will review the remuneration and compensation packages of our Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of our Directors and senior management and performance of our Group and make recommendation to the Board. After the Listing, our Directors and senior management may also receive options to be granted under the Share Option Scheme.

WAIVER FROM THE STOCK EXCHANGE

Management Presence in Hong Kong

According 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 our executive Directors must be ordinarily resident in Hong Kong. Currently, given that our Group's main business operations are located in China and all of our executive Directors are based in the PRC, we do not and, for the foreseeable future, will not have sufficient management presence in Hong Kong.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from compliance with Rule 8.12 of the Listing Rules. For further details, see "Waivers and Exemptions from Strict Compliance with the Listing Rules and the Companies (Winding up and Miscellaneous Provisions) Ordinance."

COMPLIANCE ADVISER

We have appointed Orient Capital (Hong Kong) Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to provide us with services including providing guidance and advice in connection with compliance with the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the Company must consult with and, if necessary, seek advice from the compliance adviser on a timely basis in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including but not limited to share issues and share repurchases;
- (iii) where the Company proposes to use the proceeds of the Share Offer in a manner different from that detailed in this Prospectus or where our business activities, development or results of the Company deviate from any forecast, estimate, or other information in this Prospectus; and
- (iv) where the Stock Exchange makes inquiries of the Company regarding unusual movements in the price or trading volume of Shares, the possible development of a false market in its securities, or any other matters as mentioned under Rule 13.10 of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

The term of appointment of our compliance adviser will commence on the Listing Date and will end on the date of dispatch of our annual report in respect of our financial results for the first full financial year commencing after the Listing Date.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme on 11 March 2018 under which certain selected classes of participants (including, among others, Directors and full-time employees) may be granted options to subscribe for the Shares to motivate them to optimize their future contributions to our Group. The principal terms of the Share Option Scheme are summarized in “Appendix V — Statutory and General Information — Share Option Scheme.”

CORPORATE GOVERNANCE

Our Directors recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of our Group so as to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. To accomplish this, we will comply with the CG Code after the Listing.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons or entities will, immediately following the completion of the Capitalization Issue and the Share Offer (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon exercise of any share options which may be granted under the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly and/or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group:

Name	Capacity	Number of Shares held (L) ⁽¹⁾	Approximate percentage of shareholding in the Company
Mr. Ge	Interest in controlled corporation ⁽²⁾	360,000,000 Shares	75%
Ms. Gu	Interest in controlled corporation ⁽²⁾	360,000,000 Shares	75%
Innovative Green Holdings	Beneficial owner	360,000,000 Shares	75%

Notes:

- (1) The Letter “L” denotes the entity/person’s long position in the Shares.
- (2) Innovative Green Holdings is owned as to 50% and 50% by Mr. Ge and Ms. Gu, respectively, and therefore each of Mr. Ge and Ms. Gu is deemed to be interested in the Shares held by Innovative Green Holdings under Part XV of the SFO.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Capitalization Issue and the Share Offer (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon exercise of any share options which may be granted under the Share Option Scheme), have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the 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 shares carrying rights to vote in all circumstances at general meetings of any other members of our Group.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of the Company in issue and to be issued as fully paid or credited as fully paid immediately following the completion of the Capitalization Issue and the Share Offer:

Authorized Share Capital

	HK\$
1,500,000,000 Shares	15,000,000

Issued Share Capital

Assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme, the issued share capital of the Company immediately following the completion of the Capitalization Issue and the Share Offer will be as follows:

	HK\$
<i>Issued share capital:</i>	
1 Share in issue at the date of this Prospectus	0.01
<i>Shares to be issued, fully paid or credited as fully paid:</i>	
359,999,999 Shares to be issued pursuant to the Capitalization Issue ⁽¹⁾	3,599,999.99
<u>120,000,000</u> Shares to be issued pursuant to the Share Offer	<u>1,200,000.00</u>
<u>480,000,000</u> Total	<u>4,800,000.00</u>

Assuming the Over-allotment Option is exercised in full and without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme, the issued share capital of the Company immediately following the completion of the Capitalization Issue and the Share Offer will be as follows:

	HK\$
<i>Issued share capital:</i>	
1 Share in issue at the date of this Prospectus	0.01
<i>Shares to be issued, fully paid or credited as fully paid:</i>	
359,999,999 Shares to be issued pursuant to the Capitalization Issue ⁽¹⁾	3,599,999.99
120,000,000 Shares to be issued pursuant to the Share Offer	1,200,000.00
18,000,000 Shares to be issued upon exercise of the Over-allotment Option in full	180,000.00
<u>498,000,000</u> Total	<u>4,980,000.00</u>

SHARE CAPITAL

Note:

- (1) Pursuant to the written resolutions passed by our Shareholders on 11 March 2018 and the resolutions passed by our Board on 11 March 2018, conditional on the share premium account of the Company being credited and the Company having sufficient distributable reserves arising from the issue of the Offer Shares by the Company as a result of the Share Offer or otherwise having sufficient balance, our Directors were authorized to capitalize all or a portion, as the case may be, of the balance of the share premium account of the Company and apply such sum in paying up in full at par value a total of 359,999,999 Shares for allotment and issue to the existing Shareholder of the Company whose name appears on the register of members of the Company as of the date of such resolutions, namely Innovative Green Holdings, and the Shares to be allotted and issued pursuant to the Capitalization Issue shall rank *pari passu* in all respects with the existing issued Shares.

Assumptions

The above tables assume the Share Offer has become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account: (i) any Shares which may be allotted and issued pursuant to the issue mandate (as described below); or (ii) any Shares which may be repurchased by the Company upon exercise of the repurchase mandate after the Listing (as described below).

Ranking

Our Shares are ordinary shares in our share capital and rank *pari passu* with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of issue of such Share.

ISSUE MANDATE

Subject to the Share Offer becoming unconditional, our Directors have been granted a general and unconditional mandate to allot, issue and deal with Shares with a total number of not more than the sum of:

- (i) 20% of the total number of Shares in issue immediately following completion of the Capitalization Issue and the Share Offer (excluding any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme); and
- (ii) the total number of Shares repurchased by the Company (if any) upon exercise of the repurchase mandate after the Listing as referred to below.

The issue mandate will expire at the earliest of:

- (i) the conclusion of the Company's next annual general meeting;
- (ii) the date by which the Company is required by the applicable laws or the Articles of Association to hold our next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting.

For more information on this issue mandate, see "Appendix V — Statutory and General Information — Further Information about Our Group — 3. Resolutions in Writing Passed by Our Shareholders on 11 March 2018."

SHARE CAPITAL

REPURCHASE MANDATE

Subject to the Share Offer becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of the Company to repurchase Shares with a total number of not more than 10% of the total number of Shares in issue and to be issued immediately following the completion of the Capitalization Issue and the Share Offer (excluding any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme).

The repurchase mandate only relates to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose) and which are in accordance with the Listing Rules and all other applicable laws, regulations and rules.

The repurchase mandate will expire at the earliest of:

- (i) the conclusion of the Company's next annual general meeting;
- (ii) the date by which the Company is required by the applicable laws or the Articles of Association to hold our next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting.

For more information on this repurchase mandate, see "Appendix V — Statutory and General Information — Further Information about Our Group — 6. Repurchase by the Company of Its Own Securities."

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme on 11 March 2018. Further details of the rules of the Share Option Scheme are set out in "Appendix V — Statutory and General Information — Share Option Scheme."

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

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

The 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 terms of the Memorandum of Association and the Articles of Association, the Company may from time to time by ordinary resolutions of Shareholders (i) increase its share capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, the Company may, subject to the provisions of the Cayman Companies Law, reduce the share capital or capital redemption reserve by our Shareholders passing a special resolution. For more information, see "Appendix IV — Summary of the Constitution of the Company and Cayman Company Law."

SHARE CAPITAL

Pursuant to the Cayman Companies Law and the terms of the Memorandum of Association and the Articles of Association, all or any of the special rights attached to the Shares or any class of shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. For more information, see “Appendix IV — Summary of the Constitution of the Company and Cayman Company Law.”

FINANCIAL INFORMATION

The following discussion and analysis should be read in conjunction with our consolidated financial statements included in “Appendix I — Accountants’ Report,” together with the accompanying notes. The consolidated financial statements have been prepared in accordance with HKFRS.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. See “Risk Factors” and “Forward-looking Statements.”

OVERVIEW

We develop, manufacture and market oil refining agents and fuel additives that are primarily applied to reduce undesirable emissions and comply with the evolving regulatory requirements. Our oil refining agents are used to refine crude oil and extend the working life of oil refining units, reducing undesirable emissions in the form of industrial waste. Our fuel additives are used to assist customers in complying with evermore stringent mandatory emissions regulations while maintaining the quality and efficiency of fuels. Our key oil refining agents are desulfurizing agents and metal passivators, while our key fuel additives are lubricity improvers. According to CIC, we ranked among the top five players in China’s oil refining agents and fuel additives industry and occupied around 1.7% of the total market in terms of domestic revenue in 2016. Those top five, including us, collectively occupied a market share of approximately 12.1%.

We believe that our long-term customer relationships, research and development capabilities and experienced senior management team have allowed and will continue to allow us to consolidate our market share. Over time we formed long-standing relationships with various Affiliates of three state-owned conglomerates, namely Sinopec, CNPC and CNOOC. When an existing or potential customer launches a tender, we believe that we are more likely to be awarded contracts as we have accumulated valuable experience in relation to the development and manufacturing of oil refining agents and fuel additives.

Our utilization rate for oil refining agents increased from 52.8% in 2014 to 54.0% in 2015 and 58.4% in 2016, and further to 99.1% for the nine months ended 30 September 2017. Our utilization rate for fuel additives increased from 46.5% in 2014 to 64.2% in 2015 and 89.1% in 2016, and decreased slightly to 95.8% for the nine months ended 30 September 2017. During the Track Record Period, we experienced rising customer demand for our oil refining agents and fuel additives. In anticipation of the continuously increasing production volume of our products, we intend to upgrade our Yixing Plant and expand our production capacity. For more information, see “Business — Production — Plans to Upgrade our Yixing Plant.”

We experienced steady growth during the Track Record Period. Our total revenue for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017 was RMB105.1 million, RMB114.4 million, RMB135.7 million and RMB146.0 million, respectively, and our profit for the year amounted to RMB16.4 million, RMB23.2 million, RMB33.3 million and RMB23.7 million, respectively, for the same periods.

FINANCIAL INFORMATION

BASIS OF PRESENTATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 6 July 2017. Pursuant to the Reorganization, which was completed on 12 September 2017, the Company became the holding company of the companies comprising our Group. Apart from the Reorganization, the Company has not commenced any business or operation since its incorporation. For more information, see “History, Reorganization and Corporate Structure.”

As all the companies now comprising our Group that took part in the Reorganization were controlled by the same Controlling Shareholders before and after the Reorganization, there was a continuation of risks and benefits to the Controlling Shareholders. Accordingly, the Reorganization is considered to be a business combination under common control and Accounting Guideline 5 “Merger Accounting for Common Control Combinations.” The financial information has been prepared as if our Group has always been in existence and the net assets of the companies now comprising our Group are combined using the existing book values from the Controlling Shareholder’s perspective.

During the Track Record Period, Jiangsu Chuangxin had a subsidiary named Jiangsu Suiquan Financing Assurance Co., Ltd. (“**Jiangsu Suiquan**”), which provided financial guarantee services. Jiangsu Suiquan maintained separate management personnel and accounting records. It ceased its business in 2013 and was deregistered in 2015. This financial information has been prepared excluding the assets, liabilities and results of operations of Jiangsu Suiquan, whose business is considered by the Directors of the Company to be clearly delineated from those of the Group and whose assets, liabilities, revenues and expenditures are clearly identifiable.

The financial information included in “Appendix I — Accountants’ Report” to this Prospectus has been prepared in accordance with HKFRS. These principles were consistently applied throughout the Track Record Period. In addition, the Financial Information also complies with disclosures required by the Listing Rules.

Except for available-for-sale financial assets, the financial information has been prepared on the historical cost basis and is presented in Renminbi. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and the period-to-period comparability of our financial results are affected by a number of external factors. Our financial information may not be indicative of our future earnings, cash flows or financial position for numerous reasons, including those described below:

Demand for oil refining agents and fuel additives and the evolving landscape of enhanced environmental laws in China

According to CIC, the number of automobiles in China reached a total of 165.6 million in 2016, representing a CAGR of 16.2% for the past ten years. The rapidly expanding automobile market boosted the demand for petroleum products in China. As the number of automobiles on the road increases, there are also growing concerns on the part of the public and the PRC Government on the effects of automobile exhaust on the environment. Members of the public have been adopting and using fuels of better quality, while the PRC Government implements evermore stringent mandatory emissions regulations to enhance the sustainability of the modern economy. For example, with the promulgation of the “China V” Fuel Quality Standard, members of the petrochemical industry must lower sulfur levels in fuels from 50 ppm as required under the “China IV” Fuel Quality Standard to 10 ppm, a reduction of 80%.

FINANCIAL INFORMATION

We believe that these trends are likely to boost demand for oil refining agents and fuel additives in China, where we derive a significant portion of our revenue. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, we derived 81.4%, 82.6%, 75.7% and 85.5% of our total revenue, respectively, from sales of our oil refining agents and fuel additives in China. Our customers, who are primarily corporations that operate oil refineries in the petrochemical industry, purchase our oil refining agents and fuel additives to reduce undesirable emissions, enhance the quality and efficiency of their fuels and comply with the evolving regulatory requirements. According to CIC, the oil refining agents and fuel additives industry has enjoyed rapid development in the past several decades, and this is expected to continue. Total sales value for the oil refining agents and fuel additives industry grew from RMB5,706.5 million in 2012 to RMB6,151.2 million in 2016, representing a CAGR of 1.9%. The oil refining agents and fuel additives industry is expected to reach RMB7,486.2 million in 2021 in terms of sales value, representing a CAGR of 4.0% from 2016. We believe that we will continue to benefit from the growth in demand for oil refining agents and fuel additives in China.

Production capacity and volume

Our production volume increased significantly in recent years. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, production volumes for our oil refining agents and fuel additives amounted to 5,386.0 tons, 5,854.7 tons, 6,743.1 tons and 7,714.9 tons, respectively. For the period between 31 December 2014 and 31 December 2016, our production volumes increased by 25.2%.

Our utilization rates increased generally throughout the Track Record Period. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, our utilization rates for oil refining agents were 52.8%, 54.0%, 58.4% and 99.1%, respectively. This increasing trend was mainly due to a substantial increase in our production volume. We produced more oil refining agents to meet a significant purchase order by one of our customers and the increasing customer demand during the first three quarters of 2017. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, our utilization rates for fuel additives were 46.5%, 64.2%, 89.1% and 95.8%, respectively, primarily due to an increase in the production volume of our lubricity improvers in response to rising customer demand. During the Track Record Period, we experienced rising customer demand for our oil refining agents and fuel additives. In anticipation of the continuously increasing production volume of our products, we intend to upgrade our Yixing Plant and expand our production capacity, investing approximately 41.0%, or approximately HK\$42.8 million, of net proceeds from the Share Offer to do so. We believe that upgrading our Yixing Plant, and thereby expanding our production capacity, will allow us to generate higher production volumes and timely meet customer orders.

We intend to optimize our production lines by increasing our production capacity for our products, including lubricity improvers and desulfurizing agents. Furthermore, we plan to purchase new sets of machinery, equipment and analytical instruments. See “Business — Production — Plans to Upgrade our Yixing Plant” for more information. We are confident that the plans to upgrade our Yixing Plant will streamline our production processes and enhance efficiencies, allowing us to hone pricing and cost advantages over our competitors. We expect that our future results of operations will be positively affected by our ability to capitalize on the results of our upgrade works and ensure that they achieve the intended economic consequences.

FINANCIAL INFORMATION

Cost of products sold

Our oil refining agents and fuel additives are produced with 50 to 60 types of raw materials, the majority of which we source from qualified PRC suppliers. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, we incurred raw material costs and cost of distribution of RMB62.0 million, RMB63.8 million, RMB72.0 million, RMB56.6 million and RMB91.0 million, respectively, representing 96.2%, 96.8%, 96.7%, 97.1% and 98.1% of our total cost of sales, respectively.

Most of these costs are attributable to our procurement of raw materials such as MDEA, tall oil fatty acid, antimony trioxides and T154, among other things. Accordingly, fluctuations in the availability and price of these raw materials have a significant impact on our cost of sales and overall performance. The prices of most of our raw materials may fluctuate in accordance with global crude oil prices. Additionally, in 2017, we experienced price fluctuations in antimony trioxides due to factors beyond our control. However, we are able to manage our exposure by reviewing the website of Asian Metal Ltd. at <http://www.asianmetal.com/>. It provides updated information on pricing, news and other data or statistics for the metals market and is considered authoritative among industry professionals. We will consider the prices of antimony trioxides set forth on the website and select suppliers whom we believe offer reasonable terms. The price of antimony trioxides corresponds to the availability of antimony in the market. To the extent that we cannot manage price fluctuations, we will pass cost increases onto our customers through price adjustment mechanisms or by accounting for the possibility of such fluctuations in setting prices for our own products. In addition, we seek to build stable, long-term working relationships with our suppliers to enable us in negotiating for favorable terms and conditions. We believe that fluctuations in raw material prices may continue to affect our business operations and financial results.

During the Track Record Period, cost of distribution mainly comprised lubricity improvers and static dissipater additives, diesel oil cetane number improvers, desulfurizing agents from International Supplier, Total and EURENCO.

Adjustment of selling price for strategic reasons

During the Track Record Period, our overall gross profit margin was 38.6%, 42.4%, 45.1%, 45.6% and 36.4% for the year ended 31 December 2014, 2015, 2016 and nine months ended 30 September 2016 and 2017, respectively. Decrease in our gross profit margin for the nine months ended 30 September 2017 was mainly attributable to the low sales price of certain of our products in relation to the significant purchase order by one of our customers, an independent third party of the Company and a subsidiary of CNOOC, where the cost of sales were generally stable. We may consider lowering our gross profit margin in order to gain significant market share of similar products in the industry.

We may also offer relatively lower prices of certain products to our customers who we believe are of strategic value. For example, we offer our desulfurizing agent product to International Supplier at a substantially lower price because our Directors believe that the requirement of H₂S in emissions would become more stringent in China, and a long-term relationship with International Supplier built up by, among other things, offering our products at a relatively low price to them, would likely bring us competitive advantage regarding special gas-treating desulfurizing agent product.

FINANCIAL INFORMATION

Notwithstanding the fluctuation of selling price for certain products and to certain customers, we monitor the selling price of all our products and those offered to our customers from time to time and evaluate the reasonableness of our pricing decisions to ensure reasonable profitability in the long term.

Contracts awarded through participating in tenders

During the Track Record Period, a substantial portion of our revenue in China was derived from purchase orders we obtained through participating in tenders. As such, sales volumes for our products are affected by the quantity and nature of contracts we are awarded through participating in tenders. In some years one or more of our customers may require a large amount of some products, such as desulfurizing agents, perhaps to service newly-purchased oil refining units. In such cases we will experience a substantial increase in sales volumes for that particular product. We may also win additional tender contracts, or be awarded tender contracts for smaller purchase orders as our customers do not require as much of a particular product as in previous years. Thus, sales volumes for our oil refining agents and fuel additives fluctuated across different periods during the Track Record Period.

As we cannot precisely predict the quantity and nature of our tender contracts with certainty, we generally make our procurement plans based on contracts that we have been awarded rather than our forecasts. One of the factors that affect our existing or potential customers' decisions in deciding to whom to award contracts include the prices we quote on our tender submissions. We determine our prices taking into consideration, among other things, the cost of our raw materials, delivery costs, prevailing market conditions, labor and production costs, supply of, demand for and profit margin of a particular product. For more information, see "Business — Sales and Marketing — Pricing Policy" and " — Cost of products sold."

Because of the variety of products that we produce and sell, and the myriad factors, including those outlined above, affecting pricing and sales volume with respect to each product, our results of operations are also impacted by our product mix for any year or period.

Taxation

We were certified as a "High and New Technology Enterprise" in 2013, which allows us to enjoy a lower tax rate of 15%, as compared to 25%, for a period of three years from 2013 to 2015. Our certification was renewed in 2016 for a period of three years from 2016 to 2018. As such, we were entitled to a preferential income tax rate of 15% for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017. Under the PRC Corporate Income Tax Law and its relevant regulations, an additional tax deduction of 50% is allowed for qualified research and development costs. We expect to continue enjoying preferential tax treatment with reduced income tax rates. Our effective tax rate for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017 was 15.3%, 16.1%, 14.8%, 14.8% and 15.3%, respectively.

However, preferential tax treatment granted to us by governmental authorities is subject to review and could be adjusted or terminated. The expiration and discontinuation of any preferential tax treatment currently available to us will cause our effective tax rate to increase, which could have a material adverse effect on our results of operations. For more information, see "Risk Factors — Risks Relating to Our Business and Industry — Discontinuation of any of the preferential tax treatments we enjoy or imposition of any additional taxes could adversely affect our financial condition and results of operations."

Credit periods and trade receivables

During the Track Record Period, we set credit periods ranging from 30 to 90 days for our PRC customers, calculated from the dates that our invoices were issued. As most of our customers were

FINANCIAL INFORMATION

Affiliates of the three state-owned conglomerates, they generally have longer payment periods, which our Directors believe is due to longer internal approval processes, causing us to have a large amount of overdue trade receivables at any given time. We employ a favorable credit policy towards our customers due to their scale and financial strength. We did not have any material bad debts during the Track Record Period.

As of 31 December 2014, 2015 and 2016 and 30 September 2017, our trade and bills receivables amounted to RMB53.9 million, RMB40.1 million, RMB63.0 million and RMB108.1 million, respectively. Our average trade and bills receivable turnover days were 149.3, 128.2, 118.5 and 137.1 days for those same periods, respectively. Such credit periods, amounts of trade and other receivables and turnover periods are common among our competitors.

To manage our credit risk, we have a credit policy in place and the exposures to our credit risks are monitored on an ongoing basis. Our senior management team will perform individual credit evaluations on all customers, and taking into account information specific to the customer and the economic environment in which the customer operates. As of 31 December 2014, 2015 and 2016 and 30 September 2017, no trade receivables were individually determined to be impaired.

Exchange rates

During the Track Record Period, sales to Sudan accounted for a significant portion of our revenue. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, sales to Sudan amounted to RMB17.0 million, RMB17.3 million, RMB29.6 million and RMB18.7 million, respectively, representing 16.2%, 15.1%, 21.8% and 12.8% of our total revenue, respectively. As part of our long-term strategy to expand our customer base, we intend to reach out to potential customers overseas. We expect that revenue and expenses denominated in foreign currencies will increase significantly if we expand our global footprint. Material fluctuations in exchange rates could adversely affect our profit after taxation and retained earnings.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies that we believe are significant to the preparation of our financial information. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments related to accounting items. In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. When reviewing our financial information, you should consider: (i) the selection of accounting policies; (ii) the judgments and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. Our significant accounting policies, estimates and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in Notes 2 and 3 of the Accountants' Report in Appendix I to this Prospectus, respectively. We have not noted any material differences between the estimates and actual results during the Track Record Period. Also, there have not been any significant changes in our estimates or underlying assumptions in the past. Our methods and assumptions are unlikely to change going forward.

FINANCIAL INFORMATION

DESCRIPTION OF COMPONENTS OF RESULTS OF OPERATIONS

Revenue

By product

During the Track Record Period, we generated revenue from our sales of oil refining agents and fuel additives. Our revenue for the years ended 31 December 2014, 2015, 2016 and the nine months ended 30 September 2016 and 2017 was RMB105.1 million, RMB114.4 million, RMB135.7 million, RMB107.0 million and RMB146.0 million, respectively. The majority of our revenue was derived from oil refining agents that we sold. For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, revenue derived from oil refining agents we sold represented 83.9%, 72.8%, 64.0%, 68.8% and 61.5% of our total revenue, respectively. The following table sets forth a breakdown of our revenue by product category for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2014		2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
<i>Products sold</i>										
Oil refining agents	88,154	83.9	83,149	72.8	86,705	64.0	73,573	68.8	89,771	61.5
Fuel additives.....	16,202	15.4	25,982	22.7	33,973	25.0	24,502	22.9	25,491	17.5
<i>Products distributed</i>										
Oil refining agents	—	—	2,445	2.1	5,346	3.9	2,236	2.0	16,218	11.0
Fuel additives.....	774	0.7	2,797	2.4	9,626	7.1	6,704	6.3	14,547	10.0
Total revenue	105,130	100.0	114,373	100.0	135,650	100.0	107,015	100.0	146,027	100.0

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The following table sets forth the average selling price and sale volume by product category for the periods indicated:

	Year ended 31 December						Nine months ended 30 September													
	2014		2015		2016		2016		2017											
	Average Selling Price per ton	Sales Volume	Average Selling Price per ton	Sales Volume	Average Selling Price per ton	Sales Volume	Average Selling Price per ton	Sales Volume	Average Selling Price per ton	Sales Volume	Average Selling Price per ton	Sales Volume								
	RMB '000	tons	%	RMB '000	tons	%	RMB '000	tons	RMB '000	tons	RMB '000	tons	RMB '000	tons	%					
<i>Products sold</i>																				
Oil refining agents.....	18.4	88,154	4,799	83.9	15.5	83,149	5,379	72.8	16.5	86,705	5,262	64.0	16.7	73,573	4,406	68.8	12.9	89,771	6,936	61.5
Fuel additives.....	20.6	16,202	788	15.4	17.2	25,982	1,511	22.7	16.3	33,973	2,083	25.0	16.7	24,502	1,472	22.9	16.1	25,491	1,588	17.5
<i>Products distributed</i>																				
Oil refining agents.....	—	—	—	—	20.4	2,445	120	2.1	20.8	5,346	257	3.9	20.3	2,236	110	2.0	19.8	16,218	818	11.0
Fuel additives.....	32.3	774	24	0.7	23.3	2,797	120	2.4	13.7	9,626	704	7.1	12.8	6,704	524	6.3	12.6	14,547	1,150	10.0
Total revenue	18.7	105,130	5,611	100.0	16.0	114,373	7,130	100.0	16.33	135,650	8,306	100.0	16.43	107,015	6,512	100.0	13.9	146,027	10,492	100.0

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By geography

During the Track Record Period, we sold the majority of our products to customers in China. The following table sets forth the breakdown of our revenue by geography for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2014		2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
China	85,579	81.4	94,447	82.6	102,680	75.7	75,652	70.7	124,877	85.5
Sudan	17,014	16.2	17,251	15.1	29,555	21.8	27,948	26.1	18,687	12.8
Others ⁽¹⁾	2,537	2.4	2,675	2.3	3,415	2.5	3,415	3.2	2,463	1.7
Total revenue	105,130	100.0	114,373	100.0	135,650	100.0	107,015	100.0	146,027	100.0

Note:

- (1) Other countries and regions in which we had sales during the Track Record Period included Chad, Niger and Algeria in Africa. We sell our products to certain of our customers in these countries and regions through their designated agents.

Cost of sales

By nature

Our cost of sales primarily includes raw material costs and cost of distribution. Our cost of sales for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017 was RMB64.5 million, RMB65.9 million, RMB74.5 million, RMB58.3 million and RMB92.8 million, respectively, representing 61.4%, 57.6%, 54.9%, 54.4% and 63.6% of our total revenue, respectively. The increase in our cost of sales during the Track Record Period generally paralleled the increase in our revenue. The following table sets forth the components of our cost of sales by nature for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2014		2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Raw material costs.....	61,400	95.2	59,203	89.9	60,123	80.7	49,293	84.6	69,251	74.6
Cost of distribution.....	613	1.0	4,563	6.9	11,919	16.0	7,276	12.5	21,770	23.5
Labor costs	1,201	1.9	1,253	1.9	1,418	1.9	1,037	1.8	1,028	1.1
Utilities costs	533	0.8	364	0.6	420	0.6	315	0.5	346	0.4
Depreciation	512	0.8	259	0.4	305	0.4	226	0.4	262	0.3
Others.....	259	0.3	213	0.3	329	0.4	121	0.2	148	0.1
Total cost of sales.....	64,518	100.0	65,855	100.0	74,514	100.0	58,268	100.0	92,805	100.0

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The following table sets forth the costs of major types of raw materials:

	Year ended 31 December						Nine months ended 30 September			
	2014		2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
MDEA	19,248	31.3	18,642	31.5	16,835	28.0	14,792	30.0	33,785	48.8
Tall Oil Fatty Acid	8,604	14.0	14,975	25.3	19,907	33.1	14,270	28.9	13,414	19.4
Antimony Trioxides	6,338	10.3	3,690	6.2	6,301	10.5	5,193	10.5	5,379	7.8
T154	4,211	6.9	3,048	5.1	2,374	3.9	1,820	3.7	1,919	2.8
Others	22,999	37.5	18,848	31.9	14,706	24.5	13,218	26.9	14,754	21.2
Total raw material costs	<u>61,400</u>	<u>100.0</u>	<u>59,203</u>	<u>100.0</u>	<u>60,123</u>	<u>100.0</u>	<u>49,293</u>	<u>100.0</u>	<u>69,251</u>	<u>100.0</u>

By product

The following table sets forth our cost of sales by product category for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2014		2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
(unaudited)										
<i>Products sold</i>										
Oil refining agents	52,618	81.5	44,204	67.2	40,695	54.6	34,782	59.7	55,874	60.2
Fuel additives	11,287	17.5	17,088	25.9	21,899	29.4	16,210	27.8	15,161	16.3
<i>Products distributed</i>										
Oil refining agents	—	—	2,260	3.4	4,642	6.2	2,067	3.6	11,443	12.4
Fuel additives	613	1.0	2,303	3.5	7,278	9.8	5,209	8.9	10,327	11.1
Total cost of sales	<u>64,518</u>	<u>100.0</u>	<u>65,855</u>	<u>100.0</u>	<u>74,514</u>	<u>100.0</u>	<u>58,268</u>	<u>100.0</u>	<u>92,805</u>	<u>100.0</u>

Gross profit and gross profit margin

For the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, our gross profit amounted to RMB40.6 million, RMB48.5 million, RMB61.1 million, RMB48.7 million and RMB53.2 million, respectively. Our gross profit margin was 38.6%, 42.4%, 45.1%, 45.6% and 36.4%, respectively, for the same periods. The table below sets forth our gross profit and gross profit margin by product category for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2014		2015		2016		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
(unaudited)										
<i>Products sold</i>										
Oil refining agents	35,536	40.3	38,945	46.8	46,010	53.1	38,791	52.7	33,897	37.8
Fuel additives	4,915	30.3	8,894	34.2	12,074	35.5	8,292	33.8	10,330	40.5
<i>Products distributed</i>										
Oil refining agents	—	—	185	7.6	704	13.2	169	7.6	4,775	29.4
Fuel additives	161	20.8	494	17.7	2,348	24.4	1,495	22.3	4,220	29.0
Total gross profit/gross profit margin	<u>40,612</u>	<u>38.6</u>	<u>48,518</u>	<u>42.4</u>	<u>61,136</u>	<u>45.1</u>	<u>48,747</u>	<u>45.6</u>	<u>53,222</u>	<u>36.4</u>

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Other income

Our other income mainly consists of service income, government grants, net foreign exchange gains/loss and interest income from available-for-sale financial assets. Our other income for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017 amounted to RMB0.9 million, RMB2.0 million, RMB2.5 million, RMB1.1 million and RMB0.7 million, respectively.

Sales and marketing expenses

Our sales and marketing expenses consist primarily of delivery costs and hospitality and entertainment costs. Our sales and marketing expenses for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017 were RMB8.2 million, RMB8.4 million, RMB9.7 million, RMB6.7 million and RMB5.4 million, respectively. The following table sets forth the components of our sales and marketing expenses by nature for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2014		2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Delivery costs.....	4,212	51.6	4,105	48.8	4,241	43.8	3,038	45.4	3,512	64.8
Hospitality and entertainment costs.....	1,586	19.4	1,543	18.4	1,738	18.0	1,057	15.8	687	12.7
Technical support fees	—	—	—	—	774	8.0	580	8.7	—	—
Labor and welfare.....	733	9.0	742	8.8	668	6.9	498	7.5	392	7.2
Travel expenses	297	3.6	334	4.0	486	5.0	472	7.1	308	5.7
Depreciation costs.....	850	10.4	733	8.7	521	5.4	442	6.6	210	3.9
Costs related to the tendering process	—	—	143	1.7	489	5.1	457	6.8	176	3.2
Conference and marketing.....	465	5.7	722	8.6	546	5.6	62	0.9	2	0.0
Others	25	0.3	83	1.0	217	2.2	78	1.2	136	2.5
Total sales and marketing expenses.....	8,168	100.0	8,405	100.0	9,680	100.0	6,684	100.0	5,423	100.0

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General and administrative expenses

Our general and administrative expenses consist primarily of labor and welfare costs, depreciation and amortization and taxes. Our general and administrative expenses for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017 were RMB9.1 million, RMB9.2 million, RMB9.4 million, RMB7.2 million and RMB15.1 million, respectively. The table below sets forth the components of our general and administrative expenses by nature for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2014		2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Professional service fees.....	281	3.1	314	3.4	335	3.6	235	3.3	9,334	61.7
Labor and welfare.....	2,614	28.6	2,491	26.9	2,664	28.5	1,968	27.3	2,240	14.8
Taxes	1,186	13.0	1,626	17.6	1,532	16.3	1,267	17.6	1,131	7.5
Depreciation and amortization	2,285	25.0	2,077	22.5	1,615	17.2	1,333	18.5	786	5.2
Office and vehicles expenses .	876	9.6	911	9.9	782	8.4	562	7.8	610	4.1
Hospitality and entertainment costs.....	730	8.0	661	7.1	745	7.9	554	7.7	442	2.9
Travel expenses	751	8.2	758	8.2	988	10.5	817	11.3	307	2.0
Bad debts	158	1.7	(90)	(1.0)	104	1.1	104	1.4	(66)	(0.4)
Others.....	243	2.8	500	5.4	607	6.5	371	5.1	326	2.2
Total general and administrative expenses ...	<u>9,124</u>	<u>100.0</u>	<u>9,248</u>	<u>100.0</u>	<u>9,372</u>	<u>100.0</u>	<u>7,211</u>	<u>100.0</u>	<u>15,110</u>	<u>100.0</u>

Research and development expenses

Our research and development expenses for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017 were RMB4.8 million, RMB5.2 million, RMB5.5 million, RMB3.5 million and RMB5.4 million, respectively, accounting for 4.6%, 4.5%, 4.1%, 3.2% and 3.7% of our total revenue, respectively. Such expenses consisted primarily of salary payments, raw material costs and depreciation of our machinery, equipment and analytical instruments. We intend to continue investing in our research and development capabilities, as we believe research and development is essential to our business growth.

Income tax expense

During the Track Record Period, we were subject to a tax rate of 25% pursuant to the EIT Law effective from 1 January 2008. We were certified as a “High and New Technology Enterprise” in 2013, which allows us to enjoy a lower tax rate of 15%, as compared to 25%, for a period of three years from 2013 to 2015. Our certification was renewed in 2016 for a period of three years from 2016 to 2018. As such, we were entitled to a preferential income tax rate of 15% for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017. Under the PRC Corporate Income Tax Law and its relevant regulations, an additional tax deduction of 50% is allowed for qualified research and development costs.

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Our income tax expense for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017 was RMB3.0 million, RMB4.4 million, RMB5.8 million, RMB4.8 million and RMB4.3 million, respectively. Our effective tax rate for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017 was 15.3%, 16.1%, 14.8%, 14.8% and 15.3%, respectively.

Our Directors confirm that we have paid all relevant taxes and are not subject to any dispute or unsolved tax issues with the relevant tax authorities in China.

Profit for the year/period

As a result of the foregoing, we recorded profits of RMB16.4 million, RMB23.2 million, RMB33.3 million, RMB27.7 million and RMB23.7 million for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, respectively.

RESULTS OF OPERATIONS

The following table sets forth certain income and expense items from our consolidated statements of profit or loss and other comprehensive income and such items as a percentage of our revenue for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2014		2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Revenue	105,130	100.0	114,373	100.0	135,650	100.0	107,015	100.0	146,027	100.0
Cost of sales	(64,518)	(61.4)	(65,855)	(57.6)	(74,514)	(54.9)	(58,268)	(54.4)	(92,805)	(63.6)
Gross profit	40,612	38.6	48,518	42.4	61,136	45.1	48,747	45.6	53,222	36.4
Other income	896	0.9	1,970	1.7	2,548	1.9	1,077	1.1	733	0.5
Sales and marketing expenses	(8,168)	(7.8)	(8,405)	(7.3)	(9,680)	(7.1)	(6,684)	(6.2)	(5,423)	(3.7)
General and administrative expenses	(9,124)	(8.7)	(9,248)	(8.1)	(9,372)	(6.9)	(7,211)	(6.7)	(15,110)	(10.3)
Research and development expenses	(4,823)	(4.6)	(5,190)	(4.5)	(5,509)	(4.1)	(3,459)	(3.2)	(5,427)	(3.7)
Profit from operations	19,393	18.4	27,645	24.2	39,123	28.8	32,470	30.6	27,995	19.2
Finance costs	—	—	—	—	—	—	—	—	(78)	(0.1)
Profit before taxation	19,393	18.4	27,645	24.2	39,123	28.8	32,470	30.6	27,917	19.1
Income tax	(2,973)	(2.8)	(4,443)	(3.9)	(5,777)	(4.3)	(4,811)	(4.5)	(4,265)	(2.9)
Profit for the year/period	16,420	15.6	23,202	20.3	33,346	24.6	27,659	26.1	23,652	16.2

Nine months ended 30 September 2017 compared with nine months ended 30 September 2016

Revenue

Our revenue increased by 36.5% from RMB107.0 million for the nine months ended 30 September 2016 to RMB146.0 million for nine months ended 30 September 2017, primarily due to increases in revenue derived from oil refining agents we sold and revenue derived from fuel additives and oil refining agents we distributed.

Revenue derived from oil refining agents we sold increased by 22.0% from RMB73.6 million for the nine months ended 30 September 2016 to RMB89.8 million for the nine months ended 30 September 2017. This increase was primarily because: (i) sales volumes of desulfurizing agents increased, such that revenue generated from sales of those products increased by RMB21.4 million

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from the nine months ended 30 September 2016 to the nine months ended 30 September 2017, which was mainly due to a significant purchase order of those products by one of our customers to service its new oil-refining units; and (ii) sales volumes for corrosion inhibitors increased, such that revenue generated from sales of those products increased by RMB4.0 million from the nine months ended 30 September 2016 to the nine months ended 30 September 2017. These increases were partially offset by: (i) decreases in our sales volumes of neutralizing agents, such that revenue generated from sales of those products decreased by RMB4.4 million from the nine months ended 30 September 2016 to the nine months ended 30 September 2017; and (ii) decreases in our selling price of defoaming agents, such that revenue generated from sales of those products decreased by RMB1.8 million from the nine months ended 30 September 2016 to the nine months ended 30 September 2017.

Revenue derived from fuel additives we sold slightly increased by 4.0% from RMB24.5 million for the nine months ended 30 September 2016 to RMB25.5 million for the nine months ended 30 September 2017. This increase was primarily because sales volumes of lubricity improvers increased, such that revenue generated from sales of those products increased by RMB2.0 million from the nine months ended 30 September 2016 to the nine months ended 30 September 2017, partially offset by the decrease in the sales volumes of gasoline stabilizers due to decreasing customer demand, such that revenue generated from sales of those products decreased by RMB1.0 million from the nine months ended 30 September 2016 to the nine months ended 30 September 2017.

Revenue derived from oil refining agents we distributed increased significantly from RMB2.2 million for the nine months ended 30 September 2016 to RMB16.2 million for the nine months ended 30 September 2017. This increase was primarily because sales volumes for desulfurizing agents increased mainly because we had seven new customers due to the evermore stringent mandatory emissions regulations in China, such that revenue generated from distribution of those products increased by RMB14.0 million from the nine months ended 30 September 2016 to the nine months ended 30 September 2017.

Revenue derived from fuel additives we distributed substantially increased from RMB6.7 million for the nine months ended 30 September 2016 to RMB14.5 million for the nine months ended 30 September 2017. This increase was primarily because: (i) sales volumes for lubricity improvers increased mainly because our two existing customers increased their production volume, such that revenue generated from sales of those products increased by RMB5.1 million from the nine months ended 30 September 2016 to the nine months ended 30 September 2017; and (ii) revenue from EURENCO's diesel oil cetane number improvers we distributed increased by RMB3.1 million during the nine months ended 30 September 2017.

Cost of sales

Our cost of sales increased by 59.3% from RMB58.3 million for the nine months ended 30 September 2016 to RMB92.8 million for the nine months ended 30 September 2017. This was primarily due to the increase in: (i) our raw material costs, the principal component of our cost of sales, by 40.5% from RMB49.3 million for the nine months ended 30 September 2016 to RMB69.3 million for the nine months ended 30 September 2017; and (ii) cost of distribution, which increased by RMB14.5 million from RMB7.3 million to RMB21.8 million for the same periods.

Our cost of sales for oil refining agents we sold increased by 60.6% from RMB34.8 million for the nine months ended 30 September 2016 to RMB55.9 million for the nine months ended 30 September 2017. This increase was primarily because: (i) we consumed higher volumes of raw materials as our sales volumes increased; and (ii) prices for MDEA increased for the nine months ended 30 September 2017.

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Our cost of sales for fuel additives we sold decreased by 6.5% from RMB16.2 million for the nine months ended 30 September 2016 to RMB15.2 million for the nine months ended 30 September 2017. This decrease was primarily because prices for tall oil fatty acid decreased for the nine months ended 30 September 2017.

Our cost of sales for oil refining agents we distributed increased significantly from RMB2.1 million for the nine months ended 30 September 2016 to RMB11.4 million for the nine months ended 30 September 2017. This increase was primarily because sales volumes for desulfurizing agents increased and we thus purchased higher volumes of desulfurizing agents for distribution for the nine months ended 30 September 2017, partially offset by a decrease in purchase prices.

Our cost of sales for fuel additives we distributed substantially increased from RMB5.2 million for the nine months ended 30 September 2016 to RMB10.3 million for the nine months ended 30 September 2017. This increase was primarily because sales volumes for both diesel oil cetane number improvers and lubricity improvers increased and we thus purchased higher volumes of both products for distribution for the nine months ended 30 September 2017.

Gross profit and gross profit margin

Our gross profit increased by 9.2% from RMB48.7 million for the nine months ended 30 September 2016 to RMB53.2 million for nine months ended 30 September 2017. Our gross profit margin decreased from 45.6% for the nine months ended 30 September 2016 to 36.4% for nine months ended 30 September 2017.

Our gross profit for oil refining agents we sold decreased by 12.6% from RMB38.8 million for the nine months ended 30 September 2016 to RMB33.9 million for the nine months ended 30 September 2017. Our gross profit margin decreased from 52.7% for the nine months ended 30 September 2016 to 37.8% for the nine months ended 30 September 2017 primarily because the gross profit margin in relation to the significant purchase order by one of our customers, an independent third party of the Company and a subsidiary of CNOOC, with whom we seek to develop a strategic relationship, was 10.7%, and purchase prices for MDEA, a key raw material, increased. Although the gross profit margin of the sale to this customer was relatively low, our Directors believe that it was still within the reasonable range given that the sale was a bulk purchase and it would help us build up a long-term relationship with this customer, who would likely bring us great competitive advantage in the future.

Our gross profit for fuel additives we sold increased by 24.6% from RMB8.3 million for the nine months ended 30 September 2016 to RMB10.3 million for the nine months ended 30 September 2017. Our gross profit margin increased from 33.8% for the nine months ended 30 September 2016 to 40.5% for the nine months ended 30 September 2017 primarily because prices for tall oil fatty acid decreased for the nine months ended 30 September 2017. At the beginning of 2017, the price of tall oil fatty acid experienced a sudden fall, which was considered a delayed reaction to the crude oil price drop in 2016.

Our gross profit for oil refining agents we distributed substantially increased from RMB0.2 million for the nine months ended 30 September 2016 to RMB4.8 million for the nine months ended 30 September 2017. Our gross profit margin increased from 7.6% for the nine months ended 30 September 2016 to 29.4% for the nine months ended 30 September 2017 primarily because our gross profit margin for desulfurizing agents increased by 15.7% due to a decrease in purchase prices as a result of our bigger purchase quantities, thereby raising our gross profit margin for the nine months ended 30 September 2017 as a whole.

Our gross profit for fuel additives we distributed substantially increased from RMB1.5 million for the nine months ended 30 September 2016 to RMB4.2 million for the nine months ended 30 September 2017. Our gross profit margin increased from 22.3% for the nine months ended 30

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September 2016 to 29.0% for the nine months ended 30 September 2017 primarily because: (i) our gross profit margin for lubricity improvers increased by 7.4 percentage point; and (ii) our gross profit margin for diesel oil cetane number improvers increased by 4.6 percentage point because we sold diesel oil cetane number improver at higher price to a new customer. The combination of the above two factors raised our gross profit margin for the nine months ended 30 September 2017 as a whole.

Other income

Our other income decreased by 31.9% from RMB1.1 million for the nine months ended 30 September 2016 to RMB0.7 million for the nine months ended 30 September 2017 primarily due to a decrease in the gain of foreign exchange of RMB0.6 million. Such loss was because our sales to and trade and bills receivables from foreign customers were mainly in U.S. dollars, which depreciated against Renminbi for the nine months ended 30 September 2017 compared to the appreciation for the nine months ended 30 September 2016. The loss was partially offset by the slight increase of RMB0.3 million in service income.

Sales and marketing expenses

Our sales and marketing expenses decreased by 18.9% from RMB6.7 million for the nine months ended 30 September 2016 to RMB5.4 million for the nine months ended 30 September 2017 primarily because of a decrease in the hospitality and entertainment costs of RMB0.4 million, a decrease in the costs related to the tendering process of RMB0.3 million and a decrease in technical support fees of RMB0.6 million as we did not incur any expenses in relation to consulting on the quality standards and technical requirements of one of our customers for the nine months ended 30 September 2017.

General and administrative expenses

Our general and administrative expenses substantially increased by 109.5% from RMB7.2 million for the nine months ended 30 September 2016 to RMB15.1 million for nine months ended 30 September 2017 primarily because of the increase of RMB9.0 million in professional service fees in relation to the Listing.

Research and development expenses

Our research and development expenses increased by 56.9% from RMB3.5 million for the nine months ended 30 September 2016 to RMB5.4 million for nine months ended 30 September 2017 primarily because our raw material costs for experimentation purposes increased by RMB1.2 million because the number of our customers increased and they had different requirements in product feature, which required more research activities consuming raw materials. Our travel expenses also increased by RMB0.4 million.

Income tax expense

Our income tax expense decreased by 11.3% from RMB4.8 million for the nine months ended 30 September 2016 to RMB4.3 million for nine months ended 30 September 2017. Our effective tax rate slightly increased from 14.8% for the nine months ended 30 September 2016 to 15.3% for the nine months ended 30 September 2017.

Profit for the period

As a result of the foregoing, our profit decreased by 14.5% from RMB27.7 million for the nine months ended 30 September 2016 to RMB23.7 million for nine months ended 30 September 2017, and our net profit margin decreased from 25.8% to 16.2% during the same period.

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Year ended 31 December 2016 compared with year ended 31 December 2015

Revenue

Our revenue increased by 18.6% from RMB114.4 million for the year ended 31 December 2015 to RMB135.7 million for the year ended 31 December 2016 due to increases in revenue derived from oil refining agents and fuel additives that we sold and distributed.

Revenue derived from oil refining agents we sold increased by 4.3% from RMB83.1 million for the year ended 31 December 2015 to RMB86.7 million for the year ended 31 December 2016. This increase was primarily because sales volumes for defoaming agents, metal passivators, antifouling agents and neutralizing agents increased, such that revenue generated from sales of those products increased by RMB3.8 million, RMB3.7 million, RMB3.7 million and RMB3.3 million, respectively, from the year ended 31 December 2015 to the year ended 31 December 2016. These increases were partially offset by the fact that: (i) we did not sell any sulfolane in 2016, in comparison to the fact that we generated RMB5.5 million in revenue from sales of sulfolane for the year ended 31 December 2015; and (ii) sales volumes for corrosion inhibitors decreased, such that revenue generated from sales of those products decreased by RMB2.3 million from the year ended 31 December 2015 to the year ended 31 December 2016.

Revenue derived from fuel additives we sold increased by 30.8% from RMB26.0 million for the year ended 31 December 2015 to RMB34.0 million for the year ended 31 December 2016. This increase was primarily because sales volumes for lubricity improvers increased due to the increased demand from our existing customers because of the evermore stringent mandatory emissions regulations, such that revenue generated from sales of those products increased by RMB7.7 million from the year ended 31 December 2015 to the year ended 31 December 2016.

Revenue derived from oil refining agents we distributed increased by 118.7% from RMB2.4 million for the year ended 31 December 2015 to RMB5.3 million for the year ended 31 December 2016. This increase was primarily because sales volumes for desulfurizing agents increased in line with rising customer demand, such that revenue generated from sales of those products increased by RMB2.9 million from the year ended 31 December 2015 to the year ended 31 December 2016.

Revenue derived from fuel additives we distributed increased substantially from RMB2.8 million for the year ended 31 December 2015 to RMB9.6 million for the year ended 31 December 2016. This increase was primarily because: (i) sales volumes for lubricity improvers increased, such that revenue generated from sales of those products increased by RMB4.3 million from the year ended 31 December 2015 to the year ended 31 December 2016; and (ii) sales volumes for diesel oil cetane number improvers increased, such that revenue generated from sales of those products increased by RMB2.8 million from the year ended 31 December 2015 to the year ended 31 December 2016. The increases in sales volumes for both products are due to rising customer demand.

Cost of sales

Our cost of sales increased by 13.1% from RMB65.9 million for the year ended 31 December 2015 to RMB74.5 million for the year ended 31 December 2016. This was primarily due to a substantial increase in cost of distribution from RMB4.6 million for the year ended 31 December 2015 to RMB11.9 million for the year ended 31 December 2016, while our raw material costs remained at similar levels.

Our cost of sales for oil refining agents we sold decreased by 7.9% from RMB44.2 million for the year ended 31 December 2015 to RMB40.7 million for the year ended 31 December 2016. This

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decrease was primarily because for the year ended 31 December 2016, (i) we did not sell any sulfolane and therefore did not incur any related costs; and (ii) we consumed lower volumes of MDEA for desulfurizing agents. These decreases were offset by our higher consumption of antimony trioxides as we sold higher volumes of metal passivators.

Our cost of sales for fuel additives we sold increased by 28.2% from RMB17.1 million for the year ended 31 December 2015 to RMB21.9 million for the year ended 31 December 2016. This increase was primarily because for the year ended 31 December 2016, sales volumes for lubricity improvers increased and we thus consumed higher volumes of tall oil fatty acid for their production.

Our cost of sales for oil refining agents we distributed increased by 105.4% from RMB2.3 million for the year ended 31 December 2015 to RMB4.6 million for the year ended 31 December 2016. This increase was primarily because for the year ended 31 December 2016, sales volumes for desulfurizing agents increased and we thus purchased higher volumes of desulfurizing agents for distribution.

Our cost of sales for fuel additives we distributed increased substantially from RMB2.3 million for the year ended 31 December 2015 to RMB7.3 million for the year ended 31 December 2016. This increase was primarily because: (i) sales volumes for diesel oil cetane number improvers increased as we began distributing diesel oil cetane number improvers from EURENCO in 2016; and (ii) sales volumes for lubricity improvers increased in line with rising customer demand for the year ended 31 December 2016.

Gross profit and gross profit margin

Our gross profit increased by 26.0% from RMB48.5 million for the year ended 31 December 2015 to RMB61.1 million for the year ended 31 December 2016. Our gross profit margin increased from 42.4% for the year ended 31 December 2015 to 45.1% for the year ended 31 December 2016.

Our gross profit for oil refining agents we sold increased by 18.1% from RMB38.9 million for the year ended 31 December 2015 to RMB46.0 million for the year ended 31 December 2016. Our gross profit margin increased from 46.8% for the year ended 31 December 2015 to 53.1% for the year ended 31 December 2016 primarily because: (i) selling prices for our products increased; and (ii) prices for our raw materials decreased.

Our gross profit for fuel additives we sold increased by 35.8% from RMB8.9 million for the year ended 31 December 2015 to RMB12.1 million for the year ended 31 December 2016. Our gross profit margin increased from 34.2% for the year ended 31 December 2015 to 35.5% for the year ended 31 December 2016 primarily because prices for our raw materials decreased.

Our gross profit for oil refining agents we distributed increased significantly from RMB0.2 million for the year ended 31 December 2015 to RMB0.7 million for the year ended 31 December 2016. Our gross profit margin increased from 7.6% for the year ended 31 December 2015 to 13.2% for the year ended 31 December 2016 primarily because our selling prices increased while the purchase prices decreased.

Our gross profit for fuel additives we distributed increased substantially from RMB0.5 million for the year ended 31 December 2015 to RMB2.3 million for the year ended 31 December 2016. Our gross profit margin increased from 17.7% for the year ended 31 December 2015 to 24.4% for the year ended 31 December 2016 primarily because purchase prices for our diesel oil cetane number improvers and lubricity improvers decreased.

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Other income

Our other income increased by 29.3% from RMB2.0 million for the year ended 31 December 2015 to RMB2.5 million for the year ended 31 December 2016 primarily because: (i) our net foreign exchange gains increased from RMB0.9 million for the year ended 31 December 2015 to RMB1.6 million for the year ended 31 December 2016 due to the appreciation of the U.S. dollar against the Renminbi; and (ii) our government grants increased by RMB0.2 million from the year ended 31 December 2015 to the year ended 31 December 2016 in relation to commercial exports, tax refunds and government subsidies in relation to our research and development activities on lubricity improvers. These increases were partially offset by a decrease in service income of RMB0.4 million primarily because we no longer received commissions from an independent third party in return for introducing them as a supplier to one of our major customers.

Sales and marketing expenses

Our sales and marketing expenses increased by 15.2% from RMB8.4 million for the year ended 31 December 2015 to RMB9.7 million for the year ended 31 December 2016 primarily because: (i) we incurred technical support fees of RMB0.8 million for the year ended 31 December 2016, representing a one-off payment to a member of our industry we consulted on the quality standards and technical requirements of one of our customers; and (ii) our costs related to the tendering process increased by RMB0.3 million.

General and administrative expenses

Our general and administrative expenses increased slightly from RMB9.2 million for the year ended 31 December 2015 to RMB9.4 million for the year ended 31 December 2016 primarily because of increases in our labor and welfare costs and travel expenses, partially offset by: (i) a decrease in our depreciation and amortization costs; and (ii) the fact that we recorded a bad debt loss of RMB0.1 million for the year ended 31 December 2016 while we recorded a reversal of bad debt loss of RMB90,000 for the year ended 31 December 2015.

Research and development expenses

Our research and development expenses increased by 6.1% from RMB5.2 million for the year ended 31 December 2015 to RMB5.5 million for the year ended 31 December 2016 primarily because: (i) we purchased higher volumes of raw materials for experimentation in our growing number of research and development projects, the costs of which increased by RMB0.2 million from the year ended 31 December 2015 to the year ended 31 December 2016; and (ii) our travel expenses increased by RMB70,000 from the year ended 31 December 2015 to the year ended 31 December 2016.

Income tax expense

Our income tax expense increased by 30.0% from RMB4.4 million for the year ended 31 December 2015 to RMB5.8 million for the year ended 31 December 2016 primarily because of our increased profit before tax. Our effective tax rate decreased from 16.1% for the year ended 31 December 2015 to 14.8% for the year ended 31 December 2016 because of a decrease in non-deductible expenses in 2016.

Profit for the year

As a result of the foregoing, our profit increased by 43.7% from RMB23.2 million for the year ended 31 December 2015 to RMB33.3 million for the year ended 31 December 2016, and our net profit margin increased from 20.3% to 24.6% during the same period.

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Year ended 31 December 2015 compared with year ended 31 December 2014

Revenue

Our revenue increased by 8.8% from RMB105.1 million for the year ended 31 December 2014 to RMB114.4 million for the year ended 31 December 2015, due to increases in revenue derived from oil refining agents that we distributed and fuel additives that we sold and distributed, partially offset by a decrease in revenue derived from oil refining agents we sold during the same periods.

Revenue derived from oil refining agents we sold decreased by 5.7% from RMB88.2 million for the year ended 31 December 2014 to RMB83.1 million for the year ended 31 December 2015. This decrease was primarily because: (i) our sales volumes for desulfurizing agents decreased, such that revenue generated from sales of those products decreased by RMB4.4 million from the year ended 31 December 2014 to the year ended 31 December 2015; (ii) our selling prices for metal passivators decreased, such that revenue generated from sales of those products decreased by RMB3.5 million from the year ended 31 December 2014 to the year ended 31 December 2015; and (iii) sales volumes and selling prices for calcium removers decreased such that revenue generated from sales of those products decreased by RMB1.1 million from the year ended 31 December 2014 to the year ended 31 December 2015, partially offset by an increase in sales volumes for sulfolane, such that revenue generated from sales of those products increased by RMB5.5 million from the year ended 31 December 2014 to the year ended 31 December 2015.

Revenue derived from fuel additives we sold increased by 60.4% from RMB16.2 million for the year ended 31 December 2014 to RMB26.0 million for the year ended 31 December 2015. This increase was primarily because sales volumes for lubricity improvers increased due to the increased demand from our existing customers because of the evermore stringent mandatory emissions regulations, such that revenue generated from sales of those products increased by RMB11.6 million from the year ended 31 December 2014 to the year ended 31 December 2015.

We had revenue derived from oil refining agents we distributed of RMB2.4 million for the year ended 31 December 2015 because we distributed desulfurizing agents from International Supplier, while we did not distribute such products for the year ended 31 December 2014.

Revenue derived from fuel additives we distributed increased substantially from RMB0.8 million for the year ended 31 December 2014 to RMB2.8 million for the year ended 31 December 2015. This increase was primarily because: (i) sales volumes for diesel oil cetane number improvers increased, such that revenue generated from sales of those products increased by RMB0.5 million from the year ended 31 December 2014 to the year ended 31 December 2015; (ii) we distributed lubricity improvers during the year ended 31 December 2015 in comparison to none during the year ended 31 December 2014. Revenue generated from sales of lubricity improvers amounted to RMB0.7 million for the year ended 31 December 2015; and (iii) sales volumes for static dissipater additives increased, such that revenue generated from those products increased by RMB0.9 million from the year ended 31 December 2014 to the year ended 31 December 2015 in line with rising customer demand.

Cost of sales

Our cost of sales increased slightly by 2.1% from RMB64.5 million for the year ended 31 December 2014 to RMB65.9 million for the year ended 31 December 2015. The change was mainly due to a substantial increase in cost of distribution from RMB0.6 million for the year ended 31 December 2014 to RMB4.6 million for the year ended 31 December 2015, partially offset by the decrease by RMB2.2 million in our raw material costs.

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Our cost of sales for oil refining agents we sold decreased by 16.0% from RMB52.6 million for the year ended 31 December 2014 to RMB44.2 million for the year ended 31 December 2015. This decrease was primarily because there was a decreasing trend in the prices of our raw materials for the year ended 31 December 2015, partially offset by the fact that we purchased sulfolane for sale for the year ended 31 December 2015.

Our cost of sales for fuel additives we sold increased by 51.4% from RMB11.3 million for the year ended 31 December 2014 to RMB17.1 million for the year ended 31 December 2015. This increase was primarily because we consumed higher volumes of raw materials as our sales volumes increased for the year ended 31 December 2015.

We had cost of sales for oil refining agents we distributed of RMB2.3 million for the year ended 31 December 2015 primarily because we began purchasing desulfurizing agents from International Supplier for distribution for total costs of RMB2.3 million for the year ended 31 December 2015. We did not have such cost of sales for the year ended 31 December 2014.

Our cost of sales for fuel additives we distributed increased substantially from RMB0.6 million for the year ended 31 December 2014 to RMB2.3 million for the year ended 31 December 2015. This increase was primarily because: (i) we purchased higher volumes of distributable products as our sales volumes increased in line with rising customer demand; and (ii) we began purchasing lubricity improvers for distribution for total costs of RMB0.6 million for the year ended 31 December 2015.

Gross profit and gross profit margin

Our gross profit increased by 19.5% from RMB40.6 million for the year ended 31 December 2014 to RMB48.5 million for the year ended 31 December 2015. Our gross profit margin increased from 38.6% for the year ended 31 December 2014 to 42.4% for the year ended 31 December 2015.

Our gross profit for oil refining agents we sold increased by 9.6% from RMB35.5 million for the year ended 31 December 2014 to RMB38.9 million for the year ended 31 December 2015. Our gross profit margin increased from 40.3% for the year ended 31 December 2014 to 46.8% for the year ended 31 December 2015 primarily because our raw material prices decreased.

Our gross profit for fuel additives we sold increased by 81.0% from RMB4.9 million for the year ended 31 December 2014 to RMB8.9 million for the year ended 31 December 2015. Our gross profit margin increased from 30.3% for the year ended 31 December 2014 to 34.2% for the year ended 31 December 2015 primarily because our raw material prices decreased.

Our gross profit for oil refining agents we distributed was RMB0.2 million for the year ended 31 December 2015. Our gross profit margin was 7.6% for the year ended 31 December 2015 primarily because we distributed desulfurizing agents from International Supplier.

Our gross profit for fuel additives we distributed increased substantially from RMB0.2 million for the year ended 31 December 2014 to RMB0.5 million for the year ended 31 December 2015. Our gross profit margin decreased from 20.8% for the year ended 31 December 2014 to 17.7% for the year ended 31 December 2015 primarily because our gross profit margin for diesel oil cetane number improvers decreased by 3.7 percentage points.

Other income

Our other income increased substantially from RMB0.9 million for the year ended 31 December 2014 to RMB2.0 million for the year ended 31 December 2015 primarily because: (i) of an increase in net foreign exchange gain of RMB1.5 million due to the appreciation of the U.S. dollar against the

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Renminbi. For the year ended 31 December 2014, we made net losses in foreign exchange amounting to RMB0.6 million, while for the year ended 31 December 2015, we made net gains in foreign exchange amounting to RMB0.9 million; and (ii) an increase in interest income from available-for-sale financial assets.

These increases were partially offset by the decrease in service income from RMB1.2 million for the year ended 31 December 2014 to RMB0.7 million for the year ended 31 December 2015 because we received less in commissions from an independent third party in return for a business referral.

Sales and marketing expenses

Our sales and marketing expenses remained at similar levels, increasing slightly by 2.9% from RMB8.2 million for the year ended 31 December 2014 to RMB8.4 million for the year ended 31 December 2015.

General and administrative expenses

Our general and administrative expenses remained at similar levels, increasing slightly by 1.4% from RMB9.1 million for the year ended 31 December 2014 to RMB9.2 million for the year ended 31 December 2015 primarily because of an increase in taxes of RMB0.4 million from the year 31 December 2014 to the year ended 31 December 2015, partially offset by: (i) a decrease in depreciation costs of RMB0.2 million from the year ended 31 December 2014 to the year ended 31 December 2015; and (ii) a decrease in bad debts from RMB0.2 million for the year ended 31 December 2014 to a negative balance of RMB90,000 for the year ended 31 December 2015.

Research and development expenses

Our research and development expenses increased by 7.6% from RMB4.8 million for the year ended 31 December 2014 to RMB5.2 million for the year ended 31 December 2015 primarily because of an increase in our depreciation costs of RMB0.3 million from the year ended 31 December 2014 to the year ended 31 December 2015, as we purchased additional machinery, equipment and analytical instruments for our research and development department.

Income tax expense

Our income tax expense increased by 49.4% from RMB3.0 million for the year ended 31 December 2014 to RMB4.4 million for the year ended 31 December 2015 primarily because of an increase in our profit before tax by RMB8.3 million from the year ended 31 December 2014 to the year ended 31 December 2015. Our effective tax rate increased from 15.3% for the year ended 31 December 2014 to 16.1% for the year ended 31 December 2015 because of an increase in non-tax-deductible expenses in 2015.

Profit for the year

As a result of the foregoing, our profit increased by 41.3% from RMB16.4 million for the year ended 31 December 2014 to RMB23.2 million for the year ended 31 December 2015, and our net profit margin increased from 15.6% to 20.3% during the same period.

SENSITIVITY AND BREAKEVEN ANALYSIS

During the Track Record Period, we experienced fluctuations in our cost of sales and our cost of distribution, particularly in relation to prices for raw materials such as MDEA and tall oil fatty acid, as well as prices for our distributable products. For more information, see “Risk Factors — Risks

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Relating to Our Business and Industry — We may experience shortages of supply or price fluctuations in our raw materials.” The table below shows the sensitivity of our profit before taxation during the Track Record Period with regard to certain possible changes in the cost of sales, assuming that all other variables remain constant:

	Year ended 31 December			Nine months ended 30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Changes in the cost of sales				
- 20%	12,904	13,171	14,903	18,561
+ 20%	(12,904)	(13,171)	(14,903)	(18,561)
- 10%	6,452	6,586	7,451	9,281
+ 10%	(6,452)	(6,586)	(7,451)	(9,281)
- 5%	3,226	3,293	3,726	4,640
+5%	(3,226)	(3,293)	(3,726)	(4,640)

For purposes of breakeven analysis only, for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, if the cost of sales had increased by 30.1%, 42.0%, 52.5% and 30.1%, respectively, our profit before taxation for the same periods would have been nil, assuming that all other variables remain constant.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

We mainly use cash to invest in working capital and normal recurring expenses. During the Track Record Period, we financed our cash requirements through cash generated from operating activities. As of 31 December 2014, 2015 and 2016 and 30 September 2017, we had bank deposits and cash balances of RMB1.9 million, RMB9.1 million, RMB2.4 million and RMB10.9 million, respectively. We obtained a loan of RMB18.0 million on 28 August 2017 for our working capital needs.

We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimal liquidity that can meet our working capital needs while supporting a healthy level of business scale and expansion. Other than normal bank loans we obtain from commercial banks, we do not expect to have any material external debt financing plan in the near future.

Taking into account the financial resources available to us, including our existing cash and cash equivalents, available unrestricted bank facilities of RMB2.0 million, net proceeds from the Share Offer and cash flows from operations, our Directors are of the view, and the Sole Sponsor concurs, that we have sufficient working capital for our present requirements and are able to fulfill our obligations under our business for at least the next 12 months from the date of this Prospectus.

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Cash flows

The following table sets forth a selected summary of our cash flow statements for the periods indicated:

	Year ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Cash and cash equivalents at beginning of year/period	1,664	1,900	9,068	9,068	2,372
Net cash generated from/(used in) operating activities	20,303	43,226	10,403	5,916	(6,347)
Net cash (used in)/generated from investing activities.....	(5,601)	(34,020)	2,778	(2,932)	20,784
Net cash used in financing activities.....	(14,456)	(2,301)	(20,152)	—	(6,095)
Effect of foreign exchange rate changes.	(10)	263	275	294	136
Cash and cash equivalents at end of year/period	<u>1,900</u>	<u>9,068</u>	<u>2,372</u>	<u>12,346</u>	<u>10,850</u>

Net cash generated from/(used in) operating activities

We derive our cash generated from operating activities principally from payments for the sales of our products. Our cash used in operating activities is principally for purchases of raw materials and distributable products.

For the nine months ended 30 September 2017, we had net cash used in operating activities of RMB6.3 million, primarily reflecting: (i) an increase in trade and other receivables of RMB45.5 million primarily because of increased sales; and (ii) income tax paid of RMB4.5 million, partially offset by: (i) profit before tax of RMB27.9 million; and (ii) an increase in trade and other payables of RMB14.5 million primarily because of: (a) the unpaid listing expenses of RMB4.7 million; (b) the increase in VAT payable by RMB4.4 million; and (c) the increase in trade payable to suppliers by RMB4.3 million due to increased purchases from our suppliers.

For the year ended 31 December 2016, we had net cash generated from operating activities of RMB10.4 million, primarily reflecting: (i) profit before tax of RMB39.1 million; and (ii) added-back depreciation of RMB3.2 million, partially offset by: (i) an increase in trade and other receivables of RMB24.8 million primarily due to an increase in revenue from our customers; (ii) an increase in inventories of RMB4.7 million primarily due to increases in raw materials and finished goods to meet rising customer demand for our products; and (iii) income tax paid of RMB4.5 million.

For the year ended 31 December 2015, we had net cash generated from operating activities of RMB43.2 million, primarily reflecting: (i) profit before tax of RMB27.6 million; (ii) a decrease in trade and other receivables of RMB13.8 million primarily due to settlements from our customer in Sudan; and (iii) added-back depreciation of RMB3.7 million, partially offset by income tax paid of RMB2.5 million.

For the year ended 31 December 2014, we had net cash generated from operating activities of RMB20.3 million, primarily reflecting: (i) profit before tax of RMB19.4 million; (ii) a decrease in

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inventories of RMB4.4 million primarily due to decreases in our storage of antimony trioxides; and (iii) added-back depreciation of RMB4.1 million, partially offset by: (i) a decrease in trade and other payables of RMB6.0 million primarily due to our accelerated payment schedule to secure cheaper prices for and expedite delivery of certain of our raw materials; and (ii) income tax paid of RMB2.3 million.

Net cash used in investing activities

Our cash generated from investing activities mainly include proceeds from disposal of available-for-sale financial assets and proceeds from repayment of advances from third parties and related parties. Our cash used in investing activities is principally for payments for investments in available-for-sale financial assets and advances to third parties and related parties.

For the nine months ended 30 September 2017, our net cash generated from investing activities was RMB20.8 million, which was mainly attributable to: (i) proceeds from disposal of available-for-sale financial assets of RMB38.2 million; and (ii) repayment of advances of RMB9.6 million to Jiangsu Hongming Petrochemical Trading Co., Ltd. (江蘇鴻銘化工貿易有限公司) (“**Jiangsu Hongming**”), Mr. Ge and Ms. Gu, our related parties, partially offset by payments for investment in available-for-sale financial assets of RMB26.2 million and advances to related parties of RMB1.8 million.

For the year ended 31 December 2016, our net cash generated from investing activities was RMB2.8 million, which was mainly attributable to: (i) repayment of advances to Yixing HanGuang Hi-Tech Petrochemical Co., Ltd. (宜興漢光高新石化有限公司) (“**Yixing HanGuang**”), a connected party that is beneficially owned by Ms. Gu’s sibling, of RMB8.5 million; (ii) proceeds from disposal of available-for-sale financial assets of RMB70.0 million; (iii) proceeds from repayment of advances, which were non-trade in nature, from Yixing Guanglinyuan, a related party, of RMB6.6 million, partially offset by: (i) payments for investment in available-for-sale financial assets of RMB73.5 million; and (ii) advances to Jiangsu Hongming, Mr. Ge and Ms. Gu, our related parties, of RMB6.3 million, which were non-trade in nature.

For the year ended 31 December 2015, our net cash used in investing activities was RMB34.0 million, which was mainly attributable to: (i) advances to Jiangsu Hongming, Yixing Guanglinyuan, Mr. Ge and Ms. Gu, our related parties, of RMB14.4 million; (ii) advances to Yixing HanGuang, a connected party that is beneficially owned by Ms. Gu’s sibling of RMB9.5 million; and (iii) payments for investment in available-for-sale financial assets of RMB78.5 million, partially offset by proceeds from disposal of available-for-sale financial assets of RMB70.0 million.

For the year ended 31 December 2014, our net cash used in investing activities was RMB5.6 million, which was mainly attributable to: (i) advances to Yixing Guanglinyuan, our related party, of RMB2.0 million; and (ii) payments for the purchase of property, plant and equipment of RMB3.7 million, representing expenses for the machinery, equipment and analytical instruments we acquired for our lubricity improver production line.

Net cash used in financing activities

During the Track Record Period, our cash flows from financing activities included capital injections, advances from related parties and contributions by our Controlling Shareholders. Our cash used in financing activities included profit distribution, repayment of advances from related parties and a distribution to our Controlling Shareholders.

For the nine months ended 30 September 2017, our net cash used in financing activities was RMB6.1 million. Our net cash outflow from financing activities was primarily profit distribution of RMB24.0 million, offset by proceeds from bank loan of RMB18.0 million.

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For the year ended 31 December 2016, our net cash used in financing activities was profit distribution of RMB20.2 million, which represented dividends declared for the year ended 31 December 2015.

For the year ended 31 December 2015, our net cash used in financing activities was RMB2.3 million. Our net cash outflow for financing activities consisted of: (i) repayment of advances from our related parties, Jiangsu Hongming, Mr. Ge and Ms. Gu, of RMB11.8 million; (ii) distribution to the Controlling Shareholders of the Company, of RMB8.1 million; and (iii) payment of profit distribution of RMB7.0 million declared in 2014, offset by proceeds from a capital injection of RMB24.6 million by Full Success, our then equity shareholder.

For the year ended 31 December 2014, our net cash used in financing activities was RMB14.5 million. Our net cash outflow from financing activities consisted of payment of profit distribution of RMB22.5 million declared in 2013, offset by: (i) contributions by the Controlling Shareholders of the Company, of RMB10.6 million; (ii) advances from Jiangsu Hongming, our related party, of RMB2.5 million; and (iii) repayment of advances from our related parties, Mr. Ge and Ms. Gu, of RMB5.1 million.

Selected items of the consolidated statements of financial position

The following table sets forth a summary of our assets and liabilities as of the dates indicated:

	As of 31 December			As of 30 September	As of 31 January
	2014	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current assets					
Inventories.....	11,175	11,964	16,966	17,444	16,042
Trade and other receivables	61,055	71,222	87,257	115,598	103,963
Available-for-sale financial assets...	—	8,500	12,000	—	—
Cash and cash equivalents	1,900	9,068	2,372	10,850	11,313
Total current assets.....	<u>74,130</u>	<u>100,754</u>	<u>118,595</u>	<u>143,892</u>	<u>131,318</u>
Current liabilities					
Bank loans	—	—	—	18,000	18,000
Trade and other payables	30,115	13,081	38,797	41,261	25,855
Income tax payable.....	1,911	3,791	5,074	4,891	3,326
Total current liabilities	<u>32,026</u>	<u>16,872</u>	<u>43,871</u>	<u>64,152</u>	<u>47,181</u>
Net current assets.....	<u>42,104</u>	<u>83,882</u>	<u>74,724</u>	<u>79,740</u>	<u>84,137</u>

As of 31 January 2018, we had net current assets of RMB84.1 million, consisting of current assets of RMB131.3 million and current liabilities of RMB47.2 million.

Our net current assets increased from RMB74.7 million as of 31 December 2016 to RMB79.7 million as of 30 September 2017, mainly due to: (i) an increase in trade and other receivables of RMB28.3 million primarily because of increased sales; and (ii) an increase in cash and cash equivalents of RMB8.5 million, partially offset by: (i) an increase in bank loan of RMB18.0 million; and (ii) a decrease of RMB12.0 million in available-for-sale financial assets because we disposed of the aforesaid principal non-guaranteed wealth management product that is a highly liquid investment with floating interest.

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Our net current assets decreased from RMB83.9 million as of 31 December 2015 to RMB74.7 million as of 31 December 2016, mainly due to an increase in trade and other payables of RMB25.7 million primarily because we had dividends payable of RMB22.8 million in 2016 declared for the year ended 31 December 2016, partially offset by: (i) an increase in trade and other receivables of RMB16.0 million primarily because of an increase in our trade and bills receivables of RMB22.9 million; and (ii) an increase in inventories of RMB5.0 million in response to rising customer demand for our products.

Our net current assets increased from RMB42.1 million as of 31 December 2014 to RMB83.9 million as of 31 December 2015, mainly due to: (i) a substantial decrease in trade and other payables of RMB17.0 million because of the settlement of an amount due to related parties (non-trade) of RMB11.8 million, payment of dividends payable of RMB7.0 million and a decrease in trade payables of RMB2.4 million; (ii) an increase in trade and other receivables of RMB10.2 million because of an increase in amounts due from related parties (non-trade) of RMB14.4 million, an increase in other receivables of RMB9.2 million and an increase in deposits and prepayments of RMB0.4 million; (iii) an increase in available-for-sale financial assets of RMB8.5 million because we purchased a principal non-guaranteed wealth management product that is a highly liquid investment with floating interest; and (iv) an increase in cash and cash equivalents of RMB7.2 million.

The available-for-sale financial assets that we invested in were a principal non-guaranteed wealth management product that is highly liquid with floating interests and was sold by one of the state-owned banks. The wealth management product mainly focused on the investment in fixed income market and the monetary market. The decrease in the available-for-sale financial assets was due to our disposal of these assets to support our business operation. Although the financial product was principal non-guaranteed, our Directors believe that the actual risk of losing any of the principal was very low because the product was categorized as low risk by the bank and could be redeemed at any working day with the net value returned to our bank account within one day. Given the low interest rate of bank savings, we invested in financial products with high liquidity and low risk to maximize the returns of unused funds. In order to minimize any potential risks brought by our investing activities, we have made it our treasury policy to only invest in principal guaranteed financial products going forward. Before we make the investment, such investment shall go through our internal approval procedure, which involves the assessment of our cash flow and operational needs, the risk assessment of the financial product, the discussion with the bank regarding the suitability of the financial product to our investment portfolio, and the approval from our general manager or chairman. In addition, our finance and accounting department will monitor the performance of such investment on a daily basis, constantly monitor the government policies regarding such financial product, and immediately redeem the financial product if additional funds are needed for our business operations.

Inventories

Our inventories consist of raw materials, works in progress, finished goods and consignment goods. Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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The following table sets forth a breakdown of our inventories as of the dates indicated:

	As of 31 December			As of 30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	6,435	7,587	9,482	8,446
Works in progress	175	133	655	497
Finished goods	3,845	3,871	6,095	7,887
Consignment goods	720	373	734	614
Total inventories	<u>11,175</u>	<u>11,964</u>	<u>16,966</u>	<u>17,444</u>

Our raw materials increased from RMB6.4 million as of 31 December 2014 to RMB7.6 million as of 31 December 2015, and further to RMB9.5 million as of 31 December 2016 mainly because we purchased more raw materials as we faced rising customer demand for our products. This trend corresponded to our increased revenue during the same period. Our raw materials decreased to RMB8.4 million as of 30 September 2017 as our raw materials were used to produce desulfurizing agents to meet the significant purchase order from one of our customers to service its new oil-refining units.

Our finished goods remained stable at RMB3.8 million as of 31 December 2014 and RMB3.9 million as of 31 December 2015. Our finished goods increased to RMB6.1 million as of 31 December 2016 mainly because we anticipated the need to meet our substantial volume of orders for diesel oil cetane number improvers for the first half of 2017; at the end of first half of 2017, we prepared a substantial amount of finished goods to be ready for delivery. Additionally, we accumulated a substantial amount of finished goods in the form of oil refining agents and fuel additives, which were subsequently sold. Our finished goods increased further to RMB7.9 million as of 30 September 2017 as we accumulated higher volumes of diesel oil cetane number improvers to meet our upcoming purchase orders, partially offset by the desulfurizing agents we delivered to meet a significant purchase order by one of our customers to service its new oil-refining units.

The following table sets forth the average turnover days of our inventories for the periods indicated:

	Year ended 31 December			Nine months ended 30 September
	2014	2015	2016	2017
	(days)			
Average turnover days of inventories ⁽¹⁾	81.1	64.1	70.9	50.8

Note:

- (1) Average turnover days of inventories for a period equals average inventories divided by cost of sales for the period and multiplied by 365 for a 12-month period or by 274 for a nine-month period. Average inventories are calculated as inventories at the beginning of the period plus inventories at the end of the period, divided by two.

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Our average turnover days of inventories decreased from 81.1 days in 2014 to 64.1 days in 2015, and then increased to 70.9 days in 2016. The fluctuation is primarily because at times we may accumulate inventories such as raw materials and finished goods in anticipation of our need to meet substantial orders. We may also purchase larger amounts of certain raw materials when their prices fall in the market, or when we anticipate that they will rise shortly. Our average turnover days of inventories decreased to 50.8 days for the nine months ended 30 September 2017 because we fulfilled a significant purchase order and delivered a large amount of desulfurizing agents to one of our customers in June, July and August 2017.

As of 31 January 2018, approximately RMB16.8 million, or 96.0%, of our inventories as of 30 September 2017 were subsequently consumed.

Trade and other receivables

Our trade receivables mainly represent the credit sales of our products to be paid by customers. Our bills receivables represent short-term bank acceptance notes receivable that entitle our Group to receive the full face amount from banks at maturity, which generally ranges from three to six months from the date of issuance. From time to time, we endorse bills receivables to suppliers.

The following table sets forth a breakdown of our trade and other receivables as of the dates indicated:

	As of 31 December			As of
	2014	2015	2016	30 September 2017
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	47,382	37,984	56,293	107,214
Less: Allowance for doubtful debts	(317)	(8)	(112)	(46)
Trade receivables less allowance for doubtful debts	47,065	37,976	56,181	107,168
Bills receivables	6,880	2,100	6,835	900
Total trade and bills receivables	53,945	40,076	63,016	108,068
Amounts due from related parties — non-trade ⁽¹⁾	2,000	16,431	16,145	—
Other receivables	4,009	13,170	5,153	4,368
Deposits and prepayments	1,101	1,545	2,943	3,162
Trade and other receivables, net.....	61,055	71,222	87,257	115,598

Note:

(1) All non-trade amounts due from related parties were settled in September 2017.

Our total trade and bills receivables decreased from RMB53.9 million as of 31 December 2014 to RMB40.1 million as of 31 December 2015 mainly because of an increase in the number of settlements from our customers in Sudan, then increased to RMB63.0 million as of 31 December 2016 primarily because our sales to Sudan increased significantly for the year ended 31 December 2016. Our trade and bills receivables substantially increased to RMB108.1 million as of 30 September 2017 primarily because the increase in trade receivables of RMB50.9 million primarily due to the increased sales for the nine months ended 30 September 2017, partially offset by the decrease in bills receivables of RMB5.9 million due to the realization of short-term bank acceptance notes.

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Our amounts due from related parties — non-trade increased substantially from RMB2.0 million as of 31 December 2014 to RMB16.4 million as of 31 December 2015 primarily because of advances made to Jiangsu Hongming, Yixing Guanglinyuan Trading Co., Ltd. (宜興市廣林源商貿有限公司) (“**Yixing Guanglinyuan**”), Mr. Ge and Ms. Gu in 2015, then decreased slightly to RMB16.1 million as of 31 December 2016 primarily because of a repayment of an advance by Yixing Guanglinyuan. Yixing Guanglinyuan was a business entity in which Ms. Gu had a controlling interest and was deregistered in October 2016. Jiangsu Hongming was a business entity in which the Controlling Shareholders had a controlling interest and was deregistered on 18 December 2017. As of 30 September 2017, all amounts due from related parties had been settled.

Our other receivables increased from RMB4.0 million as of 31 December 2014 to RMB13.2 million as of 31 December 2015 primarily because of advances to Yixing HanGuang, then decreased to RMB5.2 million as of 31 December 2016 primarily because of repayment of advance by Yixing HanGuang, a connected party that is beneficially owned by Ms. Gu’s sibling. Our other receivables decreased to RMB4.4 million as of 30 September 2017 primarily because of: (i) a decrease in our tender contract deposits from RMB3.1 million as of 31 December 2016 to RMB2.9 million as of 30 September 2017; and (ii) repayment of outstanding amounts due from Yixing HanGuang of RMB1.0 million.

We made the aforementioned advances to Yixing HanGuang, Yixing Guanglinyuan and Jiangsu Hongming during the Track Record Period for the sole purpose of meeting their occasional funding needs in production and operation, and such advances were loans that were non-interest-bearing and repayable on demand. Our PRC Legal Advisers are of the view that the lending and borrowing between Jiangsu Chuangxin and the aforementioned companies are legal and valid and do not violate the compulsory provisions in any law or administrative regulation on the following basis:

- (i) None of these loans falls under any of the circumstances under Article 52 of the Contract Law of the PRC (中華人民共和國合同法) (“**Contract Law**”) and Article 14 of the Provisions of the Supreme People’s Court on Several Issues concerning the Application of Law in the Trial of 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) (“**Provisions**”). The validity of a private lending arrangement entered into for the purpose of production or business operation between legal persons and other organizations shall be supported by the court, and the legal rights of both parties shall be respected and protected, provided that circumstances under Article 52 of the Contract Law and Article 14 of the Provisions do not occur.
- (ii) According to the Notice of Diligently Studying, Implementing and Applying the Provisions of the Supreme People’s Court on Several Issues Concerning the Application of Law in the Trial of Private Lending Cases (關於認真學習貫徹適用《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》的通知), when deciding the validity of a private lending contract, the people’s court shall apply the Provisions to a private lending contract entered into before the implementation of the Provision, which is invalid under the judicial interpretations in force at that time.
- (iii) According to the General Lending Provisions (貸款通則) promulgated by PBOC on 28 June 1996 with effect on 1 August 1996, lending and borrowing, including those in covert form, between enterprises shall not violate the relevant national rules and regulations. However, pursuant to the Supreme People’s Court’s Reply to Reporters’ Questions in relation to the Provisions (最高人民法院負責人就《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》答記者問), the General Lending Provisions are department rules rather than compulsory laws or administrative regulations. The Property Rights Law of the PRC (中華人民共和國物權法) (“**Property Rights Law**”) and the Contract Law preempt the General Lending Provisions. A contract can only be invalidated by laws or administrative

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regulations in accordance with the Contract Law. The Property Rights Law with effect on 1 October 2007 states that property right holders have the right to freely dispose their properties, including monetary funds, in accordance with the law. If a corporate property right holder has no right to dispose the properties under the General Lending Provisions, such provisions should be in conflict with the Property Rights Law.

The following is an aging analysis of trade receivables as of the dates indicated, based on the invoice date:

	As of 31 December			As of
				30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Within three months.....	35,531	28,040	40,912	64,451
After three months but within six months	9,731	8,174	10,130	39,622
After six months but within one year	527	1,703	4,165	2,746
After one year but within two years	17	50	1,069	378
After two years	1,576	17	17	17
Trade receivables	47,382	37,984	56,293	107,214
Less: Allowance for doubtful debts	(317)	(8)	(112)	(46)
Trade receivables, net	47,065	37,976	56,181	107,168

All of the trade and other receivables, including deposits and prepayments, are expected to be recovered or recognized as expense within one year. As of 31 December 2014, we had trade receivables that are older than two years from one of our overseas customers; the amount of trade receivables that are older than two years decreased substantially to RMB17,000 as of 31 December 2015 as a result of settlement from such customer.

As of 31 December 2014, 2015 and 2016 and 30 September 2017, no trade receivables were individually determined to be impaired. The table below sets forth the aging analysis of our trade receivables that were past due but not impaired as of the dates indicated:

	As of 31 December			As of
				30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired.....	14,238	18,195	16,389	15,130
Less than six months past due.....	31,266	19,138	35,352	89,233
Six to 12 months past due.....	285	584	3,466	2,456
Total amount past due but not impaired	31,551	19,722	38,818	91,689
	<u>45,789</u>	<u>37,917</u>	<u>55,207</u>	<u>106,819</u>

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Trade receivables that were neither past due nor impaired related to a wide range of customers who had no recent history of material default. Trade receivables which were past due but not impaired accounted for 67.0%, 51.9%, 69.1% and 85.6% of total trade receivables as of 31 December 2014, 2015 and 2016 and 30 September 2017, respectively.

Trade receivables that were past due but not impaired related to a number of customers who had good payment track records with us and did not encounter any financial difficulty or fail to fulfill their repayment obligations. Based on past experience with these customers and evaluation of their current creditability, our Directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. During the Track Record Period, our average trade and bills receivables turnover days were generally longer than the credit period we granted to our customers, mainly because: (i) the majority of our customers were Affiliates of the three state-owned conglomerates with good payment ability; and (ii) the average trade and bills receivable turnover days of Khartoum Refinery, a Sudanese state owned refinery, were generally longer than those of other customers. Such Affiliates of the three state-owned conglomerates generally have longer payment periods which, our Directors believe, is due to longer internal approval process.

The following table sets forth the average turnover days of our trade and bills receivables for the periods indicated:

	Year ended 31 December			Nine months ended 30 September
	2014	2015	2016	2017
	(days)			
Average turnover days of trade and bills receivables ⁽¹⁾	149.3	128.2	118.5	137.1

Note:

- (1) Average turnover days of trade and bills receivables for a period equals average trade and bills receivables divided by revenue for the period and multiplied by 365 for a 12-month period or by 274 for a nine-month period. Average trade and bills receivables are calculated as trade and bills receivables at the beginning of the period plus trade and bills receivables at the end of the period, divided by two.

Our average turnover days of trade and bills receivables decreased from 149.3 days in 2014 to 128.2 days in 2015 primarily due to the fact that our customer in Sudan settled payments faster in 2015. Our average turnover days of trade and bills receivables increased from 118.5 days in 2016 to 137.1 days for the nine months ended 30 September 2017 primarily due to a significant increase in trade and bills receivables for the nine months ended 30 September 2017.

As of 31 January 2018, approximately RMB72.6 million, or 67.7%, of our trade receivables as of 30 September 2017 were subsequently settled.

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Trade and other payables

Our trade and other payables primarily consist of trade payables from purchases of raw materials from our suppliers, other payables and accruals and dividends payable. Our other payables and accruals mainly include salary payments, payments for social insurance and housing provident funds, payments to contractors and third-party logistics providers and various taxes. The following table sets forth a breakdown of our trade and other payables as of the dates indicated:

	As of 31 December			As of 30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	5,506	3,156	6,071	10,303
Receipts in advance	—	429	—	71
Other payables and accruals	5,773	9,496	9,878	20,987
Dividends payable	7,021	—	22,848	9,900
	<u>18,300</u>	<u>13,081</u>	<u>38,797</u>	<u>41,261</u>
Amounts due to related parties — non-trade	<u>11,815</u>	<u>—</u>	<u>—</u>	<u>—</u>
Trade and other payables	<u>30,115</u>	<u>13,081</u>	<u>38,797</u>	<u>41,261</u>

Our trade and other payables decreased from RMB30.1 million as of 31 December 2014 to RMB13.1 million as of 31 December 2015 due to: (i) a decrease in our amounts due to related parties (non-trade) as we repaid advances from our related parties, Jiangsu Hongming and Mr. Ge and Ms. Gu; (ii) a decrease in our dividends payable as dividends payable as of 31 December 2014 were paid in 2015 and we did not declare any dividends for profits earned during 2015; and (iii) a decrease in our trade payables primarily because of our accelerated payment schedule to secure cheaper prices for and expedite delivery of certain of our raw materials.

Our trade and other payables increased from RMB13.1 million as of 31 December 2015 to RMB38.8 million as of 31 December 2016 primarily due to: (i) an increase in our dividends payable as we declared dividends for profits earned during 2015; and (ii) an increase in our trade payables because we purchased higher volumes of raw materials for our production needs as we experienced growing customer demand for our products.

Our trade and other payables increased further to RMB41.3 million as of 30 September 2017 primarily due to: (i) an increase of RMB4.2 million in trade payables to our suppliers due to our increased sales volume; and (ii) an increase of RMB11.1 million in other payables and accruals primarily in relation to the Listing expenses and unpaid VAT, partially offset by a decrease of RMB12.9 million in dividends payable due to: (i) the dividends declared for the six months ended 30 June 2017 of RMB20.4 million; and (ii) the settlements of dividends payable amounting to RMB33.3 million.

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The following is an aging analysis of our trade payables, based on the invoice date, as of the dates indicated:

	As of 31 December			As of 30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Within three months.....	4,900	3,079	5,617	9,675
After three months but within six months	568	40	411	254
After six months but within one year.....	38	37	43	18
Over one year but within two years	—	—	—	356
Trade payables	<u>5,506</u>	<u>3,156</u>	<u>6,071</u>	<u>10,303</u>

During the Track Record Period, our trade payables were unsecured, non-interest-bearing and repayable on demand. All trade payables are expected to be settled within one year.

The following table sets forth the average turnover days of our trade payables for the periods indicated:

	Year ended 31 December			Nine months ended 30 September
	2014	2015	2016	2017
	(days)			
Average turnover days of trade payables ⁽¹⁾	36.8	24.0	22.6	24.2

Note:

(1) Average turnover days of trade payables for a period equals average trade payables divided by cost of sales for the period and multiplied by 365 for a 12-month period or by 274 for a nine-month period. Average trade payables are calculated as trade payables at the beginning of the period plus trade payables at the end of the period, divided by two.

Our average turnover days of trade payables decreased during the years ended 31 December 2014, 2015 and 2016 primarily due to our accelerated payment schedule to secure cheaper prices for and expedite delivery of certain of our raw materials. Our average turnover days of trade payables remained stable for the nine months ended 30 September 2017.

As of 31 January 2018, approximately RMB8.7 million, or 84.7%, of our trade payables as of 30 September 2017 were subsequently settled.

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KEY FINANCIAL RATIOS

The following tables set forth certain key financial ratios as of the dates or for the periods indicated:

	As of/For the year ended 31 December			As of/For the nine months ended
				30 September
	2014	2015	2016	2017
Return on equity ⁽¹⁾	25.1%	25.7%	31.7%	N/A ⁽³⁾
Return on assets ⁽²⁾	16.2%	20.2%	24.6%	N/A ⁽³⁾
Current ratio ⁽⁴⁾	2.3	6.0	2.7	2.2
Quick ratio ⁽⁵⁾	2.0	5.3	2.3	2.0
Gross profit margin.....	38.6%	42.4%	45.1%	36.4%
Net profit margin	15.6%	20.3%	24.6%	16.2%

Notes:

- (1) Return on equity represents profit for the year divided by average equity, calculated as total equity at the beginning of the year plus equity at the end of the year, divided by two.
- (2) Return on assets represents profit for the year divided by average assets, calculated as total assets at the beginning of the year plus assets at the end of the year, divided by two.
- (3) Such ratio would not be meaningful as it is not comparable to annual numbers.
- (4) Current ratio represents total current assets divided by total current liabilities as of the relevant year/period end.
- (5) Quick ratio represents total current assets less inventories divided by total current liabilities as of the relevant year/period end.

Return on equity

Our return on equity slightly increased from 25.1% as of 31 December 2014 to 25.7% as of 31 December 2015 primarily because of a profit increase, partially offset by a capital injection of RMB24.6 million by Full Success, our then equity shareholder, and increased to 31.7% as of 31 December 2016 primarily because we experienced significant growth in profits and a decrease in equity as we declared dividends of RMB43.0 million in 2016.

Return on assets

Our return on assets increased from 16.2% as of 31 December 2014 to 20.2% as of 31 December 2015, and further to 24.6% as of 31 December 2016. The increase in our return on assets is primarily due to our significant growth in profits during the Track Record Period.

Current ratio

Our current ratio increased from 2.3 as of 31 December 2014 to 6.0 as of 31 December 2015 primarily because we received a capital injection of RMB24.6 million by Full Success, and decreased to 2.7 as of 31 December 2016 primarily because we declared a dividend of RMB43.0 million and had dividends payable of RMB22.8 million as of 31 December 2016. Our current ratio decreased to 2.2 as of 30 September 2017 primarily because we obtained a bank loan of RMB18.0 million on 28 August 2017. For more information, see “— Liquidity and Capital Resources — Selected items of the consolidated statements of financial position — Trade and other payables.”

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Quick ratio

Our quick ratio increased from 2.0 as of 31 December 2014 to 5.3 on 31 December 2015, and decreased to 2.3 as of 31 December 2016. The primary reasons for the fluctuation in our quick ratio are the same as those for the fluctuation in our current ratio. Our quick ratio decreased to 2.0 as of 30 September 2017 primarily because we obtained a bank loan of RMB18.0 million on 28 August 2017.

CAPITAL EXPENDITURES

During the Track Record Period, we incurred capital expenditures for the purchase of property, plant and equipment. The following table sets forth our capital expenditures for the periods indicated:

	Year ended 31 December			Nine months ended
	2014	2015	2016	30 September
	RMB'000	RMB'000	RMB'000	2017
Purchase of items of property, plant and equipment.....	<u>(3,660)</u>	<u>(1,830)</u>	<u>(2,818)</u>	<u>(87)</u>
Total capital expenditures	<u>(3,660)</u>	<u>(1,830)</u>	<u>(2,818)</u>	<u>(87)</u>

Our capital expenditures amounted to RMB3.7 million, RMB1.8 million, RMB2.8 million and RMB0.1 million for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, respectively. Capital expenditures for property, plant and equipment during the Track Record Period primarily related to the purchase of machinery and equipment we acquired for our lubricity improver production line for the year ended 31 December 2014, the purchase of tanks for storing finished goods and raw materials for the years ended 31 December 2015 and 2016 and the purchase of analytical instruments in relation to quality control for our lubricity improvers for the nine months ended 30 September 2017.

INDEBTEDNESS

We have financed our operations primarily through cash flows from operations.

We had bank borrowings of RMB18.0 million and unutilized banking facilities of RMB2.0 million as of 31 January 2018. Such bank borrowings were guaranteed by a security interest over our land use rights and properties as collateral, as well as a personal guarantee by Mr. Ge and Ms. Gu. The personal guarantee was released on 26 September 2017.

As of 31 January 2018, save as disclosed above and in “— Contingent Liabilities,” we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptance (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities. Since 30 September 2017 and up to the date of this Prospectus, there has not been any material adverse change in our indebtedness.

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CONTINGENT LIABILITIES

We received USD payments from customers of our sales to Sudan during 2013 and 2014, which exposed us to potential violations of Sudanese sanctions imposed by OFAC. We have filed a VSD with OFAC in light of the potential violations on 19 September 2017. As of the date of this Prospectus, the VSD is still under review. Based on all facts and circumstances and the assessment by our International Sanctions Legal Advisers, we are of the view that the most likely result would be issuance by OFAC of a cautionary letter to close out the case without the imposition of any penalty; however, it is possible that a monetary fine of up to US\$438,968 will be required if OFAC were to decide to impose an administrative penalty on us. According to the above assessment, the Directors do not consider it probable that the above administrative penalty will be imposed by OFAC and therefore no provision has been made in the consolidated financial statements for the contingent liabilities arising from the above potential violations during the Track Record Period. For more information, see “Business — Business Activities in Countries Subject to International Sanctions” and “Risk Factors — Risks Relating to Our Business and Industry — We have previously made sales to customers in countries that are subject to International Sanctions administered by the U.S., and we could be adversely affected if these sales result in penalties to our Group.”

Save as disclosed above, we did not have any significant contingent liabilities as of the Latest Practicable Date.

COMMITMENTS

Capital commitments

As of the Latest Practicable Date, we did not have any capital commitments.

Operating lease commitments

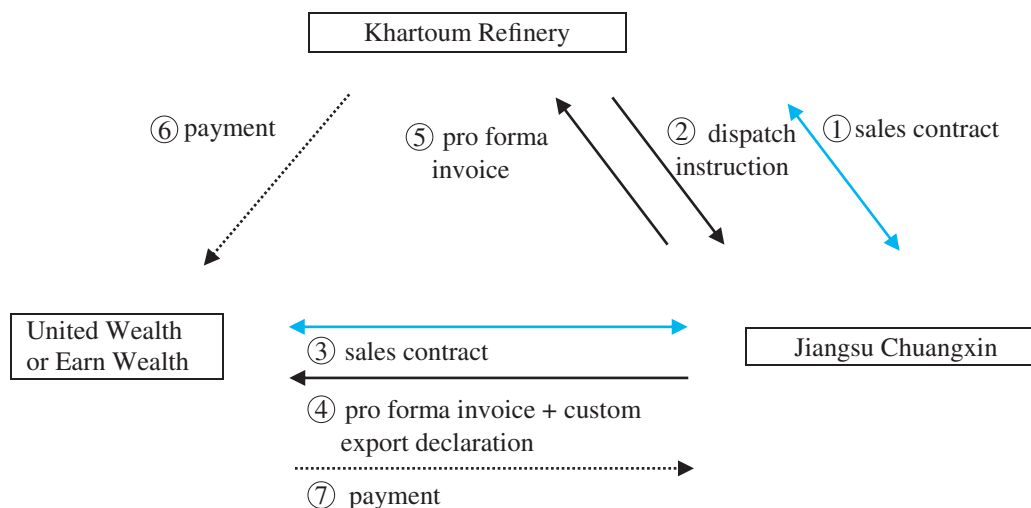
As of the Latest Practicable Date, we did not have any operating lease commitments.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into transactions with our related parties which were trade or non-trade in nature, and had amounts due to and from our related parties which were trade or non-trade in nature, from time to time. It is the view of our Directors that each of the related party transactions, which were trade in nature, were conducted in the ordinary course of business on an arm’s length basis and on normal commercial terms between the relevant parties. Our Directors confirm that all outstanding balances with related parties have been settled as of the Latest Practicable Date. Furthermore, we have discontinued all related party transactions prior to Listing (trade and non-trade), except as in compliance with the Listing Rules and as disclosed in this Prospectus.

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During the Track Record Period, Jiangsu Chuangxin collected payments from Khartoum Refinery via two SPVs, namely United Wealth International Trading Limited (“**United Wealth**”) and Earn Wealth International Limited (“**Earn Wealth**”) (each a “**payment collection agent**”), which were both beneficially and jointly owned by Mr. Ge and Ms. Gu. All parties involved in the payment collection arrangement had bank accounts at different branches of a PRC bank (“**Bank**”). **Such payment collection arrangement via payment collection agents had ceased since June 2017.** We ceased such arrangement as we anticipated money transfers directly from Sudan would be accelerated after the lifting of U.S. sanctions against Sudan, originally expected by July 2017. The following chart illustrates the payment collection arrangement via the payment collection agent:



The payment collection arrangement consisted of the following steps:

- ① Khartoum Refinery entered into framework or one-off sales contracts with Jiangsu Chuangxin.
- ② Khartoum Refinery sent dispatch instructions within the framework sales contract to Jiangsu Chuangxin. For one-off sales contracts, generally no dispatch instruction was required.
- ③ Jiangsu Chuangxin would enter into back-to-back one-off sales contracts with the payment collection agent in relation to the dispatch instructions from Khartoum Refinery or the one-off sales contracts with Khartoum Refinery.
- ④ Jiangsu Chuangxin issued pro forma invoices to the payment collection agent, made the custom export declarations, and then shipped the products to Khartoum Refinery. The pro forma invoices specified Khartoum Refinery as the consignee and Jiangsu Chuangxin as the beneficiary.
- ⑤ Jiangsu Chuangxin issued pro forma invoices to Khartoum Refinery, which specified Khartoum Refinery as the consignee and the payment collection agent as the beneficiary.
- ⑥ Khartoum Refinery transferred the payment from its account at the Paris branch of the Bank to the payment collection agent’s non-resident account at Yixing branch of the Bank.
- ⑦ The payment collection agent transferred the payment from its non-resident account at Yixing branch of the Bank to Jiangsu Chuangxin’s resident account at Yixing branch of the Bank. Jiangsu Chuangxin would then use the foreign currencies to pay for imported goods or convert them into Renminbi.

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It is not an uncommon industry practice to receive overseas payments via non-PRC entities when Chinese business enterprises deal with overseas customers. As advised by the Bank, a remittance from overseas transferring into a non-resident account of an offshore company with the Bank is generally faster than a remittance into a resident account of a PRC entity with the Bank. Specifically, with regard to fund inflows directly from sanctioned countries, in accordance with the Bank's internal scrutiny policies, the clearing process for fund transfers initiated by a party located in a sanctioned country would require additional steps and take longer than transfers initiated by a party located in a non-sanctioned country. The scrutiny process involved various levels of the Bank, ranging from the headquarters in Beijing to the local branch in Yixing. Each level of the Bank conducted its own scrutiny process. Due to the complexity of the scrutiny process, it was difficult for the Bank to estimate the time required to complete the scrutiny process. The use of a non-resident account of a payment collection agent helped accelerate the clearing process of the Bank within China because the remitting bank, being the Paris branch of the Bank, would have already conducted the scrutiny process as required by the Bank, and the scrutiny process on the PRC side of the Bank would be simplified as a result. Due to the different applicable regulations on non-resident accounts and resident accounts, the Bank had adopted different scrutiny processes, which impacted on the time of Jiangsu Chuangxin's receipt of Khartoum Refinery's payment. After receiving payments from Khartoum Refinery, the payment collection agent transferred the payments from its non-resident account at the Yixing branch of the Bank to the resident account of Jiangsu Chuangxin at the same branch generally within one day. After Jiangsu Chuangxin received the last payment from the payment collection agent on 5 June 2017, Jiangsu Chuangxin ceased the payment collection arrangement and the payments from Khartoum Refinery were directly transferred from its account at Paris branch of the Bank to Jiangsu Chuangxin's account via the Bank's internal system. The payments made by Khartoum Refinery directly to Jiangsu Chuangxin on 28 November 2017, 15 December 2017 and 22 January 2018 were received by Jiangsu Chuangxin after 42, 71 and 20 calendar days, respectively, on 9 January 2018, 24 February 2018 and 11 February 2018, respectively.

To facilitate the payment collection arrangement, a family member of Mr. Ge and Ms. Gu incorporated or established United Wealth and Earn Wealth as SPVs for the sole purpose of accelerating the payment collection process. United Wealth was incorporated in Hong Kong on 2 December 2010, started to serve as Jiangsu Chuangxin's payment collection agent in 2011, and was deregistered on 12 August 2016. Earn Wealth, which was incorporated in BVI on 17 September 2014, subsequently entered into a sales contract with Jiangsu Chuangxin in August 2015, served as Jiangsu Chuangxin's payment collection agent from 5 January 2016 to 5 June 2017, and was deregistered on 8 November 2017. After Earn Wealth was incorporated, we communicated with Khartoum Refinery to arrange the change of the payment collection agent. Khartoum Refinery did not confirm the change of the payment collection agent until the middle of 2015. The delay in confirmation, as confirmed by a representative of Khartoum Refinery, was due to their internal review and approval processes starting around the end of 2014. Meanwhile, United Wealth continued to be the payment collection agent. The first back-to-back sales contract between Jiangsu Chuangxin and Earn Wealth was entered into in August 2015. The payment collection agent was changed from United Wealth to Earn Wealth in order to take advantage of the lower cost of a BVI company because Earn Wealth was an exempt company in BVI and, unlike Hong Kong-incorporated companies, was not required to conduct annual audits, assess tax payments or submit tax returns. For the entirety of their existence, both United Wealth's and Earn Wealth's sole operating activity was to operate as Jiangsu Chuangxin's overseas payment collection agent to facilitate its trades with Khartoum Refinery. In order to facilitate the payment transfers from their non-resident accounts to Jiangsu Chuangxin's resident account and to document the transactions, the payment collection agent entered into a series of sales contracts with Jiangsu Chuangxin in relation to each dispatch instruction from Khartoum Refinery or one-off sales contracts between Khartoum Refinery and Jiangsu Chuangxin. No goods were physically delivered to the payment collection agent from Jiangsu Chuangxin as each purchase was immediately assigned and

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shipped to Khartoum Refinery as the consignee in accordance with the pro forma invoice following each dispatch instruction or the one-off sales contract. However, each remittance of payment from Khartoum Refinery to the payment collection agent was backed by the sales contracts among Jiangsu Chuangxin, Khartoum Refinery and the payment collection agent.

Although, in accordance with the framework sales contracts, the sales to Khartoum Refinery were to be denominated in U.S. dollars, all payments paid to the payment collection agent after August 2014 were in Euros because Khartoum Refinery closed its U.S. dollar account at the request of the Bank. We were unaware of the reasons for the Bank's request. As a result, Khartoum Refinery was no longer able to effect any payment in U.S. dollars and made payments in Euros instead. Khartoum Refinery continued to purchase goods from Jiangsu Chuangxin but requested to settle the payments in Euros, to which Jiangsu Chuangxin agreed.

The payment collection arrangement involved only Sudanese customers, and no sales proceeds from other customers were collected through third parties. We had only two Sudanese customers during the Track Record Period, namely Khartoum Refinery and Customer X. We did not settle payments from Customer X via the payment collection agent because payment amounts were relatively small and slow fund flow would have had little impact on our business performance and financial results, such as trade receivable turnover days.

As confirmed by CIC and the Bank, it is not an uncommon industry practice to receive overseas payments via non-PRC entities when Chinese business enterprises deal with overseas customers. In particular, it is a common practice to transfer payments via non-PRC entities when Chinese business enterprises deal with customers with a presence in countries subject to international economic sanctions. According to CIC, its confirmation is based on their primary market research using in-depth interviews with major industry players in the PRC oil refining agents and fuel additives industry. It is confirmed that there are some leading players in the industry that were in similar situations as the Company and adopted the same method as did the Company. Other than the payment collection arrangement disclosed above, our Directors confirm that there was no other undisclosed dealing or side arrangement in this regard. The International Sanction Legal Advisers confirm that the payment collection arrangement does not impact the conclusion of the implications of applicable International Sanctions on the Group and other relevant parties as disclosed in the section headed "Business — Business Activities in Countries subject to International Sanctions" in the prospectus. Our PRC Legal Advisers and the Sudanese Legal Advisers also confirm that the aforementioned payment collection arrangement did not violate any PRC laws or Sudanese laws, respectively.

Amounts due from related parties

As of 31 December 2014, 2015 and 2016, our amounts due from related parties amounted to RMB2.0 million, RMB17.1 million and RMB18.1 million, respectively, for trade and non-trade related dealings. The amounts due from related parties during the Track Record Period consisted of advances to Jiangsu Hongming, Yixing Guanglinyuan, Mr. Ge and Ms. Gu, as well as sales of goods to Jiangsu Hongming. As of 30 September 2017, all amounts due from related parties had been settled.

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Amounts due to related parties

As of 31 December 2014, we had amounts due to related parties of RMB12.2 million for trade and non-trade related dealings. The amounts due to related parties during the Track Record Period consisted of advances from Jiangsu Hongming, Mr. Ge and Ms. Gu. The outstanding balances of amounts due to our related parties were unsecured, non-interest-bearing and repayable on demand, and had been settled in 2015.

OFF-BALANCE SHEET ARRANGEMENTS

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving another entity under which we have made guarantees or any obligation arising out of a material variable interest in another entity that provides financing, liquidity, market risk or credit risk support to us, or that engages in leasing, hedging, or research and development arrangements with us. As of the Latest Practicable Date, we did not have any off-balance sheet arrangements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary financial risks we face in the ordinary course of business are credit risk, liquidity risk and foreign exchange risk. For details, see Note 21 of the Accountants' Report attached as Appendix I to this Prospectus.

Credit risk

Our credit risk is primarily attributable to trade and other receivables, bank deposits and available-for-sale financial assets. We have a credit policy in place and our exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, our senior management team will perform individual credit evaluations on all customers, and taking into account information specific to the customer and the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Normally, we do not obtain collateral from our customers. Our exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arise when we have significant exposure to individual customers. As of 31 December 2014, 2015, 2016 and 30 September 2017, 12.3%, 4.3%, 29.1% and 18.4% of the total trade and bills receivables was due from our largest customer, respectively, and 55.3%, 51.9%, 58.0% and 48.2% of the total trade and bills receivables was due from our five largest customers, respectively.

The credit risk of our other financial assets, which comprise bank deposits and available-for-sale financial assets, arises from the default of the counterparty. Bank deposits and available-for-sale financial assets are placed with financial institutions that have high credit ratings. Given their credit ratings, our management does not expect any counterparty to fail to meet its obligations. Maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position after deducting any allowance for doubtful debts, and endorsed bills with full recourse which we derecognized.

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Liquidity risk

The following table shows the contractual maturities at the end of each reporting period of our non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date that we can be required to pay:

	Within one year or on demand	More than one year but less than five years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2014				
Trade and other payables	30,115	—	30,115	30,115
31 December 2015				
Trade and other payables	13,081	—	13,081	13,081
31 December 2016				
Trade and other payables	38,797	—	38,797	38,797
30 September 2017				
Trade and other payables	41,261	—	41,261	41,261
Bank loan	18,786	—	18,786	18,000
	<u>60,047</u>	<u>—</u>	<u>60,047</u>	<u>59,261</u>

Foreign currency risk

We are exposed to foreign currency risk primarily through purchases and sales which give rise to receivables and bank balances that are denominated in foreign currencies, namely, currencies other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are U.S. Dollars and Euros.

The following tables detail our exposure at the end of each reporting period to currency risk arising from recognized assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of exposure are shown in RMB, translated using the spot rate at the end of each reporting period:

Exposure to USD (expressed in RMB)

	As of 31 December			As of 30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents.....	1,496	7,717	106	101
Trade and other receivables.....	17,107	8,425	18,988	19,034
	<u>18,603</u>	<u>16,142</u>	<u>19,094</u>	<u>19,135</u>

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Exposure to EUR (expressed in RMB)

	As of 31 December			As of 30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents.....	<u>189</u>	<u>33</u>	<u>539</u>	<u>3,666</u>

The following table indicates our profit after taxation and retained earnings that would arise if foreign exchange rates to which our financial assets and liabilities have significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant:

Increase/(decrease) in profit after taxation and retained earnings

	As of 31 December			As of 30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
USD				
Increase of 5% in foreign exchange rates.....	791	686	811	813
Decrease of 5% in foreign exchange rates	(791)	(686)	(811)	(813)
EUR				
Increase of 5% in foreign exchange rates.....	8	1	23	156
Decrease of 5% in foreign exchange rates	(8)	(1)	(23)	(156)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on the profit after tax and equity of each of the entities within our Group measured in the respective functional currencies, translating into RMB at the exchange rate ruling at the end of each reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by us which expose us to foreign currency risk at the end of each reporting period.

Capital risk management

The primary objectives of our Group when managing capital are to safeguard our ability to continue as a going concern, so that it can continue to provide returns for Shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

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Our Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher Shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-equity ratio. This ratio is calculated as net debt divided by total equity. We define net debt as loans and borrowings less available-for-sale financial assets and cash and cash equivalents. Total equity comprises all components of equity.

For the nine months ended 30 September 2017, our strategy was to maintain the adjusted net debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, we may adjust the amount of dividends paid to Shareholders, issue new Shares, return capital to Shareholders, raise new debt financing or sell assets to reduce debt.

No changes were made in the objectives, policies or processes for managing capital during the Track Record Period.

DIVIDENDS

After completion of the Share Offer, our Shareholders will be entitled to receive any dividends that we declare. Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' general meeting for approval. Declaration of dividends is subject to the discretion of our Directors, depending on our results of operations, working capital, financial position, future prospects, and capital requirements, as well as any other factors which our Directors may consider relevant. In addition, any declaration and payment as well as the amount of dividend will be subject to the constitutional documents of the Company and the Cayman Company Law.

We made profit distribution of RMB17.5 million in 2014, RMB43.0 million in 2016 and RMB20.4 million in respect of the six-month period ended 30 June 2017. Starting from 30 June 2017 and up to the Latest Practicable Date, we did not declare any additional dividends. Any future declarations and payments of dividends may or may not reflect the historical declarations and payments of dividends and will be at the absolute discretion of our Directors. Under applicable PRC laws, our subsidiary in the PRC may only distribute after-tax profits after it has made: (i) allocations or allowances for recovery of accumulated losses; (ii) allocations to the statutory reserves; and (iii) possible allocation to the discretionary reserves. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all.

DISTRIBUTABLE RESERVES

As of 30 September 2017, the Company did not have reserves available for distribution to our Shareholders.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Share Offer on the consolidated net tangible assets of the Group attributable to the equity shareholders of the Company as at 30 September 2017, as if the Share Offer had taken place on 30 September 2017. The pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Share Offer been completed as at 30 September 2017 or at any future date.

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	Consolidated net tangible assets of our Group attributable to equity shareholders of our Company as of 30 September 2017	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of our Company	Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to equity shareholders of our Company	Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to equity shareholders of our Company
	RMB'000 ⁽¹⁾	RMB'000 ⁽²⁾⁽⁵⁾	RMB'000 ⁽³⁾⁽⁴⁾	RMB ⁽⁴⁾	HK\$ ⁽⁵⁾
Based on an Offer Price of HK\$1.00 per Offer Share	103,586	85,054	188,640	0.39	0.47
Based on an Offer Price of HK\$1.25 per Offer Share	103,586	109,539	213,125	0.44	0.53

Notes:

- (1) The consolidated net tangible assets of the Group attributable to equity shareholders of the Company as of 30 September 2017 have been calculated based on the audited consolidated total equity attributable to equity shareholders of the Company as of 30 September 2017 of RMB103,586,000, extracted from the Historical Financial Information included in the Accountants' Report set out in Appendix I to this Prospectus.
- (2) The estimated net proceeds from the Share Offer are based on the issuance of 120,000,000 Shares and the indicative Offer Prices of HK\$1.00 and HK\$1.25 per Share, respectively, being the lower end price and higher end price of the stated Offer Price range, after deduction of total listing expenses of approximately RMB24.9 million and approximately RMB25.7 million respectively, and excluding listing expenses of approximately RMB9,012,000 which have been recognised in profit or loss up to 30 September 2017, and does not take account of any Shares which may be issued upon the exercise of the Over-allotment Option, or any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme.
- (3) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 30 September 2017.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the Share Offer payable to our Company as described in note (2) and on the basis that a total of 480,000,000 Shares were in issue (including Shares in issue as of the date of this Prospectus and those Shares to be issued pursuant to the Share Offer and the Capitalisation Issue) assuming that the Share Offer had been completed on 30 September 2017 but taking no account of any shares which may be issued upon the exercise of the Over-allotment Option, or any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme.
- (5) The estimated net proceeds from the Share Offer are converted into Renminbi at the rate of HK\$1.00 to RMB0.8414, being the exchange rate set by PBOC prevailing on 20 September 2017. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed, after performing all the due diligence work which the Directors consider appropriate, that, as of the date of this Prospectus, there had been no material adverse change in our financial or trading position or prospects since 30 September 2017 and up to the date of this Prospectus.

We have prepared unaudited preliminary financial information for our Group as of and for the year ended 31 December 2017, which is set forth in Appendix III to this Prospectus.

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LISTING EXPENSES

We expect to incur total listing expenses (including professional fees, underwriting commissions and other fees) of approximately HK\$30.1 million (based on the mid-point of the indicative Offer Price range), of which approximately HK\$20.1 million is expected to be charged to profit or loss and approximately HK\$10.0 million is expected to be capitalized upon Listing. During the Track Record Period, we incurred listing expenses of approximately HK\$13.8 million, among which approximately HK\$10.7 million has been charged to the profit or loss and approximately HK\$3.1 million has been capitalized. The listing expenses above are the latest estimate for reference only and the actual amount may differ from the estimate. Our financial results for the year ended 31 December 2017 were impacted by the non-recurring listing expenses to be charged to profit or loss.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.

SUBSEQUENT EVENT

There are no significant subsequent events taking place after 30 September 2017 and up to the date of this Prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND PROSPECTS

For more information, see “Business — Our Business Strategies.”

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$105.5 million from the Share Offer, after deducting the underwriting commissions and other estimated expenses payable by us in connection with the Share Offer, assuming that the Over-allotment Option is not exercised, without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme and assuming an Offer Price of HK\$1.13 per Share (being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus). We intend to use such net proceeds from the Share Offer for the purposes and in the amounts set forth below:

- approximately 41.0%, or approximately HK\$42.8 million (the total estimated capital expenditure of the project), will be used to upgrade our Yixing Plant by purchasing new sets of machinery, equipment and analytical instruments, thereby expanding our production capacity, as well as meeting evermore stringent mandatory emissions regulations. Among the capital expenditure of approximately HK\$42.8 million, approximately HK\$8.3 million will be spent on the design and installation of the new machinery and equipment, approximately HK\$23.0 million will be spent on purchasing machinery and equipment, and approximately HK\$11.5 million will be spent on utilities, the upgrade of the production workshops, and other expenses. We intend to construct additional environmental protection facilities in order to satisfy more stringent environmental requirements in the future. We plan to spend HK\$4.8 million of the HK\$42.8 million that is planned to be used to upgrade our Yixing Plant on such facilities, namely two sets of equipment for processing volatile organic compounds. The installation of the environmental protection facilities is mainly for the purpose of fulfilling the government’s evermore stringent environmental requirements. We plan to upgrade our Yixing Plant to the production capacity of 25,000 tons considering that: (i) we could enjoy the benefit of economies of scale of constructing production facility with high capacity; and (ii) it is an industry norm to have a substantial expansion in production capacity of oil refining agents and fuel additives to satisfy the forecast demand for more than ten years to avoid constant small-scale upgrades and expansions of the production facility and the accompanying regulatory approvals required, both of which are costly and time-consuming. We have already received regulatory approval for building a 25,000-ton production facility. We plan to complete the design and preparation for the expansion plan in the first half of 2018 and start the installation of the machinery and equipment in the third quarter of 2018. We expect to commence commercial production in the first quarter of 2019.

According to the expansion plan, our production capacity of oil refining agents is expected to increase from 8,350 tons per year to 13,000 tons per year, and our production capacity of fuel additives is expected to increase from 2,100 tons per year to 12,000 tons per year. We believe that there will be sufficient demand to support our increased production capacity based on the following considerations:

- (i) We primarily increase the production capacity of our fuel additives because the capacity utilization of our fuel additives has exceeded 95% and is expected to reach 100% in 2018. Therefore, we need to plan for additional production capacity for fuel additives to satisfy future customer demand, which our Directors believe, will continue to increase given the expected growth of oil consumption in China and the implementation of more stringent environmental laws and regulations. For details, see “Industry Overview — Overview of the PRC Oil Refining Agents and Fuel Additives Industry;”

FUTURE PLANS AND USE OF PROCEEDS

- (ii) The PRC oil refining industry is currently at a growing stage and many state-owned as well as private oil refineries are upgrading and expanding their production capacities. As a result, there is expected to be more significant purchase orders in the foreseeable future. We have sold almost all of our oil refining agents primarily due to a significant purchase order by one of our customers during the first three quarters of 2017. We believe that we shall have the capacity to bid for large amounts of orders, while fulfilling the increasing market demand for our oil refining agents;
- (iii) According to CIC, the sales volume of desulfurizing agents in China is expected to continue rising at a CAGR of 8.9% from 2016 to 2021, and the sales volume of lubricity improvers is expected to increase at a CAGR of 4.2% from 2016 to 2021. As a result, our products will enjoy increasing market demand in the coming years; and
- (iv) Sinopec, CNPC and CNOOC have adopted increasingly higher standards for their raw materials due to the evermore stringent environmental requirements. Smaller suppliers or new entrants to the market may not be able to satisfy such requirements. As a result, the market concentration for oil refining agents' suppliers is increasing, and our Directors believe that the three state-owned conglomerates will be more willing to procure raw materials from us than from new suppliers, given our long-standing relationships with them and our proven record of good quality.

We are currently at the stage of preparation, including workshop check-ups and price inquiry. Some of the equipment used in the production process for desulfurizing agents is no longer necessary because of technological changes in the production process. However, we plan to re-deploy such spare equipment to our oil refining agents production line as such equipment is also suited for producing other oil refining agents that we are currently producing. The type, quantity, and estimated expenses of the machinery and equipment that we plan to purchase are set forth below:

Type of machinery and equipment	Quantity	Estimated expenses (RMB'000)
Storage tanks	34	8,700
Production equipment	18	8,900
Chemical reactors	10	1,160
Analytical instruments	8	625

We expect the payback period to be six to seven years under the assumptions that: (i) the CAGR of the production volume of the fuel additives is expected to be between 10% and 15%, based on the growth trend of our customers' demand during the Track Record Period; (ii) our current fuel additives production facility is expected to reach full capacity in 2018 and the increased market demand for fuel additives starting from 2019 will be met by the increased production capacity under our expansion plan; and (iii) the earnings before interest, taxes, depreciation and amortization ("EBITDA") margins of sales of fuel additives are assumed to be the same as those of 2016. We assume the EBITDA margins to be the same as those of 2016 because fixed cost other than depreciation for fuel additives is mainly labor cost, which only accounted for approximately 1.1% to 1.9% of the cost of sale for fuel additives during the Track Record Period, and its impact on the EBITDA margins was negligible when the total revenue increased in line with the increased production volume. The estimated payback period has not taken into account the increase in sale of oil refining agents. For the nine months ended 30 September 2017, the utilization rate for oil refining agents was 72.1%, excluding a significant purchase order by one of our customers. Our increased production capacity for oil refining agents may not immediately

FUTURE PLANS AND USE OF PROCEEDS

be utilized after the commencement of commercial production in the first quarter of 2019, if we are not awarded significant purchase orders. The estimated payback period has not taken into account the cost savings of the raw material of lubricity improvers resulting from the vertical integration plan as disclosed below, and such cost of savings has been assumed to be the benefit from the vertical integration plan and has been taken into account in the payback period thereof. We will charge a depreciation and amortization expense of approximately RMB3.2 million per year. The expansion plan does not require additional labor or raw material suppliers because the production process is highly automated and is manageable with our current labor force even taking the expanded production capacity into consideration. We expect to procure more raw materials, which will be in line with our increased production volume; nevertheless, no new type of raw materials will be required. As a result, we will manage the production and sourcing of labor and raw materials in the same way as we did during the Track Record Period. The only material impact of the expansion plan on our operations and cost structure going forward is depreciation expenses, which will be RMB3.2 million per year after the completion of the plan;

- approximately 51.0%, or approximately HK\$53.9 million (the total estimated capital expenditure of the project), to build production facilities for the manufacturing of a lower-cost raw material substitute, high-purity oleic acid, for the production of lubricity improvers, which we currently need to import from overseas. The facility will be built on the same property in which our Yixing Plant is located. We plan to adopt engineering, procurement and construction (“EPC”) service. The EPC service provider will provide the technological know-how for producing high-purity oleic acid as well as the design and installation of the new production line. As of the Latest Practicable Date, we had communicated with potential EPC service providers but had not identified any specific EPC service provider nor entered into any definitive agreement in this regard. The estimated expense of the EPC service is approximately HK\$9.4 million. The expense of EPC service includes the license fee for the know-how, which is effective for the entire life cycle of the production line. We do not expect to pay any royalty fee or license fee in the future based on the discussion with the potential EPC service providers. The impact of the license fee on our cost structure going forward will be recognized in the depreciation and amortization expenses. We also plan to build a new facility and purchase equipment such as freezers, filters, filter presses and vacuum distillation units at an estimated expense of approximately HK\$44.5 million. We plan to recruit three additional employees with proper training to manage the production. We plan to construct the facility for high-purity oleic acid at a maximum production capacity of 10,000 tons per year, with a by-product of stearic acid of 2,500 tons per year, considering that: (i) we could enjoy the benefit of economies of scale of constructing production facility with high capacity; and (ii) it is an industry norm to have a substantial expansion in production capacity of high-purity oleic acid to satisfy the forecast demand for more than ten years to avoid constant small-scale upgrades and expansions of the production facility and the accompanying regulatory approvals required, both of which are costly and time-consuming. We plan to produce high-purity oleic acid for both in-house production of lubricity improvers and external sales, and to sell all stearic acid as a by-product.

FUTURE PLANS AND USE OF PROCEEDS

We expect the payback period to be four to five years under the assumptions that: (i) the CAGR of the production volume of the fuel additives is expected to be between 10% and 15%, based on the growth trend of our customers' demand during the Track Record Period; (ii) approximately 3,000 to 5,400 tons of high-purity oleic acid will be produced per year, all of which will be used internally for our production of lubricity improvers within the first five years after the commencement of commercial production in the fourth quarter of 2019; and (iii) the production of the high-purity oleic acid will generate approximately 750 to 1,350 tons of stearic acid as the by-product, all of which will be sold to the market. Under such assumptions, we expect to save raw material costs of lubricity improvers by between 19% and 25%.

We expect the payback period to be three to four years, if additional high-purity oleic acid is to be produced and sold to the market, under the assumptions that: (i) the CAGR of the production volume of the fuel additives is expected to be between 10% and 15%, based on the growth trend of our customers' demand during the Track Record Period; (ii) approximately 4,000 to 5,700 tons of high-purity oleic acid will be produced per year within the first four years after the commencement of commercial production in the fourth quarter of 2019, of which approximately 3,000 to 4,700 tons will be used internally for our production of lubricity improvers and approximately 1,000 tons will be sold to the market; and (iii) the production of the high-purity oleic acid will generate approximately 1,000 to 1,400 tons of stearic acid as the by-product, all of which will be sold to the market. Under such assumptions, we expect to save raw material costs of lubricity improvers by between 23% and 26%. The only material impact of the vertical integration plan on our operations and cost structure going forward is depreciation expenses, which will be RMB3.4 million per year. We expect to apply for recordation with the Yixing Economic Development Zone Economics and Technology Development Bureau (宜興經濟技術開發區經濟科技發展局) and respective approvals from the Environmental Protection Bureau of Wuxi City (無錫市環境保護局) and the Yixing Economic Development Zone Planning and Construction Bureau (宜興經濟技術開發區規劃建設局) in the fourth quarter of 2018, begin the construction in the first quarter of 2019 and commence commercial production in the fourth quarter of 2019. Our PRC Legal Advisers confirm that there would be no substantive legal impediment for us to complete the aforesaid recordation formalities and obtain the approvals, as long as the required application documents comply with the relevant laws and regulations and meet the requirements of the local administrative authorities. For the basis of such confirmation, see "Regulatory Overview — Laws relating to Construction Projects;" and

- approximately 8.0%, or approximately HK\$8.8 million, will be used for general business operations and working capital.

If the proceeds from the Share Offer are not sufficient to support our expansion plan and vertical integration plan, we will use our cash flows from operations, and we may also renew the bank loan of RMB18.0 million, which matures in August 2018. The bank confirms in writing that such loan can be renewed upon its maturity as long as the required renewal conditions and procedures are satisfied. We are permitted to use the bank loans for purposes other than investment in fixed assets, equity interests or business prohibited by the government. Therefore, we will be able to use the bank loan to fund our expansion plan indirectly by freeing up our cash flow from operations to purchase the equipment. In addition, we will prioritize the expansion plan over the vertical integration plan.

If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds from the offering of these additional Shares will be approximately HK\$19.7 million, after deducting the underwriting commissions and other estimated expenses payable by us in connection with the Share Offer, assuming an Offer Price of HK\$1.13 per Share, being the mid-point of the indicative

FUTURE PLANS AND USE OF PROCEEDS

Offer Price range. We intend to apply such additional net proceeds to: (1) repay our bank borrowings with an interest rate of 4.8% per annum and a maturity date of 23 August 2018, which was primarily used for our working capital needs; and (ii) to the extent there are proceeds remaining, use as working capital and for the purposes stated above in the same proportions.

If the Offer Price is determined at HK\$1.25 per Offer Share, being the high end of the indicative Offer Price range stated in this Prospectus, we will receive additional net proceeds of approximately HK\$14.0 million. We intend to use such additional net proceeds to repay our bank borrowings with an interest rate of 4.8% per annum and a maturity date of 23 August 2018, which was primarily used for our working capital needs. If the Offer Price is fixed at HK\$1.00 per Offer Share, being the low end of the indicative Offer Price range stated in this Prospectus, the net proceeds we receive will be reduced by approximately HK\$15.1 million. If the Offer Price is set above the mid-point of the indicative Offer Price range, we intend to use such additional net proceeds to repay our bank borrowings with an interest rate of 4.8% per annum and a maturity date of 23 August 2018, which was primarily used for our working capital needs. If the Offer Price is set below the mid-point of the indicative Offer Price range, we intend to reduce the allocation of the net proceeds to the purposes stated above on a pro rata basis.

To the extent that the net proceeds from the Share Offer are not immediately applied to the purposes stated above, and to the extent permitted by applicable laws and regulations, we intend to deposit the proceeds into accounts with licensed financial institutions. We will make a formal announcement in the event that there is any change in our use of net proceeds from the purposes stated above or in our allocation of the net proceeds in the proportions stated above.

UNDERWRITING

UNDERWRITERS

Orient Securities (Hong Kong) Limited
Guotai Junan Securities (Hong Kong) Limited
Quasar Securities Co., Limited
Huabang Securities Limited
CNI Securities Group Limited
Freeman Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer, the Company is offering the Public Offer Shares for subscription by the public in Hong Kong at the Offer Price on and subject to the terms and conditions of this Prospectus and the Application Forms.

Subject to the Listing Committee of the Stock Exchange granting Listing of, and permission to deal in, our Shares to be offered as mentioned herein (including the additional Shares to be issued pursuant to the exercise of the Over-allotment Option) and to certain other conditions set out in the Public Offer Underwriting Agreement having been duly executed and delivered and having become unconditional in accordance with its terms, the Public Offer Underwriters have agreed, severally, to subscribe or procure subscribers for, their respective applicable proportions of the Public Offer Shares which are being offered but are not taken up under the Public Offering on the terms and subject to the conditions of this Prospectus, the Application Forms and the Public Offer Underwriting Agreement.

The Public Offer Underwriting Agreement is conditional upon and subject to, among other things, the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its own terms or otherwise, prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe for, or procure subscribers for, the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination by the Joint Coordinators (for themselves and on behalf of the Public Offer Underwriters) with immediate effect by notice, if at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any new laws, statutes, ordinances, rules, guidelines, regulations, opinions, notices, circulars, orders, judgments, decrees or rulings of any governmental authority (“**Laws**”) or any change or development involving a prospective material change in existing Laws or any change or development involving a prospective material change in the interpretation or application thereof by any court or other competent authority of or affecting the Cayman Islands, the BVI, Hong Kong, the PRC or any other relevant jurisdiction relevant to any member of our Group (collectively, the “**Relevant Jurisdictions**” and individually, a “**Relevant Jurisdiction**”);

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- (ii) any change or development involving a prospective material change in, or any event or series of events resulting or likely to result in any or representing any change or development involving a prospective material change in, local, national or international financial, political, military, industrial, legal, economic, currency exchange rates, exchange control, currency market, fiscal or regulatory or market matters or conditions or any monetary or trading settlement system (including but not limited to conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting any Relevant Jurisdiction;
- (iii) the imposition or declaration of any moratorium, suspension, restriction or limitation on trading in shares or securities generally on the New York Stock Exchange, the Nasdaq National Market, the Stock Exchange, the SGX-ST, Tokyo Stock Exchange, the London Stock Exchange, the Shenzhen Stock Exchange or the Shanghai Stock Exchange or any minimum or maximum prices for trading having been fixed, or maximum ranges for prices having been required, by any of the said exchanges or by such system or by order of any regulatory or governmental authority, or a disruption has occurred in securities settlement, payment or clearance services or procedures in or affecting any Relevant Jurisdiction;
- (iv) any change or development or event occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations or currency exchange rates in any Relevant Jurisdiction;
- (v) any change or development or event occurs involving a prospective material change in the operational condition, financial or otherwise, or in the earnings, business affairs, business prospects or trading position of any member of our Group, or customer confidence including but not limited to any action, suit, proceeding, litigation or claim of any third party being threatened or instigated against any member of our Group, or any investigation of any member of our Group or an order for suspension of business by any government authority;
- (vi) any change or prospective change or a materialization of any of the risks set out in “Risk Factors” of this Prospectus;
- (vii) any moratorium on or disruption in banking activities or foreign exchange trading or settlement or clearance services in or affecting any Relevant Jurisdiction;
- (viii) any outbreak or escalation of hostilities (whether or not war is or has been declared) or act of terrorism or other state of emergency or calamity or wide-spread epidemic or political or social crisis involving directly or indirectly any Relevant Jurisdiction, or the declaration by any Relevant Jurisdiction of a national emergency or war;
- (ix) any event of force majeure or beyond the control of the Public Offer Underwriters, including without limitation, any act of God, war, riot, public disorder, civil commotion, fire, flood, earthquake, tsunami, volcanic eruption, ice-storm, explosion, outbreak of disease or epidemic, acts of government, labor dispute, strike or lock-out involving directly or indirectly any Relevant Jurisdiction;
- (x) any imposition of any economic sanctions, in whatever form, directly or indirectly, by any Relevant Jurisdiction, or on any Relevant Jurisdiction, or against any member of our Group;

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- (xi) an executive Director being charged or indicted or retained with an indictable offence or prohibited by operation of law or otherwise disqualified from directorship or taking part in the management of a company, or the commencement by any governmental authority of any investigation or other action against any executive Director in his or her capacity as such or an announcement by any governmental authority that it intends to take any such actions;
- (xii) the chairman or chief executive officer of the Company vacating his office in circumstances where the operations of our Group will be materially and may, in the sole and absolute opinion of the Joint Coordinators (for themselves and on behalf of the Public Offer Underwriters), be adversely affected;
- (xiii) any non-compliance of this Prospectus (or any other documents used in connection with the Share Offer) or any aspect of the Share Offer with the Listing Rules, the Articles of Association, the Companies (WUMP) Ordinance, the Listing Rules, the SFO or any other applicable Laws by any of any member of our Group, our Controlling Shareholders, or our executive Directors;
- (xiv) the commencement by any judicial, political, governmental or regulatory body or organization of any investigation, claim, proceeding or other action, or announcing an intention to investigate or take such action, against any executive Director, any Controlling Shareholder or any member of our Group;
- (xv) any litigation, or claim, or investigation, or action, being announced, threatened, or instigated against any member of our Group, any Controlling Shareholder or any executive Director; or
- (xvi) any contravention by any member of our Group of the Companies Ordinance, the Companies (WUMP) Ordinance, the Listing Rules or applicable Laws,

which, in each case or in the aggregate, in the sole and absolute opinion of the Joint Coordinators (for themselves and on behalf of the Public Offer Underwriters):

- (A) is or may be or is likely to have a material adverse effect on, or prejudicially affect, the business or financial or operational condition or prospects of the Company or our Group, or to any present or prospective shareholder of the Company in his/her/its capacity as such;
- (B) has or might have or is likely to have a material adverse effect on the success of the Public Offer, the Placing or the Share Offer, or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares; or
- (C) makes or will or is likely to make it inadvisable, inexpedient, impracticable or not commercially viable to proceed with or to market the Public Offer, the Placing or the Share Offer, or a material part of the Public Offer Underwriting Agreement, the Placing Underwriting Agreement, the Public Offer, the Placing or the Share Offer to be performed or implemented in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof; or

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- (b) there has come to the notice of the Joint Coordinators:
- (i) any breach of any of the warranties, representations, obligations or undertakings given by or imposed upon the Company, our Controlling Shareholders and our executive Directors in the Public Offer Underwriting Agreement and the Placing Underwriting Agreement or any matter or event showing any of such warranties, representations, obligations or undertakings to be untrue, inaccurate or misleading or having been breached in any respect when given or repeated;
 - (ii) any breach on the part of the Company, any of our Controlling Shareholders or any of our executive Directors of the Public Offer Underwriting Agreement or the Placing Underwriting Agreement;
 - (iii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this Prospectus, constitute an omission therefrom;
 - (iv) that any statement contained in this Prospectus, the Application Forms, the formal notice, other offering documents or any announcements (including any supplement or amendment thereto) considered by the Joint Coordinators (for themselves and on behalf of the Public Offer Underwriters) in their reasonable opinion to be material in the context of the Share Offer was, when it was issued, or has become untrue, incorrect or misleading in any respect, or that any estimates, forecasts, expressions of opinion, intention or expectation expressed in this Prospectus, the Application Forms, the formal notice, or other offering documents or announcements (including any supplement or amendment thereto) considered by the Joint Coordinators (for themselves and on behalf of the Public Offer Underwriters) in their reasonable opinion to be material in the context of the Share Offer is not, in all respects fair and honest and based on reasonable assumption.
 - (v) there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of a material nature of any member of our Group or any of our Controlling Shareholders or our executive Directors pursuant to the indemnities referred to in the Public Offer Underwriting Agreement or the Placing Underwriting Agreement;
 - (vi) any valid demand by any creditor for repayment or payment of any indebtedness of the Company or any member of our Group or in respect of which the Company or any member of our Group is liable prior to its stated maturity which demand has or could reasonably be expected to have a material adverse effect on our Group taken as a whole;
 - (vii) that an order is made or a petition is presented for the winding-up or liquidation of the Company or any member of our Group or the Company or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of the Company or any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of the Company or any member of our Group or anything analogous thereto occurs in respect of the Company or any member of our Group and for the purpose of this paragraph (vii) only, “member of our Group” shall mean any member of our Group where the value of its total assets, profits or revenue represents 5% or more under any of the percentage ratios defined under Rule 14.09 of the Listing Rules;

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- (viii) that approval by the Listing Committee of the Listing of, and permission to deal in, our Shares (including any additional Shares that may be issued pursuant to the exercise of Over-allotment Option) to be issued or sold under the Share Offer is refused or not granted on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) revoked or withheld;
- (ix) that the Company withdraws any of the offering documents issued in connection with the Share Offer (and/or any other documents used in connection with the contemplated subscription of the Offer Shares), collectively, the (“**Offer Documents**”) or the Share Offer;
- (x) that any person (other than the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents;
- (xi) other than with the approval of the Sole Sponsor and the Joint Coordinators, the issue by the Company of any supplement or amendment to this Prospectus (or to any other documents used in connection with the contemplated subscription of our Shares) pursuant to the Companies (WUMP) Ordinance, the Listing Rules, the SFO or any other applicable Laws, or any requirement or request of the Stock Exchange and/or the SFC; or
- (xii) any prohibition on the Company by any governmental authority for whatever reasons from offering, allotting, issuing or selling our Shares (including any additional Shares that may be issued pursuant to the exercise of Over-allotment Option) pursuant to the terms of the Share Offer,

then the Joint Coordinators (for themselves and on behalf of the Public Offer Underwriters) may, and upon giving notice in writing to the Company and the Public Offer Underwriters, terminate the Public Offer Underwriting Agreement with immediate effect.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by the Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that except pursuant to: (i) the Share Offer (including the Over-allotment Option); (ii) the Share Option Scheme; (iii) any capitalization issue, capital reduction or consolidation or sub-division of Shares; and (iv) the circumstances permitted pursuant to Rule 10.08 of the Listing Rules, we will not, within six months from the Listing Date, issue any further Shares or securities convertible into equity securities of the Company (whether or not of a class already listed) or enter into any agreement to such issue (whether or not such issue of shares or securities will be completed within six months from the Listing Date).

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has jointly and severally undertaken to the Stock Exchange that save as disclosed in this Prospectus and except pursuant to: (i) the Share Offer (including the Over-allotment Option); and (ii) the Share Option Scheme, he/she/it will not and shall procure that the relevant registered holder(s) of our Shares, any

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associates or companies controlled by him/her/it, any nominees or trustees holding our Shares in trust for him/her/it (as the case may be), will not without the prior written consent of the Stock Exchange or unless otherwise in compliance with the applicable requirements of the Listing Rules:

- (a) in the period commencing on the date by reference to which disclosure of his/her/its shareholding in the Company is made in the Prospectus and ending on the date which is six months from the Listing Date (“**First Lock-Up Period**”), 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 in respect of which he/she/it is shown by this Prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules); or
- (b) in the period of a further six months commencing on the date on which the First Lock-Up Period expires (“**Second Lock-Up Period**”), 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 mentioned in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it would cease to be a Controlling Shareholder.

In addition, pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to the Company that during the First Lock-up Period and Second Lock-up Period, he/she/it shall:

- (a) when he/she/it pledges or charges any Shares beneficially owned by him/her/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 the Company in writing of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when he/she/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform the Company in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters, if any, by any of our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

Undertakings pursuant to the Public Offer Underwriting Agreement

Undertakings by the Company

Pursuant to the Public Offer Underwriting Agreement, the Company has undertaken to, among others, the Sole Sponsor, the Joint Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters that, except pursuant to the Capitalization Issue, the Share Offer (including the Over-allotment Option), the grant of options or issue of our Shares upon exercise of such options pursuant to the Share Option Scheme or with prior written consent of the Joint Coordinators (for themselves and on behalf of the Public Offer Underwriters) (such consent shall not be unreasonably withheld or delayed) and unless in compliance with the requirements of the Listing Rules, we will not at any time during the period commencing from the date of the Prospectus and ending on the date which is six months from the Listing Date (“**First Six-month Period**”):

- (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or

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subscribe for, make any short sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of our share capital, debt capital or other securities, or any shares or other securities of such other member of our Group, or any interest therein;

- (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 of our share capital or other securities, or any of the share capital or other securities of any other member of our Group, or any interest therein, or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution;
- (c) enter into any of the transactions described in (a) or (b) above with the same economic effect; or
- (d) agree or contract to, or publicly announce any intention to enter into any of the transactions described in (a), (b) or (c) above,

in each case, whether any of such transactions described in (a), (b) or (c) above is to be settled by delivery of share capital or such other securities, in cash or otherwise.

Undertakings by our Controlling Shareholders

Pursuant to the Public Offer Underwriting Agreement, each of our Controlling Shareholders has undertaken to each of the Sole Sponsor, the Joint Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Public Offer Underwriters and the Company that, except pursuant to the Share Offer (including the Over-allotment Option) or the grant of options or issue of our Shares upon exercise of such options pursuant to the Share Option Scheme, and with the prior written consent of the Joint Coordinators (for themselves and on behalf of the Public Offer Underwriters) (such consent shall not be unreasonably withheld or delayed) and unless in compliance with the requirements of the Listing Rules:

- (a) during the First Six-Month Period, he/she/it shall not, and shall procure that the relevant registered holders and his/her/its close associates and companies controlled by him/her/it and any nominee or trustee holding in trust for him/her/it shall not:
 - (i) offer, accept subscription for, pledge, mortgage, charge (other than any pledge, mortgage or charge of the issued share capital of the Company 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), sell, lend, assign, contract to sell, any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale, assign or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, cause the Company to repurchase, any of our Shares, share or debt capital or other securities of the Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, or any warrants or other rights to purchase, any such Shares, share or debt capital or other securities or any interest therein whether now owned or hereinafter acquired, owned directly by our Controlling Shareholders (including holding as a custodian) or with respect to which our Controlling Shareholders have beneficial ownership (collectively the “**Lock-up Securities**”), or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distributions;

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- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of any such Lock Up Securities or any interest therein, or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distributions;
 - (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
 - (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraph (i) or (ii) or (iii) above,

whether any such transaction described above is to be settled by delivery of the Lock-Up Securities, in cash or otherwise;
- (b) during the six month period immediately following the expiry of the First Six-month Period (“**Second Six-month Period**”), he/she/it shall not, and shall procure that the relevant registered holder(s) and his/her/its close associates and companies controlled by him/her/it and any nominee or trustee holding in trust for him/her/it shall not, enter into any of the transactions in paragraphs (a)(i) or (a)(ii) or (a)(iii) above or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, any Controlling Shareholder will cease to be a controlling shareholder (as defined in the Listing Rules) of the Company;
- (c) until the expiry of the Second Six-Month Period, in the event that he/she/it or the relevant registered holder(s) and his/her/its close associates and companies controlled by him/her/it and any nominee or trustee holding in trust for him/her/it enters into any such transactions or agrees or contracts to, or publicly announces an intention to enter into any such transactions, he/she/it will take all reasonable steps to ensure that he/she/it or the relevant registered holders and his/her/its close associates and companies controlled by him/her/it and any nominee or trustee holding in trust for him/her/it will not create a disorderly or false market in the securities of the Company;
- (d) from the date of the Public Offer Underwriting Agreement up to and including the expiry of the Second Six-Month Period, he/she/it will:
- (i) when he/she/it pledges or charges any Shares, share capital or other securities of the Company including but not limited to rights as to voting, dividend or distribution in the securities of the Company, in respect of which he/she/it is the beneficial owner, immediately inform the Sole Sponsor, the Joint Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Company, if required under the Listing Rules, the Stock Exchange in writing of such pledge or charge and the number of Shares or other securities of the Company, and the nature of interest, so pledged or charged; and
 - (ii) if and when he/she/it receives any indication, either verbal or written, from any pledgee or chargee of Shares or other securities of the Company that such Shares or other securities of the Company or interests in or rights attaching to the securities of the Company, will be sold, transferred or disposed of, immediately inform the Company, the Sole Sponsor, the Joint Coordinators, the Joint Bookrunners and, if required under the Listing Rules, the Stock Exchange of any such indication.

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Indemnity

The Company, our Controlling Shareholders and our executive Directors have agreed to indemnify among others, the Sole Sponsor, the Joint Coordinators and the Public Offer Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Public Offer Underwriting Agreement and any breach of the Public Offer Underwriting Agreement by us, our Controlling Shareholders or our executive Directors.

The Placing

In connection with the Placing, it is expected that the Company, our executive Directors and our Controlling Shareholders, will enter into the Placing Underwriting Agreement with, among others, the Sole Sponsor, the Joint Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters.

Under the Placing Underwriting Agreement, subject to the conditions set out therein, the Placing Underwriters are expected to severally agree to purchase or procure purchasers for the Placing Shares initially being offered pursuant to the Placing. It is expected that the Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. Potential investors shall be reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed.

We expect to grant to the Stabilizing Manager (for itself and on behalf of the Placing Underwriters), the Over-allotment Option exercisable at any time from the date of the Placing Underwriting Agreement until the 30th day after the last date for lodging of applications under the Public Offer (i.e. 21 April 2018) at its sole and absolute discretion, to require us to allot and issue up to an aggregate of 18,000,000 additional Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share under the Placing to solely cover over-allocations, if any, in the Placing.

The Company, our Controlling Shareholders and our executive Directors will agree to indemnify, among others, the Sole Sponsor, the Joint Coordinators and the Placing Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Placing Underwriting Agreement and any breach of the Placing Underwriting Agreement by us, our Controlling Shareholders or our executive Directors.

Underwriting commission and expenses

The Public Offer Underwriters will receive an underwriting commission of 3.5% on the aggregate Offer Price of the Public Offer Shares initially offered under the Public Offer, out of which they will pay any sub-underwriting commission. For unsubscribed Public Offer Shares reallocated to the Placing, we will pay an underwriting commission at the rate applicable to the Placing in the manner as specified in the Placing Underwriting Agreement.

The aggregate commissions and fees, together with the Listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Share Offer are estimated to amount to approximately HK\$30.1 million in total (based on the Offer Price of HK\$1.13, being the mid-point of the indicative Offer Price range between HK\$1.00 and HK\$1.25, and assuming the Over-allotment Option is not exercised) and will be payable by us.

UNDERWRITING

Underwriters' interests in the Company

The Underwriters will receive an underwriting commission of 3.5% of the aggregate Offer Price payable for the Offer Shares. Particulars of these commission and expenses are set out under “—Underwriting Arrangements and Expenses” in this section.

Save as disclosed above, none of the Joint Coordinators, the Joint Bookrunners, the Joint Lead Managers or the Underwriters is legally or beneficially interested in any shares of our subsidiaries or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of our members in the Share Offer.

Independence of the Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

RESTRICTIONS ON THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, or the distribution of this Prospectus in any jurisdiction other than Hong Kong. Accordingly, this Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any 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.

STRUCTURE OF THE SHARE OFFER

THE SHARE OFFER

This Prospectus is published in connection with the Public Offer which forms part of the Share Offer. Orient Capital (Hong Kong) Limited is the Sole Sponsor for the Listing of the Shares on the Stock Exchange, and Orient Securities and Guotai Junan Securities are the Joint Coordinators, Joint Bookrunners and Joint Lead Managers of the Share Offer.

The Share Offer initially comprises:

- (a) the Public Offer of 12,000,000 Offer Shares (subject to reallocation on the bases set out in “ — Public Offer — Reallocation” in this section below) in Hong Kong as described in “Public Offer” in this section below; and
- (b) the Placing of 108,000,000 Offer Shares (subject to reallocation on the bases set out in “ — Public Offer — Reallocation” in this section below and the Over-allotment Option as set out in “ — Over-allotment Option and Stock Borrowing Agreement” in this section below) outside the United States in reliance on Regulation S.

Investors may either: (a) apply for Offer Shares under the Public Offer; or (b) apply for or indicate an interest, if qualified to do so, for the Offer Shares under the Placing, but may not do both.

Reasonable steps will be taken to identify and reject: (a) applications in the Public Offer from investors who have applied for Offer Shares under the Placing; and (b) applications or indications of interest in the Placing from investors who have applied for Public Offer Shares under the Public Offer.

The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The Placing will involve selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States, in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

The number of Offer Shares to be offered under the Public Offer and the Placing may be subject to adjustment and, in the case of the Placing only, the Over-allotment Option as set out in “ — Over-allotment Option and Stock Borrowing Agreement” in this section below.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares pursuant to the Share Offer will be conditional on, among other things:

- (a) the Listing Committee granting the Listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued pursuant to the Share Offer and the Capitalization Issue and any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options granted under the Share Option Scheme, and such Listing and permission not subsequently having been revoked prior to the commencement of dealing in the Shares on the Stock Exchange;
- (b) the Offer Price having been fixed on or around the Price Determination Date;
- (c) the execution and delivery of the Underwriting Agreements in accordance with their respective terms; and

STRUCTURE OF THE SHARE OFFER

- (d) the obligations of the Underwriters under each of the Public Offer Underwriting Agreement and the Placing Underwriting Agreement becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Coordinators (for themselves and on behalf of the Underwriters)) and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless to the extent such conditions are validly waived on or before such dates and times) and in any event no later than the date which is 30 days after the date of this Prospectus.

The Offer Shares are being offered at the Offer Price which is expected to be fixed between the Joint Coordinators (for themselves and on behalf of the Underwriters) and the Company on the Price Determination Date, which is expected to be on or around Thursday, 22 March 2018 and in any event not later than 8:00 a.m. on Tuesday, 27 March 2018.

If, for any reason, the Offer Price is not agreed between the Joint Coordinators (for themselves and on behalf of the Underwriters) and the Company by 8:00 a.m. on Tuesday, 27 March 2018, the Share Offer will not proceed and will lapse.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, 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 Share Offer will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Public Offer on the next business day following such lapse: (a) in the South China Morning Post (in English); (b) in the Hong Kong Economic Times (in Chinese); and (c) on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.jscxsh.cn. In the event of such lapse, all application monies will be returned, without interest, on the terms set out in "How to Apply for Public Offer Shares". In the meantime, all application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time).

Share certificates for the Offer Shares are expected to be issued on Tuesday, 27 March 2018 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 28 March 2018 provided that: (a) the Share Offer has become unconditional in all respects; and (b) the right of termination as described in "Underwriting — Underwriting Arrangements and Expenses — Public Offer — Grounds for Termination" of this Prospectus has not been exercised. Investors who trade Shares prior to the receipt of shares certificates or prior to the Share certificates bearing valid certificates of title do so entirely at their own risk.

PUBLIC OFFER

The Public Offer is fully underwritten by the Public Offer Underwriters on a several basis under the terms of the Public Offer Underwriting Agreement and is subject to the Company and the Joint Coordinators (for themselves and on behalf of the Underwriters) agreeing on the Offer Price. The Public Offer and the Placing are subject to the conditions set out in " — Conditions of the Share Offer" in this section. The Public Offer Underwriting Agreement and the Placing Underwriting Agreement shall be conditional upon each other.

STRUCTURE OF THE SHARE OFFER

Number of Offer Shares initially offered

The Company is initially offering 12,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Share Offer. Subject to any reallocation of Offer Shares between the Public Offer and the Placing, the number of Public Offer Shares will represent 2.5% of the Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalization Issue. Completion of the Public Offer is subject to the conditions set out in " — Conditions of the Share Offer" in this section above. The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors.

Allocation

Allocation of Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public 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 Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Assuming that the Over-allotment Option is not exercised, the total number of Shares available under the Public Offer will represent 2.5% of the Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalization Issue, and is to be divided into two pools (subject to adjustment of odd lot size) for allocation purposes: pool A and pool B.

The Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable) or less. The Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Public Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Public 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 (without regard to the Offer Price as finally determined). Applicants can only apply for Public Offer Shares from either pool A or pool B but not from both pools and can only receive Public Offer Shares from either pool A or pool B. Multiple or suspected multiple applications within either pool or between pools and any application for more than 6,000,000 Public Offer Shares, being 50% of the Public Offer Shares initially available under the Public Offer, are liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Public Offer and the Placing is subject to reallocation. Assuming that the Over-allotment Option is not exercised, if the number of Offer Shares validly applied for under the Public Offer is:

- (a) 15 times or more but less than 50 times;

STRUCTURE OF THE SHARE OFFER

(b) 50 times or more but less than 100 times; and

(c) 100 times or more, of the number of Offer Shares initially available under the Public Offer,

then the Offer Shares will be reallocated from the Placing to the Public Offer such that the total number of Offer Shares available under the Public Offer will be increased to 36,000,000 Offer Shares (in the case of (a)), 48,000,000 Offer Shares (in the case of (b)) and 60,000,000 Offer Shares (in the case of (c)), representing 30%, 40% and 50% of the Offer Shares initially available under the Share Offer, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Public Offer will be reallocated between pool A and pool B in equal proportions and the number of Offer Shares allocated to the Placing will be correspondingly reduced, in such manner as the Joint Coordinators deem appropriate.

In addition, the Joint Coordinators may reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer. In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be allocated to the Public Offer following such allocation shall be not more than double the initial allocation to the Public Offer (i.e. 24,000,000 Offer Shares) and the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$1.00 per Offer Share) stated in this Prospectus.

If the Public Offer Shares are not fully subscribed for, the Joint Coordinators may, at their sole and absolute discretion, reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportion as the Joint Coordinators deem appropriate.

Applications

The Joint Coordinators (on behalf of the Underwriters) may require any investor who has been offered Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Joint Coordinators so as to allow them to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing, 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 (including conditionally and/or provisionally) Offer Shares under the Placing.

The Listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Public Offer are required to pay, on application, the maximum price of HK\$1.25 per Offer Share in addition to any brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable on each Offer Share, amounting to a total of HK\$2,525.20 for one board lot of 2,000 Shares. If the Offer Price, as finally determined in the manner described in “ — Price Determination of the Share Offer” in this section below, is less than the maximum price of HK\$1.25 per Share, appropriate refund payments (including the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies) will be made to successful applicants, without interest. Please refer to “How to Apply for Public Offer Shares” of this Prospectus for further details.

References in this Prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Public Offer.

STRUCTURE OF THE SHARE OFFER

PLACING

The Placing is expected to be fully underwritten by the Placing Underwriters on a several basis. The Company expects to enter into the Placing Underwriting Agreement relating to the Placing on the Price Determination Date.

Number of Offer Shares offered

The Company is initially offering 108,000,000 Offer Shares for subscription by professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S under the Placing, representing 90% of the total number of the Offer Shares initially available under the Share Offer (subject to adjustment and assuming that the Over-allotment Option is not exercised). Subject to any reallocation of Offer Shares between the Placing and the Public Offer, the number of Placing Shares will represent 22.5% of the Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalization Issue.

The Placing is subject to the same conditions set out in “ — Conditions of the Share Offer” in this section above.

Allocation

The Placing will include selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

The Placing Shares will be allocated in accordance with the book-building process described in “ — Price Determination of the Share Offer” in this section below, and is based on several 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 achieve a distribution of the Shares that would allow for the establishment of a solid professional and institutional shareholder base which will be beneficial to the Company and our Shareholders as a whole.

The Joint Coordinators (on behalf of the Underwriters) may require any investor who has been offered Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Joint Coordinators so as to allow them to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

OVER-ALLOTMENT OPTION AND STOCK BORROWING AGREEMENT

In connection with the Share Offer, the Company is expected to grant an Over-allotment Option to the Joint Coordinators (on behalf of the Placing Underwriters) exercisable at the sole discretion of the Joint Coordinators (on behalf of the Placing Underwriters).

STRUCTURE OF THE SHARE OFFER

Pursuant to the Over-allotment Option, the Joint Coordinators (on behalf of the Placing Underwriters) has the right, exercisable at anytime from the date of the Placing Underwriting Agreement until 30 days from the date of the last day of lodging application under the Public Offer, to require the Company to allot and issue up to 18,000,000 additional Shares, representing 15% of the number of the Offer Shares initially available under the Share Offer, at the same price per Offer Share under the Placing to cover over-allocation in the Placing, if any, on the same terms and conditions as the Offer Shares that are subject to the Share Offer. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.61% of the Company's enlarged issued share capital immediately following the completion of the Share Offer and the Capitalization Issue and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made in accordance with the requirements of the Listing Rules.

In order to facilitate the settlement of over-allocations under the Placing, the Stabilizing Manager (or any person acting for it) may, at its option, cover such over-allocations by borrowing Shares from Shareholders of the Company under Stock Borrowing Agreement, or acquire Shares from other sources, including the exercise of the Over-allotment Option.

The Stabilizing Manager will enter into the Stock Borrowing Agreement with Innovative Green Holdings, our Controlling Shareholder, whereby the Stabilizing Manager may borrow Shares from Innovative Green Holdings on the following conditions:

- (a) such Stock Borrowing Agreement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- (b) the maximum number of Shares to be borrowed from Innovative Green Holdings will be limited to 18,000,000 Shares, being the maximum number of Shares which may be allotted and issued by the Company upon full exercise of the Over-allotment Option;
- (c) the same number of Shares borrowed from Innovative Green Holdings must be returned to it or its nominees (as the case may be) no later than the third business day following the earlier of:
 - (i) the last day on which the Over-allotment Option may be exercised;
 - (ii) the date on which the Over-allotment Option is exercised in full and the Shares to be allotted and issued upon exercise of the Over-allotment Option have been allotted and issued; or
 - (iii) such earlier time as may be agreed in writing between Innovative Green Holdings and the Stabilizing Manager;
- (d) the Stock Borrowing Agreement will be carried out in compliance with all applicable Listing Rules, laws and other regulatory requirements; and
- (e) no payments will be made to Innovative Green Holdings by the Stabilizing Manager in relation to such Stock Borrowing Agreement.

The Stock Borrowing Agreement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that it complies with the requirements set out in Rule 10.07(3) of the Listing Rules.

STRUCTURE OF THE SHARE OFFER

PRICE DETERMINATION OF THE SHARE OFFER

The Offer Price will be fixed on the Price Determination Date, which is expected to be on or around Thursday, 22 March 2018 (or such other date as may be agreed between our Company and the Joint Coordinators for themselves and on behalf of the Underwriters), by agreement between the Joint Coordinators (for themselves and on behalf of the Underwriters) and the Company.

The Offer Price will be not more than HK\$1.25 per Offer Share and is expected to be not less than HK\$1.00 per Offer Share unless otherwise announced, not later than the morning of the last day for lodging applications under the Public Offer.

The Joint Coordinators will solicit from prospective investors indications of interest in acquiring the Placing Shares. Prospective professional, institutional and other investors will be required to specify the number of Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to the Price Determination Date.

The final Offer Price, the indications of interest in the Share Offer, the results of applications and the basis of allotment of Shares available under the Public Offer, are expected to be announced on Tuesday, 27 March 2018 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

PRICE PAYABLE ON APPLICATION

Applicants for Public Offer Shares under the Public Offer are required to pay, on application, the maximum Offer Price of HK\$1.25 for each Public Offer Share (plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee). If the Offer Price is less than HK\$1.25, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies, without any interest) will be made to successful applicants.

If, for any reason the Company and the Joint Coordinators (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Tuesday, 27 March 2018, the Share Offer will not proceed and will lapse.

STABILIZATION ACTION

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 new securities in the secondary market, during a specified period of time, to minimize and, if possible, prevent any decline in the market price of the securities below the Offer Price. Such transactions may be carried out in all jurisdictions where it is permissible to do so, in each case, in compliance with all applicable laws, rules and regulations, including those of Hong Kong (such as the Securities and Futures (Price Stabilizing) Rules under the SFO, as amended, supplemented or otherwise modified from time to time). In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilization is carried out is not permitted to exceed the Offer Price.

We have appointed Guotai Junan Securities as the Stabilizing Manager for the purposes of the Share Offer in accordance with the Securities and Futures (Price Stabilizing) Rules under the SFO, as amended, supplemented or otherwise modified from time to time. In connection with the Share Offer, the Stabilizing Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or carry out

STRUCTURE OF THE SHARE OFFER

transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period commencing on the Listing Date and expected to end on the 30th day from the last day for lodging of applications under the Public Offer (i.e. 21 April 2018).

Any market purchases of the Shares may be carried out on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for it to conduct any such stabilizing action, which if commenced, will be conducted at the sole and absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it and may be discontinued at any time. Any such stabilizing activity must cease on the 30th day after the last day for the lodging of applications under the Public Offer (i.e. 21 April 2018). The number of Shares that may be over-allocated will not exceed the number of Shares that may be allotted and issued by the Company under the Over-allotment Option, namely 18,000,000 Shares in aggregate, which represents 15% of the Shares initially available under the Share Offer.

The types of stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules under the SFO include:

- (a) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares;
- (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares;
- (c) subscribing, or agreeing to subscribe, for the Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares;
- (e) selling, or agreeing to sell, the Shares in order to liquidate any position established as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) or (e) above.

The Stabilizing Manager, its affiliates or any person acting for it, may take all or any of the above stabilizing actions in Hong Kong during the stabilization period. Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (a) the Stabilizing Manager, its affiliates or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares;
- (b) there is no certainty regarding the extent to which and the time period for which the Stabilizing Manager, its affiliates or any person acting for it, will maintain such a position. Investors should be warned of the possible impact of any liquidation of such long position by the Stabilizing Manager, its affiliates or any other person acting for them, may have an adverse impact on the market price of the Shares;
- (c) stabilizing action cannot be used to support the price of the Shares for longer than the stabilizing period, which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day from the last date for lodging applications under the Public Offer (i.e. 21 April 2018). After this date, no further stabilizing action may be taken and therefore the demand for the Shares as well as the price of the Shares may fall;

STRUCTURE OF THE SHARE OFFER

- (d) there is no assurance that the price of the Shares will stay at or above the Offer Price either during or after the stabilizing period by taking any stabilizing action; and
- (e) stabilizing bids may be made or transactions carried out 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 carried out at a price below the price paid by applicants or investors for the Shares.

The Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

OVER-ALLOCATION

In connection with the Share Offer, the Joint Coordinators may over-allocate up to and not more than an aggregate of 18,000,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option, which will be exercisable by the Joint Coordinators (on behalf of the Placing Underwriters) at its sole discretion, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through Stock Borrowing Agreement or a combination of these means.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the Listing of and permission to deal in:

- (a) the Shares in issue and to be issued pursuant to the Share Offer (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option); and
- (b) the Shares to be issued upon the exercise of options that may be granted under the Share Option Scheme.

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

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.

DEALINGS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. (Hong Kong time) on Wednesday, 28 March 2018, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. (Hong Kong time) on Wednesday, 28 March 2018.

The Shares will be traded in board lots of 2,000 Shares each and the stock code of the Shares will be 2116.

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **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 Joint Coordinators, 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 Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **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 Joint Coordinators 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 Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any of 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 Share Offer;
- an associate (as defined in the Listing Rules) of any of the above; and

HOW TO APPLY FOR PUBLIC OFFER SHARES

- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which application channel to use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **White Form eIPO** service at www.eipo.com.hk.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a Prospectus during normal business hours from 9:00 a.m. on Monday, 19 March 2018 until 12:00 noon Thursday, 22 March 2018 from:

- (a) any of the following addresses of the Public Offer Underwriters:

Orient Securities (Hong Kong) Limited
28th and 29th Floor,
100 Queen's Road Central,
Hong Kong

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

Quasar Securities Co., Limited
Unit A, 12/F, Harbour Commercial Building
122-124 Connaught Road Central
Sheung Wan, Hong Kong

Huabang Securities Limited
Unit 2901-02, 29/F, Enterprise Square Two,
3 Sheung Yuet Road, Kowloon Bay,
Kowloon, Hong Kong

CNI Securities Group Limited
10/F, Sun's Group Centre,
200 Gloucester Road, Wanchai, Hong Kong

Freeman Securities Limited
38/F, Bank of China Tower,
1 Garden Road, Central, Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

(b) any of the branches of the following receiving bank:

Wing Lung Bank Limited

District	Branch Name	Branch address
Hong Kong Island	Head Office	45 Des Voeux Road Central
	Johnston Road Branch	118 Johnston Road
Kowloon	Mongkok Branch	B/F Wing Lung Bank Centre, 636 Nathan Road
New Territories	Tsuen Wan Branch	251 Sha Tsui Road

You can collect a **YELLOW** Application Form and a Prospectus during normal business hours from 9:00 a.m. on Monday, 19 March 2018 until 12:00 noon on Thursday, 22 March 2018 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 "Wing Lung Bank (Nominees) Limited — Jiangsu Innovative Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Monday, 19 March 2018 - 9:00 a.m. to 5:00 p.m.
- Tuesday, 20 March 2018 - 9:00 a.m. to 5:00 p.m.
- Wednesday, 21 March 2018 - 9:00 a.m. to 5:00 p.m.
- Thursday, 22 March 2018 - 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 22 March 2018, the last application day or such later time as described in " — 10. Effect of Bad Weather on the Opening of the Applications Lists" in this section below.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully, otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (a) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Coordinators (or their 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 Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (b) agree to comply with the Companies Ordinance, the Companies (WUMP) Ordinance and the Articles of Association;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (c) confirm that you have read the terms and conditions and application procedures set out in this Prospectus and in the Application Form and agree to be bound by them;
- (d) 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;
- (e) confirm that you are aware of the restrictions on the Share Offer in this Prospectus;
- (f) agree that none of the Company, the Sole Sponsor, the Joint Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Share Offer is or will be liable for any information and representations not in this Prospectus (and any supplement to it);
- (g) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- (h) agree to disclose to the Company, our Hong Kong Share Registrar, the receiving bank, the Sole Sponsor, the Joint Coordinators, 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;
- (i) 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 Joint Coordinators, 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 Form;
- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application will be governed by the laws of Hong Kong;
- (l) represent, warrant and undertake that: (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (m) warrant that the information you have provided is true and accurate;
- (n) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (o) 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 Public 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 are eligible to collect the Share certificate(s) and/or refund cheque(s) in person;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (p) 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;
- (q) understand that the Company, the Joint Coordinators and the Public Offer Underwriters will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (r) (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; and
- (s) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “— 2. Who Can Apply” in this section above, may apply through the **White Form eIPO** service for the Public 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, 19 March 2018 until 11:30 a.m. on Thursday, 22 March 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 22 March 2018 or such later time under “— 10. Effect of Bad Weather on the Opening of the Applications Lists” in this section below.

No multiple applications

If you apply by means of the **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under the **White Form eIPO** more than once and obtaining payment application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 (WUMP) 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 (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance).

Environmental protection

The obvious advantage of the **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “Jiangsu Innovative Ecological New Materials Limited” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Dongjiang River Source Tree Planting” 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 Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System at <https://ip.ccass.com> (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square 8 Connaught Place
Central, Hong Kong

and complete an input request form.

You can also collect a Prospectus from this address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Coordinators and our Hong Kong Share Registrar.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (a) 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;
- (b) HKSCC Nominees will do the following things on your behalf:
 - (i) agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - (ii) agree to accept the Public Offer Shares applied for or any lesser number allocated;
 - (iii) undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
 - (iv) (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (v) (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;
 - (vi) confirm that you understand that the Company, our Directors and the Joint Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - (vii) authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Public Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - (viii) confirm that you have read the terms and conditions and application procedures set out in this Prospectus and agree to be bound by them;
 - (ix) 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;
 - (x) agree that none of the Company, the Sole Sponsor, the Joint Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this Prospectus (and any supplement to it);
 - (xi) agree to disclose your personal data to the Company, our Hong Kong Share Registrar, the receiving bank, the Joint Coordinators, the Underwriters and/or its respective advisors and agents;
 - (xii) 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;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (xiii) 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 Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this Prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this Prospectus under section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this Prospectus;
- (xiv) 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 Public Offer results;
- (xv) agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving electronic application instructions to apply for Public Offer Shares;
- (xvi) 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 Ordinance, the Companies (WUMP) Ordinance and the Articles of Association; and
- (xvii) 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 Public 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Public Offer Shares. Instructions for more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Monday, 19 March 2018 - 9:00 a.m. to 8:30 p.m. ^(Note)
- Tuesday, 20 March 2018 - 8:00 a.m. to 8:30 p.m. ^(Note)
- Wednesday, 21 March 2018 - 8:00 a.m. to 8:30 p.m. ^(Note)
- Thursday, 22 March 2018 - 8:00 a.m. ^(Note) to 12:00 noon

Note:

These times are subject to change as HKSCC may determine, from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Monday, 19 March 2018 until 12:00 noon on Thursday, 22 March 2018 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Thursday, 22 March 2018, the last application day or such later time as described in “— 10. Effect of Bad Weather on the Opening of the Application Lists” in this section below.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (WUMP) 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 (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance).

Personal data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bank, the Joint Coordinators, 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **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, our Directors, the Sole Sponsor, the Joint Coordinators, the Joint Bookrunners, the Joint Lead Managers 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 Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 22 March 2018.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees", you must include:

- an account number; or
- some other identification code,

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).

HOW TO APPLY FOR PUBLIC OFFER SHARES

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 2,000 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.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 of the Offer Price, see “Structure of the Share Offer — Price Determination of the Share Offer” of this Prospectus.

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, 22 March 2018. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, 22 March 2018 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in “Expected Timetable” of this Prospectus, 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 Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Tuesday, 27 March 2018 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the Stock Exchange’s website at **www.hkexnews.hk** and the Company’s website at **www.jsxsh.cn**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Stock Exchange’s website at **www.hkexnews.hk** and the Company’s website at **www.jsxsh.cn** no later than 9:00 a.m. on Tuesday, 27 March 2018;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- from the designated results of allocations website at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID/Business Registration Number” function on a 24-hour basis from 8:00 a.m. on Tuesday, 27 March 2018 to 12:00 midnight on Monday, 2 April 2018;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, 27 March to Friday, 30 March 2018; and
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 27 March 2018 to Thursday, 29 March 2018 at all the receiving bank designated branches and sub-branches of the receiving banks.

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 Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Please refer to “Structure of the Share Offer” of this Prospectus for further details.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service, 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 (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this Prospectus.

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.

(b) If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Coordinators, 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

(c) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(d) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **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 Joint Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- you apply for more than 50% of the Public Offer Shares initially offered under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$1.25 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer set out in "Structure of the Share Offer — Conditions of the Share Offer" of this Prospectus are not fulfilled 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 Tuesday, 27 March 2018.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

HOW TO APPLY FOR PUBLIC OFFER SHARES

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- 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 Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, 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 Tuesday, 27 March 2018. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 28 March 2018 provided that the Share Offer has become unconditional and the right of termination described in “Underwriting” of this Prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal collection

If you apply using a WHITE Application Form

If you apply for 1,000,000 Public Offer Shares or more and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from 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 Tuesday, 27 March 2018, 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, 27 March 2018 by ordinary post and at your own risk.

If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Tuesday, 27 March 2018, 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 Participants stock account as stated in your Application Form on Tuesday, 27 March 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Public Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offering in the manner described in the paragraph "— 11. Publication of Results" in this section above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 27 March 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

If you apply through the White Form eIPO service

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong 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 Tuesday, 27 March 2018, 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 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, 27 March 2018 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If you apply via Electronic Application Instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share certificates into CCASS and refund of application monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 27 March 2018 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 Public Offer in the manner specified in “— 11. Publication of Results” in this section above on Tuesday, 27 March 2018. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 27 March 2018 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's “An Operating Guide for Investor Participants” in effect from time to time) on Tuesday, 27 March 2018. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- 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 Tuesday, 27 March 2018.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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-58, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF JIANGSU INNOVATIVE ECOLOGICAL NEW MATERIALS LIMITED AND ORIENT CAPITAL (HONG KONG) LIMITED

Introduction

We report on the historical financial information of Jiangsu Innovative Ecological New Materials Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I - 4 to I - 58, which comprises the consolidated statements of financial position of the Group as at 31 December 2014, 2015, 2016 and 30 September 2017, and the statement of financial position of the Company as at 30 September 2017, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended 31 December 2014, 2015, 2016 and the nine months ended 30 September 2017 (the "Relevant Periods"), 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 - 58 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 19 March 2018 (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 ("Stock Exchange").

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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 purpose of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2014, 2015, 2016 and 30 September 2017, of the Company's financial position as at 30 September 2017, and of the Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the nine months ended 30 September 2016 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding 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 enquiries, 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 Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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

No dividends have been paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

No financial statements have been prepared for the Company since its incorporation.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

19 March 2018

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

Consolidated statements of profit or loss and other comprehensive income

	Note	Years ended 31 December			Nine months ended 30 September	
		2014	2015	2016	2016	2017
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
Revenue	4	105,130	114,373	135,650	107,015	146,027
Cost of sales		(64,518)	(65,855)	(74,514)	(58,268)	(92,805)
Gross profit		40,612	48,518	61,136	48,747	53,222
Other income	5	896	1,970	2,548	1,077	733
Sales and marketing expenses		(8,168)	(8,405)	(9,680)	(6,684)	(5,423)
General and administrative expenses		(9,124)	(9,248)	(9,372)	(7,211)	(15,110)
Research and development expenses	6(c)	(4,823)	(5,190)	(5,509)	(3,459)	(5,427)
Profit from operations		19,393	27,645	39,123	32,470	27,995
Finance costs	6(a)	—	—	—	—	(78)
Profit before taxation	6	19,393	27,645	39,123	32,470	27,917
Income tax	7	(2,973)	(4,443)	(5,777)	(4,811)	(4,265)
Profit for the year/period		16,420	23,202	33,346	27,659	23,652
Other comprehensive income for the year/period		—	—	—	—	—
Total comprehensive income for the year/period		16,420	23,202	33,346	27,659	23,652
Earnings per share	10					
Basic and diluted (RMB)		N/A	N/A	N/A	N/A	N/A

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of financial position

	Note	As at 31 December			As at
		2014	2015	2016	30 September
		RMB'000	RMB'000	RMB'000	2017
				RMB'000	
Non-current assets					
Property, plant and equipment.....	11	23,914	21,995	21,630	19,869
Lease prepayment	12	3,804	3,704	3,604	3,529
Deferred tax assets.....	19(b)	444	422	391	448
		<u>28,162</u>	<u>26,121</u>	<u>25,625</u>	<u>23,846</u>
Current assets					
Inventories.....	13	11,175	11,964	16,966	17,444
Trade and other receivables.....	14	61,055	71,222	87,257	115,598
Available-for-sale financial assets	15	—	8,500	12,000	—
Cash and cash equivalents.....	16	1,900	9,068	2,372	10,850
		<u>74,130</u>	<u>100,754</u>	<u>118,595</u>	<u>143,892</u>
Current liabilities					
Bank loan	17	—	—	—	18,000
Trade and other payables	18	30,115	13,081	38,797	41,261
Income tax payable	19(a)	1,911	3,791	5,074	4,891
		<u>32,026</u>	<u>16,872</u>	<u>43,871</u>	<u>64,152</u>
Net current assets		<u>42,104</u>	<u>83,882</u>	<u>74,724</u>	<u>79,740</u>
Total assets less current liabilities .		<u>70,266</u>	<u>110,003</u>	<u>100,349</u>	<u>103,586</u>
NET ASSETS		<u>70,266</u>	<u>110,003</u>	<u>100,349</u>	<u>103,586</u>
CAPITAL AND RESERVES					
Share capital.....	20	27,763	79,938	79,938	—
Reserves	21	42,503	30,065	20,411	103,586
TOTAL EQUITY		<u>70,266</u>	<u>110,003</u>	<u>100,349</u>	<u>103,586</u>

The accompanying notes form part of the Historical Financial Information.

Statement of financial position

	As at 30 September 2017
	<u>RMB'000</u>
Non-current assets	
Investment in a subsidiary (note i).....	—*
	<u>—*</u>
	<u>-----</u>
Current liabilities	
Amount due to a subsidiary	48
	<u>48</u>
	<u>-----</u>
Net current liabilities	<u>(48)</u>
	<u>-----</u>
Total assets less current liabilities	<u>(48)</u>
	<u>-----</u>
NET LIABILITIES	<u>(48)</u>
	<u>-----</u>
EQUITY	
Share capital	—*
Reserves	<u>(48)</u>
TOTAL EQUITY-DEFICIT	<u>(48)</u>

(i) The investment cost represented 1 ordinary share of US\$1 in Innovative Green Group Holdings Limited subscribed by the Company.

* The balances represented amount less than RMB1,000.

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of changes in equity

	Share capital	Capital reserve	PRC statutory reserve	Retained earnings	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 19	Note 20(a)	Note 20(b)		
Balance at 1 January 2014	27,763	1,148	14,492	17,377	60,780
Profit for the year.....	—	—	—	16,420	16,420
Other comprehensive income.....	—	—	—	—	—
Total comprehensive income.....	—	—	—	16,420	16,420
Profit distribution (note 21(c)).....	—	—	—	(17,500)	(17,500)
Contribution by Controlling Shareholder of the Company (note 21(a)).....	—	10,566	—	—	10,566
Balance at 31 December 2014 and 1 January 2015	27,763	11,714	14,492	16,297	70,266
Profit for the year.....	—	—	—	23,202	23,202
Other comprehensive income.....	—	—	—	—	—
Total comprehensive income.....	—	—	—	23,202	23,202
Appropriation to reserve.....	—	—	2,320	(2,320)	—
Distribution to Controlling Shareholder of the Company (note 21(a)).....	—	(8,100)	—	—	(8,100)
Capital injection (note 21(d)).....	24,635	—	—	—	24,635
Capitalisation of reserves (note 21(d)) ...	27,540	(3,614)	(7,551)	(16,375)	—
Balance at 31 December 2015 and 1 January 2016	79,938	—	9,261	20,804	110,003
Profit for the year.....	—	—	—	33,346	33,346
Other comprehensive income.....	—	—	—	—	—
Total comprehensive income.....	—	—	—	33,346	33,346
Appropriation to reserve.....	—	—	3,334	(3,334)	—
Profit distribution (note 21(c)).....	—	—	—	(43,000)	(43,000)
Balance at 31 December 2016	79,938	—	12,595	7,816	100,349

The accompanying notes form part of the Historical Financial Information.

	Share capital	Capital reserve	PRC statutory reserve	Retained earnings	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 19	Note 20(a)	Note 20(b)		
Balance at 1 January 2017	79,938	—	12,595	7,816	100,349
Profit for the period.....	—	—	—	23,652	23,652
Other comprehensive income.....	—	—	—	—	—
Total comprehensive income	—	—	—	23,652	23,652
Appropriation to reserve	—	—	1,693	(1,693)	—
Profit distribution (note 21(c))	—	—	—	(20,415)	(20,415)
Arising from the reorganisation (note 20)	(79,938)	79,938	—	—	—
Balance at 30 September 2017	<u>—</u>	<u>79,938</u>	<u>14,288</u>	<u>9,360</u>	<u>103,586</u>

Unaudited:

	Share capital	Capital reserve	PRC statutory reserve	Retained earnings	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 19	Note 20(a)	Note 20(b)		
Balance at 1 January 2016	79,938	—	9,261	20,804	110,003
Profit for the period.....	—	—	—	27,659	27,659
Other comprehensive income.....	—	—	—	—	—
Total comprehensive income	—	—	—	27,659	27,659
Profit distribution (note 21(c))	—	—	—	(19,000)	(19,000)
Balance at 30 September 2016	<u>79,938</u>	<u>—</u>	<u>9,261</u>	<u>29,463</u>	<u>118,662</u>

The accompanying notes form part of the Historical Financial Information.

Consolidated cash flow statements

	Note	Years ended 31 December			Nine months ended 30 September	
		2014	2015	2016	2016	2017
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>(Unaudited)</i>						
Operating activities:						
Cash generated from/ (used in) operations	16(b)	22,569	45,767	14,866	9,359	(1,842)
Income tax paid	19(a)	(2,266)	(2,541)	(4,463)	(3,443)	(4,505)
Net cash generated from/ (used in) operating activities		20,303	43,226	10,403	5,916	(6,347)
Investing activities:						
Payment for purchase of property, plant and equipment		(3,660)	(1,830)	(2,818)	(2,513)	(87)
Proceeds from disposal of property, plant and equipment		—	—	15	—	—
Payment for investment in available-for-sale financial assets.....		(23,000)	(78,500)	(73,500)	(58,050)	(26,150)
Proceeds from disposal of available-for-sale financial assets.....		23,000	70,000	70,000	54,500	38,150
Advance to related parties....		(2,000)	(14,431)	(6,320)	(4,529)	(1,819)
Proceeds from repayment of advance to related parties .		—	—	6,606	—	9,571
Advance to third parties.....		—	(9,500)	—	—	—
Proceeds from repayment of advance to third parties		—	—	8,500	7,500	1,000
Interest received		59	241	295	160	119
Net cash (used in)/ generated from investing activities		(5,601)	(34,020)	2,778	(2,932)	20,784

The accompanying notes form part of the Historical Financial Information.

	Note	Years ended 31 December			Nine months ended 30 September	
		2014	2015	2016	2016	2017
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>(Unaudited)</i>						
Financing activities:						
Proceeds from bank loan.....		—	—	—	—	18,000
Proceeds from capital injection		—	24,635	—	—	—
Advance from related parties	16(c)	2,534	—	—	—	—
Repayment of advance from related parties.....	16(c)	(5,077)	(11,815)	—	—	—
Contribution by Controlling Shareholder of the Company		10,566	—	—	—	—
Distribution to Controlling Shareholder of the Company		—	(8,100)	—	—	—
Interest paid.....		—	—	—	—	(58)
Profit distribution	16(c)	(22,479)	(7,021)	(20,152)	—	(24,037)
Net cash used in financing activities		<u>(14,456)</u>	<u>(2,301)</u>	<u>(20,152)</u>	<u>—</u>	<u>(6,095)</u>
Net increase/(decrease) in cash and cash equivalents		246	6,905	(6,971)	2,984	8,342
Effect of foreign exchange rate changes		(10)	263	275	294	136
Cash and cash equivalents at beginning of the year/period	16(a)	<u>1,664</u>	<u>1,900</u>	<u>9,068</u>	<u>9,068</u>	<u>2,372</u>
Cash and cash equivalents at end of the year/period	16(a)	<u>1,900</u>	<u>9,068</u>	<u>2,372</u>	<u>12,346</u>	<u>10,850</u>

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 Basis of preparation and presentation of Historical Financial Information

Jiangsu Innovative Ecological New Materials Limited (“the Company”) was incorporated in the Cayman Islands on 6 July 2017 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company and has not carried on any business since the date of its incorporation save for the Reorganization. The Company and its subsidiaries (together, “the Group”) are principally engaged in the development, manufacture and sale of oil refining agents and fuel additives that are applied to reduce undesirable emissions and navigate the regulatory landscape.

Pursuant to the completion of various steps of the Reorganization, the Company became the holding company of the companies comprising the Group on 12 September 2017. Details of the Reorganization are set out in the section headed “History, Reorganization and Corporate Structure” in the Prospectus.

During the Relevant Periods, the Group’s businesses were conducted through Jiangsu Chuangxin Petrochemical Co., Ltd. (“Jiangsu Chuangxin”) established in the PRC, which was ultimately owned and controlled by Mr. Ge Xiaojun and his spouse, Ms. Gu Jufang (referred to as “the Controlling Shareholder”).

As all the companies now comprising the Group that took part in the Reorganization were controlled by the same Controlling Shareholder before and after the Reorganization, there was a continuation of risks and benefits to the Controlling Shareholder. Accordingly, the Reorganization is considered to be a business combination under common control and Accounting Guideline 5 “Merger Accounting for Common Control Combinations”. The Historical Financial Information has been prepared as if the Group has always been in existence and the net assets of the companies now comprising the Group are combined using the existing book values from the Controlling Shareholder’s perspective.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and the consolidated cash flow statements of the Group include the results of operations of the companies now comprising the Group as if the current group structure had been in existence throughout the Relevant Periods. The consolidated statements of financial position of the Group as at 31 December 2014, 2015 and 2016 and as at 30 September 2017 have been prepared to present the state of affairs of the companies now comprising the Group as at those dates as if the current group structure had been in existence at the respective dates.

During the Relevant Periods, Jiangsu Suiquan Financing Assurance Co., Ltd. (“Jiangsu Suiquan” or “the Carve-Out Entity”), a subsidiary of Jiangsu Chuangxin, were engaged in the provision of financial guarantee services, which is delineated from the Group’s principal business. Jiangsu Suiquan maintained separate management personnel and accounting records. It ceased its business in 2013 and was deregistered in 2015. The Historical Financial Information excludes the assets, liabilities and results of operations of the Carve-Out Entity whose business is, in the opinion of the directors of the Company, clearly delineated from the principal business of the Group and whose assets, liabilities, revenues and expenditures are clearly identifiable.

As at the date of this report, no audited financial statements have been prepared for the Company, Innovative Green Group Holdings Limited and China Grand New Material Holdings Limited as they either have not carried on any business since their respective dates of incorporation or are investment

holding companies and not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation. The financial statements of Jiangsu Chuangxin for which there are statutory requirements were prepared in accordance with the relevant accounting rules and regulations applicable in the PRC.

Upon completion of the Reorganization and as at the date of this report, the Company has direct or indirect interests in the following principal subsidiaries, all of which are private companies:

Name of company	Place and date of incorporation/ establishment	Registered capital/ issued and fully paid up capital	Equity attributable to the Company		Principal activities
			Direct	Indirect	
Innovative Green Group Holdings Limited.....	The British Virgin Islands 6 July 2017	50,000 shares of USD1 each/USD 1	100%	—	Investment holding
China Grand New Material Holdings Limited.....	Hong Kong 4 August 2017	1 share of HKD1 each/HKD1	—	100%	Investment holding
Jiangsu Chuangxin Petrochemical Co., Ltd. * 江蘇創新石化有限公司	The PRC 31 December 2002	USD20,000,000/ USD12,000,000	—	100%	Developing and manufacturing oil refining agents and fuel additives

* The official name of the company is in Chinese. The English translation of the name is for reference only.

All companies now comprising the Group have adopted 31 December as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). Further details of the significant accounting policies adopted are set out in Note 2.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the Group has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period beginning on 1 January 2017. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning on 1 January 2017 are set out in Note 25.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The accounting policies set out in Note 2 have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

2 *Significant accounting policies*

(a) **Basis of measurement**

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the “Functional Currency”). The financial statements are presented in RMB, rounded to the nearest thousands, which is the presentation currency. The measurement basis used in the preparation of the financial statements is the historical cost basis except for available-for-sale financial assets (see Note 2(e)).

(b) **Use of estimates and judgments**

The preparation of Historical Financial Information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 3.

(c) **Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, 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. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Changes in the Group’s interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

(d) Business combinations involving entities under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the Controlling Shareholder.

The assets and liabilities of the combining entities or businesses are combined at the carrying amounts previously recognised in the respective Controlling Shareholder's financial statements.

The consolidated statements of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the earliest balance sheet date presented or when they first came under common control, whichever is later.

(e) Available-for-sale financial assets

Available-for-sale financial assets are initially stated at fair value plus any directly attributable transaction costs. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Interest income from these financial assets is recognised using the effective interest method in profit or loss in accordance with the policy set out in note 2(q)(iii). When these financial assets are derecognised or impaired (note 2(i)(i)), the cumulative gain or loss is reclassified from equity to profit or loss.

(f) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statements of financial position at cost less accumulated depreciation and impairment losses (see note 2(i)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Plant and buildings	10 - 20 years
— Machinery and equipment	10 years
— Office and other equipment	5 years
— Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 2(i)(ii)). Capitalization of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(g) Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortization and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

(h) Lease prepayment

Lease prepayment represents cost of land use rights paid to the PRC governmental authorities for acquiring land held under operating leases. Land use rights are carried at cost less accumulated amortization and impairment losses (see note 2(i)(ii)).

Amortization is charged to the profit or loss on a straight-line basis over the respective periods of the rights.

The following land use rights with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

- Land use rights 49.5 years

(i) Impairment of assets

(i) Impairment of available-for-sale financial assets and trade and other receivables

Available-for-sale financial assets and trade and other receivables are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

- For trade and other receivables carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. The Group assesses whether objective evidence of impairment exists for each individual financial asset. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayment;

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the Relevant Periods in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value, and are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(o) Employee benefits*(i) Short-term employee benefits*

Salaries and annual bonuses are accrued in the Relevant Periods in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution retirement plan

Contributions to PRC local retirement schemes pursuant to the relevant labor rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

(p) Income tax

Income tax for the year or period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of

existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiary to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered and the related risks and rewards of ownership has been transferred to the buyer. Revenue excludes any government taxes and is after deduction of any trade discounts.

(ii) Service income

Revenue arising from services is recognised when the relevant service is rendered without further performance obligations.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(s) Government grants

Government grants are recognised in the consolidated statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently are recognised in profit or loss on a systematic basis over the useful life of the asset.

(t) Translation of foreign currencies

Foreign currency transactions during the Relevant Periods are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 *Significant accounting judgement and estimates*

(a) **Critical accounting judgements in applying the Group's accounting policies**

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) *Recognition of income taxes and deferred tax assets*

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(b) **Sources of estimation uncertainty**

Key sources of estimation uncertainty are as follows:

(i) *Impairment of trade receivables*

Management estimates impairment losses of trade receivables (which are recorded in an allowance account for doubtful debts) resulting from the inability of the customers to make the required payments. Management bases its estimates on the ageing of the accounts receivable balance, payment terms, customer credit-worthiness, the status of customer's financial condition, and historical write-off experience. If the financial condition of the customers was to deteriorate, actual write-offs may be higher than expected and could significantly affect the results of future periods.

(ii) *Net realizable value of inventories*

As described in note 2(j), net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions.

Management reassesses these estimations at the end of each reporting period to ensure inventory is shown at the lower of cost and net realizable value.

4 Revenue

(a) The amount of each significant category of revenue recognised during the Relevant Periods is as follows:

	Years ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Sales of oil refining agents	88,154	85,594	92,051	75,809	105,989
Sales of fuel additives	16,976	28,779	43,599	31,206	40,038
Total	<u>105,130</u>	<u>114,373</u>	<u>135,650</u>	<u>107,015</u>	<u>146,027</u>

The Group's customer base included five customers with which transactions had exceeded 10 percent of the Group's revenues for the Relevant Periods presented as below:

	Years ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Customer A.....	21,218	*	*	*	*
Customer B.....	17,014	15,747	29,555	27,948	17,260
Customer C.....	15,493	19,621	17,244	12,773	16,712
Customer D.....	12,714	18,457	24,177	17,771	16,131
Customer E.....	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>18,973</u>

* Less than 10 percent of the Group's revenue for the corresponding reporting period.

Details of concentrations of credit risk arising from these customers are set out in note 22(a).

(b) Information about geographical area

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of revenue is based on the selling location. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of lease prepayment. During the Relevant Periods, substantially all specified non-current assets were physically located in the PRC.

	Years ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Mainland China	85,579	94,447	102,680	75,652	124,877
Sudan.....	17,014	17,251	29,555	27,948	18,687
Other countries and regions	2,537	2,675	3,415	3,415	2,463
Total	<u>105,130</u>	<u>114,373</u>	<u>135,650</u>	<u>107,015</u>	<u>146,027</u>

(c) Segment reporting

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the sale of oil refining agents and fuel additives.

5 Other income

	Years ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Service income	1,203	701	283	283	599
Government grants	268	167	414	70	100
Net foreign exchange (loss)/ gain.....	(634)	861	1,556	564	(85)
Interest income from bank deposits	28	14	27	14	19
Interest income from available-for-sale financial assets	31	227	268	146	100
	<u>896</u>	<u>1,970</u>	<u>2,548</u>	<u>1,077</u>	<u>733</u>

6 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Years ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Interest on bank loan	—	—	—	—	78

(b) Staff costs

	Years ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Salaries, wages and other benefits.....	4,477	4,494	4,712	3,491	3,897
Contributions to defined contribution plans (i).....	1,102	1,106	1,153	860	827
	<u>5,579</u>	<u>5,600</u>	<u>5,865</u>	<u>4,351</u>	<u>4,724</u>

- (i) Employees of the Group's subsidiary in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's subsidiary in the PRC contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

(c) Other items

	Years ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Cost of inventories (i) (note 13(b))	67,552	68,992	77,867	60,160	95,938
Research and development expenses.....	4,823	5,190	5,509	3,459	5,427
Depreciation	4,069	3,749	3,168	2,539	1,848
Amortization of lease prepayment	100	100	100	75	75
Impairment losses of trade receivables recognised/(reversed)	158	(90)	104	148	(66)
Listing expenses	—	—	—	—	9,012
Auditors' remuneration.....	7	7	7	7	7

- (i) Cost of inventories includes the following amounts, which are also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

	Years ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Staff costs.....	1,201	1,253	1,418	1,037	1,028
Depreciation and amortization.....	512	259	305	226	262
Research and development expenses.....	3,034	3,137	3,353	1,892	3,133

7 Income tax

(a) Income tax in the consolidated statements of profit or loss and other comprehensive income represents:

	Years ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Current tax:					
Provision for current income tax for the year/period (note 19(a))	3,373	4,421	5,746	4,804	4,322
Deferred tax:					
Origination and reversal of temporary differences (note 19(b))	(400)	22	31	7	(57)
	<u>2,973</u>	<u>4,443</u>	<u>5,777</u>	<u>4,811</u>	<u>4,265</u>

(b) Reconciliation between actual income tax expense and accounting profit at applicable tax rates:

	Years ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Profit before taxation	<u>19,393</u>	<u>27,645</u>	<u>39,123</u>	<u>32,470</u>	<u>27,917</u>
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (i)	4,848	6,911	9,781	8,118	6,979
Tax effect of preferential tax rate (ii)	(1,939)	(2,765)	(3,912)	(3,247)	(2,792)
Tax effect of non-deductible expenses ...	357	647	266	161	424
Additional deduction for qualified research and development costs (iii) ...	(293)	(350)	(358)	(221)	(346)
Actual income tax expense	<u>2,973</u>	<u>4,443</u>	<u>5,777</u>	<u>4,811</u>	<u>4,265</u>

(i) Jiangsu Chuangxin is subject to the PRC corporate income tax rate of 25%.

(ii) According to the PRC Corporate Income Tax Law and its relevant regulations, entities that are qualified as High and New Technology Enterprise under the tax law are entitled to a preferential income tax rate of 15%. Jiangsu Chuangxin obtained the approval of High and New Technology Enterprise in 2013 with an effective period of three years from 2013 to 2015 and obtained the renewed approval of High and New Technology Enterprise in 2016 with another effective period of three years from 2016 to 2018. Therefore, Jiangsu Chuangxin was entitled to a preferential income tax rate of 15% for the three years ended 31 December 2014, 2015, 2016 and the nine months ended 30 September 2017.

(iii) Under the PRC Corporate Income Tax Law and its relevant regulations, 50% additional tax deduction is allowed for qualified research and development costs.

8 Director's remuneration

Director's remuneration during the Relevant Periods is as follows:

Year ended 31 December 2014

	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive director					
Mr. Ge Xiaojun	<u>—</u>	<u>111</u>	<u>30</u>	<u>24</u>	<u>165</u>

Year ended 31 December 2015

	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive director					
Mr. Ge Xiaojun	<u>—</u>	<u>111</u>	<u>30</u>	<u>24</u>	<u>165</u>

Year ended 31 December 2016

	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive director					
Mr. Ge Xiaojun	<u>—</u>	<u>110</u>	<u>30</u>	<u>24</u>	<u>164</u>

Nine months ended 30 September 2017

	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Ge Xiaojun (appointed on 18 September 2017).....	—	84	23	17	124
Ms. Gu Jufang (appointed on 18 September 2017).....	—	72	22	—	94
Mr. Huang Lei (appointed on 18 September 2017).....	—	84	29	17	130
Mr. Jiang Caijun (appointed on 18 September 2017).....	—	84	29	17	130
Mr. Fan Yaqiang (appointed on 18 September 2017).....	—	54	14	11	79
Non-executive director					
Mr. Gu Yao (appointed on 18 September 2017).....	9	—	—	—	9
	<u>9</u>	<u>378</u>	<u>117</u>	<u>62</u>	<u>566</u>

Nine months ended 30 September 2016 (unaudited)

	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive director					
Mr. Ge Xiaojun	—	84	23	17	124
	<u>—</u>	<u>84</u>	<u>23</u>	<u>17</u>	<u>124</u>

No director of the Group waived or agreed to waive any emoluments during the Relevant Periods.

During the Relevant Periods, there was no amount paid or payable by the Group to the director or any of the five highest paid individuals set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office.

9 Individuals with highest emoluments

The five highest paid individuals of the Group for the years ended 31 December 2014, 2015, 2016 include one director and for the nine months ended 30 September 2017 include three directors in the respective period, whose emoluments are reflected in note 8 presented above. The aggregate of the emoluments in respect of the remaining four or two individuals during the Relevant Periods are as follows:

	Years ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Salaries, allowance and benefits in kind.	444	444	440	330	167
Discretionary bonuses	123	112	112	84	27
Retirement scheme contributions	96	96	96	72	35
	<u>663</u>	<u>652</u>	<u>648</u>	<u>486</u>	<u>229</u>

The emoluments of the above individuals with the highest emoluments are within the following band:

	Years ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	Number of individuals	Number of individuals	Number of individuals	Number of individuals	Number of individuals
				<i>(Unaudited)</i>	
Nil - HKD1,000,000.....	4	4	4	4	2

10 Earnings per share

Earnings per share information is not presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful due to the Reorganization and the presentation of the results for the Relevant Periods using the basis of preparation as disclosed in Note 1.

11 Property, plant and equipment

	Plant and buildings	Machinery and equipment	Office and other equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2014	22,094	10,822	2,181	11,898	—	46,995
Additions	87	1,619	1,325	—	629	3,660
At 31 December 2014 and 1 January 2015	22,181	12,441	3,506	11,898	629	50,655
Additions	352	791	257	430	—	1,830
Transfer from construction in progress	440	189	—	—	(629)	—
At 31 December 2015 and 1 January 2016	22,973	13,421	3,763	12,328	—	52,485
Additions	248	1,590	213	767	—	2,818
Disposals	—	—	—	(152)	—	(152)
At 31 December 2016 and 1 January 2017	23,221	15,011	3,976	12,943	—	55,151
Additions	—	—	87	—	—	87
At 30 September 2017	23,221	15,011	4,063	12,943	—	55,238
Accumulated depreciation:						
At 1 January 2014	(7,940)	(6,430)	(1,543)	(6,759)	—	(22,672)
Charge for the year	(1,003)	(981)	(291)	(1,794)	—	(4,069)
At 31 December 2014 and 1 January 2015	(8,943)	(7,411)	(1,834)	(8,553)	—	(26,741)
Charge for the year	(1,032)	(885)	(359)	(1,473)	—	(3,749)
At 31 December 2015 and 1 January 2016	(9,975)	(8,296)	(2,193)	(10,026)	—	(30,490)
Charge for the year	(1,035)	(735)	(398)	(1,000)	—	(3,168)
Written back on disposals	—	—	—	137	—	137
At 31 December 2016 and 1 January 2017	(11,010)	(9,031)	(2,591)	(10,889)	—	(33,521)
Charge for the period	(785)	(476)	(282)	(305)	—	(1,848)
At 30 September 2017	(11,795)	(9,507)	(2,873)	(11,194)	—	(35,369)
Net book value:						
At 30 September 2017	11,426	5,504	1,190	1,749	—	19,869
At 31 December 2016	12,211	5,980	1,385	2,054	—	21,630
At 31 December 2015	12,998	5,125	1,570	2,302	—	21,995
At 31 December 2014	13,238	5,030	1,672	3,345	629	23,914

At 30 September 2017, certain properties of the Group with a carrying amount of RMB 5,329,000 (31 December 2014, 2015 and 2016: RMB nil) were pledged to secure the bank loan of the Group as detailed in Note 17.

12 Lease prepayment

	As at 31 December		As at 30 September	
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January and 31 December/ 30 September.....	5,005	5,005	5,005	5,005
Accumulated amortization:				
At 1 January	(1,101)	(1,201)	(1,301)	(1,401)
Charge for the year/period	(100)	(100)	(100)	(75)
At 31 December/30 September	(1,201)	(1,301)	(1,401)	(1,476)
Net book value:				
At 31 December/30 September	3,804	3,704	3,604	3,529

The Group's leasehold land is located in the PRC. The Group was formally granted by the relevant PRC authorities of the right to use the land on which the Group's factories and infrastructures are erected for a period of 49.5 years.

At 30 September 2017, the land use right of the Group with a carrying amount of RMB 3,529,000 (31 December 2014, 2015 and 2016: RMB nil) was pledged to secure the bank loan of the Group as detailed in Note 17.

13 Inventories

(a) Inventories in the consolidated statements of financial position comprise:

	As at 31 December			As at 30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	6,435	7,587	9,482	8,446
Work in progress	175	133	655	497
Finished goods.....	3,845	3,871	6,095	7,887
Consignment goods.....	720	373	734	614
	<u>11,175</u>	<u>11,964</u>	<u>16,966</u>	<u>17,444</u>

(b) The analysis of the amount of inventories recognised as expenses and included in profit or loss is as follows:

	Years ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Carrying amount of inventories sold	62,591	66,140	74,767	58,505	92,819
Write-down of inventories.....	1,927	189	3	2	26
Reversal of write-down of inventories....	—	(474)	(256)	(239)	(40)
Cost of inventories directly recognised as research and development expenses	3,034	3,137	3,353	1,892	3,133
	<u>67,552</u>	<u>68,992</u>	<u>77,867</u>	<u>60,160</u>	<u>95,938</u>

14 Trade and other receivables

	As at 31 December			As at 30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables (note (a))	47,382	37,984	56,293	107,214
Less: Allowance for doubtful debts (note(b)).....	(317)	(8)	(112)	(46)
	47,065	37,976	56,181	107,168
Bills receivables (note (d)).....	6,880	2,100	6,835	900
Total trade and bills receivables.....	53,945	40,076	63,016	108,068
Amounts due from related parties - non trade (note 23(b))	2,000	16,431	16,145	—
Other receivables	4,009	13,170	5,153	4,368
Deposits and prepayments	1,101	1,545	2,943	3,162
Trade and other receivables, net.....	<u>61,055</u>	<u>71,222</u>	<u>87,257</u>	<u>115,598</u>

All of the trade and other receivables, including deposits and prepayments, are expected to be recovered or recognised as expense within one year.

The amounts due from related parties are unsecured, non-interest bearing and repayable on demand.

(a) Ageing analysis

As at the end of each reporting period, the ageing analysis of trade receivables, based on the invoice date, is as follows:

	As at 31 December			As at
				30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	35,531	28,040	40,912	64,451
After 3 months but within 6 months.....	9,731	8,174	10,130	39,622
After 6 months but within 1 year	527	1,703	4,165	2,746
After 1 year but within 2 years	17	50	1,069	378
After 2 years.....	1,576	17	17	17
Trade receivables	47,382	37,984	56,293	107,214
Less: Allowance for doubtful debts	(317)	(8)	(112)	(46)
Trade receivables, net	<u>47,065</u>	<u>37,976</u>	<u>56,181</u>	<u>107,168</u>

Further details on the Group's credit policy are set out in note 22(a).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (note 2(i)(i)).

The movement in the allowance for doubtful debts during the Relevant Periods, representing the collective loss component, is as follows:

	As at 31 December			As at
				30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at beginning of the year/period	159	317	8	112
Impairment losses recognised/(reversed).....	158	(90)	104	(66)
Uncollectible amounts written off	—	(219)	—	—
Balance at end of the year/period.....	<u>317</u>	<u>8</u>	<u>112</u>	<u>46</u>

As at 31 December 2014, 2015 and 2016 and 30 September 2017, no trade receivables was individually determined to be impaired.

(c) Trade receivables that are not impaired:

The ageing analysis of trade account receivables that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 December			As at
				30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired.....	14,238	18,195	16,389	15,130
Less than 6 months past due.....	31,266	19,138	35,352	89,233
6 to 12 months past due.....	285	584	3,466	2,456
Total amount past due but not impaired.....	31,551	19,722	38,818	91,689
	45,789	37,917	55,207	106,819

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of material default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good payment track records with the Group and did not encounter financial difficulty or fail to fulfill their repayment plan. Based on past experience with these customers and evaluation of their current creditability, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(d) Bills receivables

Bills receivables represent short-term bank acceptance notes receivable that entitle the Group to receive the full face amount from banks at maturity, which generally ranges from 3 to 6 months from the date of issuance. Historically, the Group had experienced no credit losses on bills receivable. The Group from time to time endorses bills receivables to suppliers as part of the treasury management.

During the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, the Group endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a fully recourse basis. The Group had derecognised these bills receivable and the payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of each reporting period. In the opinion of the directors, the Group had transferred substantially all the risks and rewards of ownership of these bills and had discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at 31 December 2014, 2015 and 2016 and 30 September 2017, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB 580,000, RMB 1,200,000, RMB 1,500,000 and RMB 600,000 respectively.

15 Available-for-sale financial assets

	As at 31 December			As at
	2014	2015	2016	30 September
	RMB'000	RMB'000	RMB'000	2017
				RMB'000
Wealth management products	—	8,500	12,000	—

Available-for-sale financial assets comprise the investment in one principal non-guaranteed wealth management product issued by a state-owned bank in the PRC, which is a highly liquid investment with floating interest. The directors consider that the carrying amounts of the investments in wealth management products carried at cost are not materially different from their fair values as at 31 December 2015 and 2016, respectively, due to the high liquidity of this instrument.

16 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	As at 31 December			As at
	2014	2015	2016	30 September
	RMB'000	RMB'000	RMB'000	2017
				RMB'000
Cash at banks and on hand	1,900	9,068	2,372	10,850

(b) Reconciliation of profit before taxation to cash generated from/(used in) operations:

	Note	Years ended 31 December			Nine months ended 30 September	
		2014	2015	2016	2016	2017
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					<i>(Unaudited)</i>	
Profit before taxation		19,393	27,645	39,123	32,470	27,917
Adjustments for:						
Depreciation	6(c)	4,069	3,749	3,168	2,539	1,848
Amortization of lease prepayment	6(c)	100	100	100	75	75
Write down/(reversal) of inventories	13(b)	1,927	(285)	(253)	(237)	(14)
Finance costs		—	—	—	—	78
Interest income	5	(59)	(241)	(295)	(160)	(119)
Foreign exchange differences		10	(263)	(275)	(294)	(136)
Changes in working capital:						
Decrease/(increase) in inventories		4,392	(504)	(4,749)	(171)	(464)
(Increase)/decrease in trade and other receivables		(1,254)	13,764	(24,821)	(25,822)	(45,486)
(Decrease)/Increase in trade and other payables		(6,009)	1,802	2,868	959	14,459
Cash generated from/(used in) operations		<u>22,569</u>	<u>45,767</u>	<u>14,866</u>	<u>9,359</u>	<u>(1,842)</u>

(c) Reconciliation of liabilities arising from financial activities is as below:

	Bank loan	Amounts due to related parties — non trade	Dividends payable	Total
	RMB'000 (Note 17)	RMB'000 (Note 18)	RMB'000 (Note 18)	RMB'000
Balance at 1 January 2014	—	14,358	12,000	26,358
Non-cash changes				
- Profit distribution (note 21(c))	—	—	17,500	17,500
Cash flows				
- Inflow from financing activities	—	2,534	—	2,534
- Outflow from financing activities	—	(5,077)	(22,479)	(27,556)
Balance at 31 December 2014 and 1 January 2015	—	11,815	7,021	18,836
Cash flows				
- Inflow from financing activities	—	—	—	—
- Outflow from financing activities	—	(11,815)	(7,021)	(18,836)
Balance at 31 December 2015 and 1 January 2016	—	—	—	—
Non-cash changes				
- Profit distributions (note 21(c))	—	—	43,000	43,000
Cash flows				
- Inflow from financing activities	—	—	—	—
- Outflow from financing activities	—	—	(20,152)	(20,152)
Balance at 31 December 2016 and 1 January 2017	—	—	22,848	22,848
Non-cash changes				
- Profit distributions (note 21(c))	—	—	20,415	20,415
- Settlement of dividends payable against amounts due from the Controlling Shareholder (i)	—	—	(9,326)	(9,326)
Cash flows				
- Inflow from financing activities	18,000	—	—	18,000
- Outflow from financing activities	—	—	(24,037)	(24,037)
Balance at 30 September 2017	<u>18,000</u>	<u>—</u>	<u>9,900</u>	<u>27,900</u>

	Bank loan	Amounts due to related parties — non trade	Dividends payable	Total
	RMB'000 (Note 17)	RMB'000 (Note 18)	RMB'000 (Note 18)	RMB'000
Unaudited:				
Balance at 1 January 2016	—	—	—	—
Non-cash charges				
- Profit distributions (note 21(c)).....	—	—	19,000	19,000
Cash flows				
- Inflow from financing activities	—	—	—	—
- Outflow from financing activities.....	—	—	—	—
Balance at 30 September 2016	<u>—</u>	<u>—</u>	<u>19,000</u>	<u>19,000</u>

- (i) Pursuant to a debt transfer and set-off agreement entered into on 7 September 2017 among the Group, Full Success International Limited (“Full Success”), the then equity shareholder of Jiangsu Chuangxin and the Controlling Shareholder of the Group, the Group’s dividend payables to Full Success of RMB9,326,000, less related withholding tax, was offset by its amounts due from the Controlling Shareholder of RMB8,393,000.

17 Bank loan

As at 30 September 2017, the bank loan represented a one-year loan of RMB18,000,000 with annual interest rate of 4.80% borrowed from a state-owned commercial bank in the PRC pledged by the land use rights and properties of the Group. The carrying amounts of the pledged land use rights and properties of the Group amounted to RMB3,529,000 and RMB5,329,000 respectively as at 30 September 2017.

18 Trade and other payables

	As at 31 December			As at
				30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables (note (a))	5,506	3,156	6,071	10,303
Receipts in advance	—	429	—	71
Other payables and accruals	5,773	9,496	9,878	20,987
Dividends payable.....	7,021	—	22,848	9,900
	<u>18,300</u>	<u>13,081</u>	<u>38,797</u>	<u>41,261</u>
Amounts due to related parties — non trade	<u>11,815</u>	<u>—</u>	<u>—</u>	<u>—</u>
Trade and other payables	<u>30,115</u>	<u>13,081</u>	<u>38,797</u>	<u>41,261</u>

All trade payables are expected to be settled within one year.

The amounts due to related parties are unsecured, non-interest bearing and repayable on demand.

(a) An ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December			As at
				30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	4,900	3,079	5,617	9,675
After 3 months but within 6 months.....	568	40	411	254
After 6 months but within 1 year.....	38	37	43	18
Over 1 year but within 2 years	—	—	—	356
Trade payables	<u>5,506</u>	<u>3,156</u>	<u>6,071</u>	<u>10,303</u>

19 Income tax in the consolidated statements of financial position

(a) Current taxation in the consolidated statements of financial position represents:

	As at 31 December			As at
				30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January	804	1,911	3,791	5,074
Provision for current income tax for the year/period (note 7(a)).....	3,373	4,421	5,746	4,322
Payment during the year/period.....	<u>(2,266)</u>	<u>(2,541)</u>	<u>(4,463)</u>	<u>(4,505)</u>
Balance at 31 December / 30 September	<u>1,911</u>	<u>3,791</u>	<u>5,074</u>	<u>4,891</u>

(b) Deferred tax assets recognised:

(i) The components of deferred tax assets recognised in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

Deferred tax arising from:	Allowance for doubtful debts	Inventory provision	Accrued expenses and other payables	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2014	24	—	20	44
Credited to profit or loss (note 7(a))	24	289	87	400
Balance at 31 December 2014 and 1 January 2015...	48	289	107	444
(Charged)/credited to profit or loss (note 7(a))	(47)	(79)	104	(22)
Balance at 31 December 2015 and 1 January 2016...	1	210	211	422
Credited/(charged) to profit or loss (note 7(a))	16	(164)	117	(31)
Balance at 31 December 2016 and 1 January 2017...	17	46	328	391
(Charged)/credited to profit or loss (note 7(a))	(10)	(5)	72	57
Balance at 30 September 2017	<u>7</u>	<u>41</u>	<u>400</u>	<u>448</u>

(ii) Reconciliation to the consolidated statements of financial position:

	As at 31 December			As at 30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Net deferred tax assets recognised in the consolidated statements of financial position	444	422	391	448
Net deferred tax liabilities recognised in the consolidated statements of financial position	—	—	—	—
	<u>444</u>	<u>422</u>	<u>391</u>	<u>448</u>

(c) Deferred tax liabilities not recognised:

The new CIT Law and its relevant regulations also impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings of PRC enterprises accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. The Group has not recognised deferred tax liabilities as at 31 December 2014, 2015, 2016 and 30 September 2017 in respect of undistributed earnings of RMB16,297,000, RMB20,804,000, RMB7,816,000 and RMB9,360,000 as the Company controls the dividend policy of the subsidiaries and it has been determined that these profits will not be distributed in the foreseeable future.

20 *Share capital*

The Company was incorporated in the Cayman Islands on 6 July 2017 as part of the Reorganization with an initial authorized share capital of HKD380,000 divided into 38,000,000 shares with a par value of HKD0.01 each, of which one fully paid share was allotted and issued on 6 July 2017.

Upon the completion of various steps of the Reorganization, the Company became the holding company of the companies comprising the Group on 12 September 2017. The share capital in the consolidated statement of financial position as at 30 September 2017 represents the issued share capital of HKD0.01 of the Company.

As the Reorganization was not completed as at 31 December 2014, 2015 and 2016, for the purpose of the Historical Financial Information, the share capital of the Group as at 31 December 2014, 2015 and 2016 represents the aggregate amount of the paid-in capital of all the entities comprising the Group at the respective dates, after elimination of investments in subsidiaries.

21 *Reserves*

(a) **Capital reserve**

Capital reserve comprises contributions by the Controlling Shareholder at the respective dates and balances arising from transactions with owners in their capacity as the equity owners.

As further explained in Note 1, the Historical Financial Information excludes the assets, liabilities and results of operations of the Carve-Out Entity. For purposes of the preparation of the Historical Financial Information, the Group's net investment in the Carve-Out Entity as at 1 January 2014 has been excluded from the Group's consolidated financial statements as an adjustment in the opening capital reserve as at 1 January 2014.

During the year ended 31 December 2014 and 2015, the Group has received payment of RMB 10,566,000 and made payment of RMB 8,100,000 to the Carve-Out Entity, respectively, which have been reflected as a contribution from and distribution to the Controlling Shareholder of the Company, respectively, and have been recorded in the capital reserve.

(b) **PRC statutory reserves**

Statutory general reserve

Statutory general reserve is established in accordance with the relevant PRC rules and regulations and the articles of association of the company comprising the Group which is incorporated in the PRC.

For the entity concerned, statutory general reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital right before conversion.

(c) Profit distribution

Dividends for the Relevant Periods represent dividends declared and approved by the subsidiary to its then equity shareholder:

	Years ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Dividends declared and approved during the year/period					
Jiangsu Chuangxin	<u>17,500</u>	<u>—</u>	<u>43,000</u>	<u>19,000</u>	<u>20,415</u>

Dividends of RMB 17,500,000, RMB 43,000,000 and RMB 20,415,000 were declared and approved by Jiangsu Chuangxin in respect of the year ended 31 December 2014, 2016 and for the six months ended 30 June 2017 to Full Success, the then equity shareholder.

The directors consider that the dividends declared and approved during the Relevant Periods are not indicative of the future dividend policy of the Group.

(d) Capital injection and capitalisation of reserves

On 15 January 2015, a capital injection of USD 3,500,000 was made into Jiangsu Chuangxin by Full success, its then equity shareholder.

On 15 January 2015, capital reserve, PRC statutory reserve and retained earnings in the amount of RMB 3,614,000, RMB 7,551,000 and RMB 16,375,000, respectively were approved by the then equity shareholder of Jiangsu Chuangxin to be capitalized into the share capital.

(e) Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

At 31 December 2014, 2015 and 2016, the Group did not have any bank borrowings. At 30 September 2017, the Group had bank loans amounting to RMB18,000,000. The Group had bank deposits and cash balance as at 31 December 2014, 2015 and 2016 and 30 September 2017 amounting to RMB 1,900,000, RMB 9,068,000, RMB 2,372,000 and RMB 10,850,000, respectively.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-equity ratio. This ratio is calculated as net debt divided by equity. The Group defines net debt as loans and borrowings less available-for-sale financial assets and cash and cash equivalents. Total equity comprises all components of equity.

During the period ended 30 September 2017, the Group's strategy was to maintain the adjusted net debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

Neither the Company nor its subsidiaries are subject to internally or externally imposed capital requirements.

22 Financial risk management and fair value

Financial assets of the Group include cash and cash equivalents, available-for-sale financial assets, trade and other receivables. Financial liabilities of the Group include trade and other payables and other financial liabilities.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- foreign currency risk

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Group's risk management framework, and developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The risks are mitigated by various measures as disclosed below.

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits, available-for-sale financial assets and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Bank deposits and available-for-sale financial assets are placed with financial institutions that have high credit ratings. Given their credit ratings, management does not expect any counterparty to fail to meet its obligations.

In respect of trade and other receivables, as part of the Group's ongoing credit control procedures, management monitors the creditworthiness of customers to whom it grants credit in the normal course of business.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30-90 days from the date of billing.

Normally, the Group does not obtain collateral from customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2014, 2015, 2016 and 30 September 2017, 12.3%, 4.3%, 29.1% and 18.4% of the total trade and bills receivables were due from the Group's largest customer and 55.3%, 51.9%, 58.0% and 48.2% of the total trade and bills receivables were due from the Group's five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position after deducting any allowance for doubtful debts (see note 14), and endorsed bills with full recourse which were derecognised by the Group (see note 14(d)).

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient cash to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following table shows the contractual maturities at the end of each reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay.

	As at 31 December 2014			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	30,115	—	30,115	30,115

As at 31 December 2015				
Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	13,081	—	13,081	13,081
As at 31 December 2016				
Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	38,797	—	38,797	38,797
As at 30 September 2017				
Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	41,261	—	41,261	41,261
Bank loan	18,786	—	18,786	18,000
	<u>60,047</u>	<u>—</u>	<u>60,047</u>	<u>59,261</u>

(c) Foreign currency risk

The Group is exposed to currency risk primarily through purchases and sales which give rise to receivables and bank balances that are denominated in foreign currencies, that are, currencies other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk is primarily United States Dollars ("USD") and Euros ("EUR").

The following table details the Group's exposure at the end of each reporting period to currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of each reporting period.

	Exposure to USD (expressed in RMB)			
	As at 31 December			As at 30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents.....	1,496	7,717	106	101
Trade and other receivables.....	17,107	8,425	18,988	19,034
	<u>18,603</u>	<u>16,142</u>	<u>19,094</u>	<u>19,135</u>
	Exposure to EUR (expressed in RMB)			
	As at 31 December			As at 30 September
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents.....	<u>189</u>	<u>33</u>	<u>539</u>	<u>3,666</u>

The following table indicates the change in the Group's profit after taxation and retained earnings that would arise if foreign exchange rates to which the Group's financial assets and liabilities have significant exposure at the end of each reporting period had changed at that date, assuming all other risk variables remained constant:

	As at 31 December				As at 30 September			
	2014		2015		2016		2017	
	Increase/ decrease in foreign exchange rates	Increase/ (decrease) in profit after taxation and retained earnings	Increase/ (decrease) in profit after taxation and retained earnings	Increase/ (decrease) in profit after taxation and retained earnings	Increase/ (decrease) in profit after taxation and retained earnings	Increase/ (decrease) in profit after taxation and retained earnings	Increase/ (decrease) in profit after taxation and retained earnings	Increase/ (decrease) in profit after taxation and retained earnings
		RMB'000		RMB'000		RMB'000		RMB'000
USD	5%	791	5%	686	5%	811	5%	813
	-5%	(791)	-5%	(686)	-5%	(811)	-5%	(813)
EUR	5%	8	5%	1	5%	23	5%	156
	-5%	(8)	-5%	(1)	-5%	(23)	-5%	(156)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translating into RMB at the exchange rate ruling at the end of each reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of each reporting period.

(d) Fair value measurement

(i) Financial assets and liabilities carried at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of each reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value measurements as at 31 December 2014 categorised into			
	<i>Fair value at 31 December 2014</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Available-for-sale financial Assets.....	—	—	—	—

	Fair value measurements as at 31 December 2015 categorised into			
	<i>Fair value at 31 December 2015</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Available-for-sale financial Assets:				
- Wealth management products	8,500	—	8,500	—
Fair value measurements as at 31 December 2016 categorised into				
	<i>Fair value at 31 December 2016</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Available-for-sale financial Assets:				
- Wealth management products	12,000	—	12,000	—
Fair value measurements as at 30 September 2017 categorised into				
	<i>Fair value at 30 September 2017</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Available-for-sale financial Assets.....				
	—	—	—	—

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of wealth management products is determined using the market comparison approach by reference to recent sales prices of comparable wealth management products which is publicly available.

During the Relevant Periods, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

During the Relevant Periods, there were no changes in valuation techniques for the recurring Level 2 fair value measurements.

(ii) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2014, 2015 and 2016 and 30 September 2017.

23 Related party transactions

In addition to the related party information disclosed elsewhere in the Historical Financial Information, the Group entered into the following material related party transactions.

During the Relevant Periods, the directors are of the view that the following companies and individuals are related parties of the Group:

Name of party	Relationship
Ge Xiaojun and Gu Jufang (Spouse of Ge Xiaojun) 葛曉軍、顧菊芳*	Controlling Shareholder
Full Success International Limited 富成國際有限公司 (“Full Success”) *	Entity controlled by the Controlling Shareholder
Jiangsu Hongming Petrochemical Trading Co., Ltd. 江蘇鴻銘化工貿易有限公司 (“Jiangsu Hongming”) *	Entity controlled by the Controlling Shareholder
Yixing Guanglinyuan Trading Co., Ltd. 宜興市廣林源商貿有限公司 (“Yixing Guanglinyuan”) *	Entity controlled by Gu Jufang
Yixing Huakaisheng Freight Co., Ltd. 宜興市樺凱升貨運有限公司 (“Yixing Huakaisheng”) *	Entity controlled by Gu Jufang
Earn Wealth International Limited (“Earn Wealth”)	Entity controlled by the Controlling Shareholder
United Wealth International Trading Limited (“United Wealth”)	Entity controlled by the Controlling Shareholder

* The official names of these persons and companies are in Chinese. The English translation of the names is for reference only.

(a) Transactions with related parties

	Years ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Non-recurring transactions:					
Sales of goods to					
Jiangsu Hongming.....	—	960	1,090	352	—
Cash collection on behalf of the Group					
Earn Wealth	—	7	20,989	14,551	18,090
United Wealth	10,719	23,589	—	—	—
	<u>10,719</u>	<u>23,596</u>	<u>20,989</u>	<u>14,551</u>	<u>18,090</u>
Receipt of freight service					
Yixing Huakaisheng	1,843	—	—	—	—
Advance to related parties					
Jiangsu Hongming.....	—	5,180	1,791	—	—
Yixing Guanglinyuan	2,000	4,606	—	—	—
Ge Xiaojun and Gu Jufang	—	4,645	4,529	4,529	1,819
	<u>2,000</u>	<u>14,431</u>	<u>6,320</u>	<u>4,529</u>	<u>1,819</u>
Proceeds from repayment of advance to related parties					
Jiangsu Hongming.....	—	—	—	—	6,971
Yixing Guanglinyuan	—	—	6,606	—	—
Ge Xiaojun and Gu Jufang	—	—	—	—	2,600
	<u>—</u>	<u>—</u>	<u>6,606</u>	<u>—</u>	<u>9,571</u>
Advance from related parties					
Jiangsu Hongming.....	2,534	—	—	—	—
Repayment of advance from related parties					
Jiangsu Hongming.....	—	2,534	—	—	—
Ge Xiaojun and Gu Jufang	5,077	9,281	—	—	—
	<u>5,077</u>	<u>11,815</u>	<u>—</u>	<u>—</u>	<u>—</u>

The directors of the company have confirmed that the above non-recurring transactions will not be continued in the future after the listing of the Company's shares on the Stock Exchange.

(b) Balances with related parties

As at the end of each reporting period, the Group had the following balances with related parties:

Amounts due from related parties — trade:

	As at 31 December			As at
	2014	2015	2016	30 September
	RMB'000	RMB'000	RMB'000	2017
Jiangsu Hongming.....	—	649	1,923	—

Amounts due from related parties — non trade:

	As at 31 December			As at
	2014	2015	2016	30 September
	RMB'000	RMB'000	RMB'000	2017
Jiangsu Hongming.....	—	5,180	6,971	—
Yixing Guanglinyuan	2,000	6,606	—	—
Ge Xiaojun and Gu Jufang.....	—	4,645	9,174	—
	<u>2,000</u>	<u>16,431</u>	<u>16,145</u>	<u>—</u>

Amounts due to related parties - trade:

	As at 31 December			As at
	2014	2015	2016	30 September
	RMB'000	RMB'000	RMB'000	2017
Yixing Huakaisheng	404	—	—	—

Amounts due to related parties — non trade:

	As at 31 December			As at
	2014	2015	2016	30 September
	RMB'000	RMB'000	RMB'000	2017
Jiangsu Hongming.....	2,534	—	—	—
Ge Xiaojun and Gu Jufang.....	9,281	—	—	—
	<u>11,815</u>	<u>—</u>	<u>—</u>	<u>—</u>

The outstanding balances of amounts due from and due to related parties are all unsecured, interest-free and have no fixed terms of repayment.

(c) Directors and key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	Years ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term employee benefits.....	928	913	907	686	698
Post-employee benefits.....	157	135	135	98	97
	<u>1,085</u>	<u>1,048</u>	<u>1,042</u>	<u>784</u>	<u>795</u>

Total remuneration is included in "staff costs" (see note 6(b)).

24 List of statutory auditors of the subsidiaries

The following list contains details of the companies included in the Historical Financial Information that are subject to audit during the Relevant Periods and the name of the respective statutory auditor.

Name of company	Financial period	Statutory auditor
Jiangsu Chuangxin Petrochemical Co., Ltd. 江蘇創新石化有限公司 *	For the years ended 31 December 2014, 2015 and 2016	Talent Certified Public Accountants Co., Ltd. 天衡會計師事務所 (特殊 普通合夥)宜興分所*

* The official names of the companies are in Chinese. The English translation of the names is for reference only.

25 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Periods

Up to the issuance date of the Historical Financial Information, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year beginning on 1 January 2017 and which have not been adopted in the Historical Financial Information. These include the following which may be relevant to the Group:

	<i>Effective for accounting periods beginning on or after</i>
Annual Improvements to HKFRSs 2014-2016 Cycle.....	January 1, 2018
HKFRS 9, <i>Financial Instruments</i>	January 1, 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	January 1, 2018
Amendments to HKFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i>	January 1, 2018
Amendments to HKFRS 4, <i>Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts</i>	January 1, 2018
Amendments to HKAS 40, <i>Transfers of investment property</i>	January 1, 2018
HK(IFRIC) Interpretation 22, <i>Foreign currency transactions and advance consideration</i>	January 1, 2018
Annual Improvements to HKFRSs 2015-2017 Cycle.....	January 1, 2019
Amendments to HKFRS 9, <i>Prepayment features with negative compensation</i>	January 1, 2019
HKFRS 16, <i>Leases</i>	January 1, 2019
HK(IFRIC) Interpretation 23, <i>Uncertainty over income tax treatments</i>	January 1, 2019
Amendments to HKAS 28, <i>Long-term interest in associates and joint ventures</i> ..	January 1, 2019
Amendments to HKFRS 10 and HKAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i>	To be determined
HKFRS 17, <i>Insurance contracts</i>	January 1, 2021

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position. Specifically, the Group assesses the impact of HKFRS 9, HKFRS 15 and HKFRS 16 as below:

While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impact upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's consolidated financial statements for the period beginning on 1 January 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in the Group's consolidated financial statements for the period beginning on 1 January 2018.

HKFRS 9, Financial Instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities. HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI). The Group currently does not have any financial assets measured at FVTPL or FVTOCI.

Based on the assessment so far, the Group expects that its financial assets currently measured at amortised cost will continue with their respective classification and measurement upon the adoption of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the “incurred loss” model in HKAS 39 with an “expected credit loss” model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group’s trade receivables and other financial assets. Based on a preliminary assessment, the application of the new impairment model may not have a significant impact on the Group.

(c) Hedge accounting

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group currently does not have any hedge relationship and therefore it may not have any impact on the Group on adoption of HKFRS 9.

Based on the above assessment so far, the Group considers that the initial application of HKFRS 9 will not have a significant impact on the Group’s results of operations and financial position.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sales of goods and rendering of services, and HKAS 11, *Construction contracts* which specifies the accounting for revenue from construction contracts.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition.

- Step 1: Identify the contract(s) with customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Group plans to use the cumulative effect transition method for the adoption of HKFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018.

Based on the assessment so far, the Group considers that the initial application of HKFRS 15 will not have a significant impact on the Group’s results of operations and financial position.

HKFRS 16, Leases

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

The Group currently does not have any lease arrangement and considers that the initial application of HKFRS 16 may not have any impact on the Group.

26 Contingent liability

The Group received USD payment from customers of the Group’s sales to Sudan during 2013 and 2014, which exposed the Group to potential violations of Sudanese sanctions imposed by the U.S. Treasury Department’s Office of Foreign Assets Control (“OFAC”). The Group has filed voluntary self-disclosure (“VSD”) to OFAC in light of the potential violations on 19 September 2017. As of the date of this report, the VSD is still under review by OFAC and based on all the facts and circumstances and the assessment of the Group’s International Sanctions Legal Advisers, the Group is of the view that, the most likely results would be issuance by OFAC of a cautionary letter to close out the case without the imposition of any penalty; however, it is possible that a monetary fine of up to US\$438,968 will be required if OFAC were to decide to impose an administrative penalty on the Group. According to the above assessment, the directors do not consider it probable that the above administrative penalty will be imposed by OFAC and therefore no provision has been made in the consolidated financial statements for the contingent liabilities arising from the above potential violations during the Relevant Periods.

27 Subsequent events

There are no significant subsequent events taking place subsequent to 30 September 2017 until the date of this report.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries comprising the Group in respect of any period subsequent to 30 September 2017.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this Prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this Prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

A UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Share Offer on the consolidated net tangible assets of the Group attributable to the equity shareholders of the Company as at 30 September 2017, as if the Share Offer had taken place on 30 September 2017.

The pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Share Offer been completed as at 30 September 2017 or at any future date.

	Consolidated net tangible assets of our Group attributable to equity shareholders of our Company as of 30 September 2017	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of our Company	Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to equity shareholders of our Company	Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to equity shareholders of our Company
	RMB'000 ⁽¹⁾	RMB'000 ⁽²⁾⁽⁵⁾	RMB'000 ⁽³⁾⁽⁴⁾	RMB ⁽⁴⁾	HK\$ ⁽⁵⁾
Based on an Offer Price of HK\$1.00 per Offer Share.....	103,586	85,054	188,640	0.39	0.47
Based on an Offer Price of HK\$1.25 per Offer Share.....	103,586	109,539	213,125	0.44	0.53

Notes:

- (1) The consolidated net tangible assets of the Group attributable to equity shareholders of the Company as of 30 September 2017 have been calculated based on the audited consolidated total equity attributable to equity shareholders of the Company as of 30 September 2017 of RMB103,586,000, extracted from the Group's Historical Financial Information included in the Accountants' Report set out in Appendix I to this Prospectus.
- (2) The estimated net proceeds from the Share Offer are based on the issuance of 120,000,000 Shares and the indicative Offer Prices of HK\$1.00 and HK\$1.25 per Share, respectively, being the lower end price and higher end price of the stated Offer Price range, after deduction of total listing expenses of approximately RMB24.9 million and approximately RMB25.7 million respectively, and excluding listing expenses of approximately RMB9,012,000 which have been recognised in profit or loss up to 30 September 2017, and does not take account of any Shares which may be issued upon the exercise of the Over-allotment Option, or any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (3) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 30 September 2017.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the Share Offer payable to our Company as described in note (2) and on the basis that a total of 480,000,000 Shares were in issue (including Shares in issue as of the date of this prospectus and those Shares to be issued pursuant to the Share Offer and the Capitalisation Issue) assuming that the Share Offer had been completed on 30 September 2017 but taking no account of any shares which may be issued upon the exercise of the Over-allotment Option, or any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme.
- (5) The estimated net proceeds from the Share Offer are converted into Renminbi at the rate of HK\$1.00 to RMB0.8414, being the exchange rate set by PBOC prevailing on 20 September 2017. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.

**B INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this prospectus.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF JIANGSU INNOVATIVE ECOLOGICAL NEW MATERIALS
LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Jiangsu Innovative Ecological New Materials Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 30 September 2017 and related notes as set out in Part A of Appendix II to the prospectus dated 19 March 2018 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "Share Offer") on the Group's financial position as at 30 September 2017 as if the Share Offer had taken place at 30 September 2017. As part of this process, information about the Group's financial position as at 30 September 2017 has been extracted by the Directors from the Group's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the 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.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the 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 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 (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the 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 purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the 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 pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 30 September 2017 would have been as presented.

A reasonable assurance engagement to report on whether the 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 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 pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Opinion

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group, and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG

Certified Public Accountants

Hong Kong

19 March 2018

The following is the preliminary financial information of our Group as at and for the year ended 31 December 2017 (“2017 Preliminary Financial Information”), together with comparative financial information as at and for the year ended 31 December 2016 and a discussion of changes in our Group’s financial condition and results of operations between the two periods. The 2017 Preliminary Financial Information was not audited. Investors should bear in mind that the 2017 Preliminary Financial Information in this Appendix may be subject to adjustments.

Consolidated statement of profit or loss and other comprehensive income

	Note	2017	2016
		RMB’000	RMB’000
Revenue	3	186,823	135,650
Cost of sales		<u>(117,665)</u>	<u>(74,514)</u>
Gross profit		69,158	61,136
Other income	4	846	2,548
Sales and marketing expenses		(7,547)	(9,680)
General and administrative expenses		(21,900)	(9,372)
Research and development expenses.....		<u>(7,941)</u>	<u>(5,509)</u>
Profit from operations		32,616	39,123
Finance costs	5(a)	<u>(297)</u>	<u>—</u>
Profit before taxation	5	32,319	39,123
Income tax.....	6	<u>(4,942)</u>	<u>(5,777)</u>
Profit for the year		<u>27,377</u>	<u>33,346</u>
Other comprehensive income for the year		<u>—</u>	<u>—</u>
Total comprehensive income for the year		<u>27,377</u>	<u>33,346</u>
Earnings per share*	8		
Basic and diluted (RMB cents)		<u>7.60</u>	<u>9.26</u>

* The calculation of basic and diluted earnings per share for the years ended 31 December 2017 and 2016 is based on the profit attributable to equity shareholder of the Company for the years ended 31 December 2017 and 2016, and 360,000,000 shares in issue, assuming that the Capitalization Issue had been completed and the 360,000,000 shares had been outstanding throughout the periods presented.

Consolidated statement of financial position

	Note	2017	2016
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment.....		19,565	21,630
Lease prepayment		3,504	3,604
Deferred tax assets.....	6	446	391
		<u>23,515</u>	<u>25,625</u>
		-----	-----
Current assets			
Inventories.....	9	15,746	16,966
Trade and other receivables.....	10	91,954	87,257
Available-for-sale financial assets		—	12,000
Cash and cash equivalents.....		25,973	2,372
		<u>133,673</u>	<u>118,595</u>
		-----	-----
Current liabilities			
Bank loan	11	18,000	—
Trade and other payables	12	27,839	38,797
Income tax payable		4,038	5,074
		<u>49,877</u>	<u>43,871</u>
		-----	-----
Net current assets		83,796	74,724
		-----	-----
Total assets less current liabilities		<u>107,311</u>	<u>100,349</u>
		-----	-----
NET ASSETS		<u>107,311</u>	<u>100,349</u>
		-----	-----
CAPITAL AND RESERVES			
Share capital.....		—	79,938
Reserves		107,311	20,411
		<u>107,311</u>	<u>100,349</u>
TOTAL EQUITY		<u>107,311</u>	<u>100,349</u>
		-----	-----

NOTES TO THE 2017 PRELIMINARY FINANCIAL INFORMATION

1 Basis of preparation

The 2017 Preliminary Financial Information does not constitute the consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2017 but is extracted from those financial statements.

The Group’s consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

2 Operating segment information

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group’s chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the sale of oil refining agents and fuel additives.

3 Revenue

(a) The amount of each significant category of revenue is as follows:

	<u>Years ended 31 December</u>	
	<u>2017</u>	<u>2016</u>
	RMB’000	RMB’000
Sales of oil refining agents	130,773	92,051
Sales of fuel additives	<u>56,050</u>	<u>43,599</u>
Total	<u><u>186,823</u></u>	<u><u>135,650</u></u>

The Group's customer base included three customers with which transactions had exceeded 10 percent of the Group's revenues for the year ended 31 December 2017 presented as below:

	<u>Years ended 31 December</u>	
	<u>2017</u>	<u>2016</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Customer A	22,719	17,244
Customer B	19,775	*
Customer C	19,633	29,555
Customer D	*	<u>24,177</u>

* Less than 10 percent of the Group's revenue for the corresponding reporting period.

(b) Information about geographical area

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of revenue is based on the selling location. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of lease prepayment. During the year ended 31 December 2017, substantially all specified non-current assets were physically located in the PRC.

	<u>Years ended 31 December</u>	
	<u>2017</u>	<u>2016</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Mainland China	163,300	102,680
Sudan	21,060	29,555
Other countries and regions	<u>2,463</u>	<u>3,415</u>
Total	<u>186,823</u>	<u>135,650</u>

4 Other income

	Years ended 31 December	
	2017	2016
	RMB'000	RMB'000
Service income	599	283
Government grants	500	414
Net foreign exchange (loss) / gain	(354)	1,556
Interest income from bank deposits	31	27
Interest income from available-for-sale financial assets.....	100	268
Others	(30)	—
Total	846	2,548

5 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Years ended 31 December	
	2017	2016
	RMB'000	RMB'000
Interest on bank loan	297	—

(b) Staff costs

	Years ended 31 December	
	2017	2016
	RMB'000	RMB'000
Salaries, wages and other benefits.....	4,995	4,712
Contributions to defined contribution plans (i).....	978	1,153
	5,973	5,865

- (i) Employees of the Group's subsidiary in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's subsidiary in the PRC contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

(c) Other items

	Years ended 31 December	
	2017	2016
	RMB'000	RMB'000
Cost of inventories (i)	122,604	77,867
Research and development expenses.....	7,941	5,509
Depreciation	2,465	3,168
Amortization of lease prepayment.....	100	100
Impairment losses of trade receivables (reversed)/recognised	(64)	104
Listing expenses	13,354	—
Auditors' remuneration.....	7	7

- (i) Cost of inventories includes the following amounts, which are also included in the respective total amounts disclosed separately above or in notes 5(b) for each of these types of expenses.

	Years ended 31 December	
	2017	2016
	RMB'000	RMB'000
Staff costs.....	1,378	1,418
Depreciation and amortization.....	350	305
Research and development expenses.....	4,939	3,353

6 Income tax

- (a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:**

	Years ended 31 December	
	2017	2016
	RMB'000	RMB'000
Current tax:		
Provision for current income tax for the year	4,997	5,746
Deferred tax:		
Origination and reversal of temporary differences	(55)	31
	<u>4,942</u>	<u>5,777</u>

(b) Reconciliation between actual income tax expense and accounting profit at applicable tax rates:

	Years ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit before taxation	<u>32,319</u>	<u>39,123</u>
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (i)	8,080	9,781
Tax effect of preferential tax rate (ii).....	(3,232)	(3,912)
Tax effect of non-deductible expenses	719	266
Additional deduction for qualified research and development costs (iii).....	<u>(625)</u>	<u>(358)</u>
Actual income tax expense	<u>4,942</u>	<u>5,777</u>

- (i) Jiangsu Chuangxin is subject to the PRC corporate income tax rate of 25%.
- (ii) According to the PRC Corporate Income Tax Law and its relevant regulations, entities that are qualified as High and New Technology Enterprise under the tax law are entitled to a preferential income tax rate of 15%. Jiangsu Chuangxin obtained the approval of High and New Technology Enterprise in 2013 with an effective period of three years from 2013 to 2015 and obtained the renewed approval of High and New Technology Enterprise in 2016 with another effective period of three years from 2016 to 2018. Therefore, Jiangsu Chuangxin was entitled to a preferential income tax rate of 15% for the two years ended 31 December 2017 and 2016.
- (iii) Under the PRC Corporate Income Tax Law and its relevant regulations, 50% additional tax deduction is allowed for qualified research and development costs for the years ended 31 December 2017 and 2016.

(c) Deferred tax assets recognized

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the year ended 31 December 2017 are as follows:

<i>Deferred tax arising from:</i>	Allowance	Inventory	Accrued	Total
	for doubtful		expenses	
	debts		and other	
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2016	1	210	211	422
Credited/(charged) to profit or loss	<u>16</u>	<u>(164)</u>	<u>117</u>	<u>(31)</u>
Balance at 31 December 2016 and 1 January 2017...	17	46	328	391
(Charged) / credited to profit or loss	<u>(10)</u>	<u>(7)</u>	<u>72</u>	<u>55</u>
Balance at 31 December 2017	<u>7</u>	<u>39</u>	<u>400</u>	<u>446</u>

(d) Deferred tax liabilities not recognized

The new CIT Law and its relevant regulations also impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings of PRC enterprises accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. The Group has not recognised deferred tax liabilities as at 31 December 2017 and 2016 in respect of undistributed earnings of RMB12,040,000 and RMB7,816,000 as the Company controls the dividend policy of the subsidiaries and it has been determined that these profits will not be distributed in the foreseeable future.

7 Profit distribution

Dividends of RMB 20,415,000 were declared and approved by Jiangsu Chuangxin for the year ended 31 December 2017 to Full Success, the then equity shareholder (2016: RMB 43,000,000).

8 Earnings per share

The calculation of basic earnings per share for the years ended 31 December 2017 and 2016 is based on the profit attributable to equity shareholder of the Company for the years ended 31 December 2017 and 2016, and 360,000,000 shares in issue assuming that the Capitalization Issue had been completed and the 360,000,000 shares had been outstanding throughout the periods presented.

There were no dilutive potential ordinary shares for the years ended 31 December 2017 and 2016; therefore, diluted earnings per share are equivalent to basic earnings per share.

9 Inventories

Inventories in the consolidated statement of financial position comprise:

	<u>As of 31 December</u>	
	<u>2017</u>	<u>2016</u>
	RMB'000	RMB'000
Raw materials	11,012	9,482
Work in progress	349	655
Finished goods	4,206	6,095
Consignment goods	179	734
	<u>15,746</u>	<u>16,966</u>

10 Trade and other receivables

	<u>As of 31 December</u>	
	<u>2017</u>	<u>2016</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Trade receivables (note (a))	79,879	56,293
Less: Allowance for doubtful debts (note(b))	(48)	(112)
	<u>79,831</u>	<u>56,181</u>
Bills receivables	3,550	6,835
	<u>3,550</u>	<u>6,835</u>
Total trade receivables	83,381	63,016
Amounts due from related parties - non trade	—	16,145
Other receivables	3,591	5,153
Deposits and prepayments	4,982	2,943
	<u>4,982</u>	<u>2,943</u>
Trade and other receivables, net.....	<u>91,954</u>	<u>87,257</u>

All of the trade and other receivables, including deposits and prepayments, are expected to be recovered or recognised as expense within one year.

The amounts due from related parties are unsecured, non-interest bearing and repayable on demand.

(a) Ageing analysis

As at 31 December 2017, the ageing analysis of trade receivables, based on the invoice date, is as follows:

	<u>As of 31 December</u>	
	<u>2017</u>	<u>2016</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Within 3 months	41,781	40,912
After 3 months but within 6 months.....	27,725	10,130
After 6 months but within 1 year	9,967	4,165
After 1 year but within 2 years	389	1,069
After 2 years.....	17	17
	<u>79,879</u>	<u>56,293</u>
Trade receivables	79,879	56,293
Less: Allowance for doubtful debts	(48)	(112)
	<u>79,831</u>	<u>56,181</u>
Trade receivables, net	<u>79,831</u>	<u>56,181</u>

Trade receivables are due within 30-90 days from the date of billing.

(b) Impairment of trade receivables

The movements in the allowance for doubtful debts are as follows:

	<u>As of 31 December</u>	
	<u>2017</u>	<u>2016</u>
	RMB'000	RMB'000
Balance at beginning of the year.....	112	8
Impairment losses (reversed)/recognised.....	<u>(64)</u>	<u>104</u>
Balance at end of the year	<u><u>48</u></u>	<u><u>112</u></u>

As at 31 December 2017 and 2016, no trade receivables was individually determined to be impaired.

(c) Trade receivables that are not impaired:

The ageing analysis of trade account receivables that are neither individually nor collectively considered to be impaired are as follows:

	<u>As of 31 December</u>	
	<u>2017</u>	<u>2016</u>
	RMB'000	RMB'000
Neither past due nor impaired.....	20,250	16,389
Less than 6 months past due	56,394	35,352
6 to 12 months past due.....	<u>2,829</u>	<u>3,466</u>
Total amount past due but not impaired	<u><u>59,223</u></u>	<u><u>38,818</u></u>
	<u><u>79,473</u></u>	<u><u>55,207</u></u>

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of material default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good payment track records with the Group and did not encounter financial difficulty or fail to fulfill their repayment plan. Based on past experience with these customers and evaluation of their current creditability, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

11 Bank loan

As of 31 December 2017, the bank loan represented a one-year loan of RMB 18,000,000 with annual interest rate of 4.80% borrowed from a state-owned commercial bank in the PRC pledged by the land use rights and properties of the Group. The carrying amounts of land use rights and properties of the Group pledged amounted to RMB 3,504,000 and RMB 5,195,000 respectively as at 31 December 2017.

12 Trade and other payables

	As of 31 December	
	2017	2016
	RMB'000	RMB'000
Trade payables (note (a))	9,171	6,071
Other payables and accruals	18,668	9,878
Dividends payable.....	—	22,848
Trade and other payables	<u>27,839</u>	<u>38,797</u>

All trade payables are expected to be settled within one year.

(a) An ageing analysis of trade payables, based on the invoice date, is as follows:

	As of 31 December	
	2017	2016
	RMB'000	RMB'000
Within 3 months	7,401	5,617
After 3 months but within 6 months.....	1,251	411
After 6 months but within 1 year	163	43
Over 1 year but within 2 years	356	—
Trade payables	<u>9,171</u>	<u>6,071</u>

13 Possible impact of amendments, new standards and interpretations issued but not yet effective

Up to the issuance date of the Historical Financial Information, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2017 and which have not been adopted in the Historical Financial Information. These include the following which may be relevant to the Group:

	<u>Effective for accounting periods beginning on or after</u>
Annual Improvements to HKFRSs 2014-2016 Cycle	January 1, 2018
HKFRS 9, <i>Financial Instruments</i>	January 1, 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	January 1, 2018
Amendments to HKFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i>	January 1, 2018
Amendments to HKFRS 4, <i>Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts</i>	January 1, 2018
Amendments to HKAS 40, <i>Transfers of investment property</i>	January 1, 2018
HK(IFRIC) Interpretation 22, <i>Foreign currency transactions and advance consideration</i>	January 1, 2018
Annual Improvements to HKFRSs 2015-2017 Cycle	January 1, 2019
Amendments to HKFRS 9, <i>Prepayment features with negative compensation</i>	January 1, 2019
HKFRS 16, <i>Leases</i>	January 1, 2019
HK(IFRIC) Interpretation 23, <i>Uncertainty over income tax treatments</i>	January 1, 2019
Amendments to HKAS 28, <i>Long-term interest in associates and joint ventures</i>	January 1, 2019
Amendments to HKFRS 10 and HKAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i>	To be determined
HKFRS 17, <i>Insurance contracts</i>	January 1, 2021

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position. Specifically, the Group assesses the impact of HKFRS 9, HKFRS 15 and HKFRS 16 as below.

While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impact upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's consolidated financial statements for the period beginning on 1 January 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in the Group's consolidated financial statements for the period beginning on 1 January 2018.

HKFRS 9, Financial Instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities. HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognize any transition adjustments against the opening balance of equity at 1 January 2018. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI). The Group currently does not have any financial assets measured at FVTPL or FVTOCI.

Based on the assessment so far, the Group expects that its financial assets currently measured at amortised cost will continue with their respective classification and measurement upon the adoption of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. Based on a preliminary assessment, the application of the new impairment model may not have a significant impact on the Group.

(c) Hedge accounting

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group currently does not have any hedge relationship and therefore it may not have any impact on the Group on adoption of HKFRS 9.

Based on the above assessment so far, the Group considers that the initial application of HKFRS 9 will not have a significant impact on the Group's results of operations and financial position.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognizing revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sales of goods and rendering of services, and HKAS 11, *Construction contracts* which specifies the accounting for revenue from construction contracts.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition.

- Step 1: Identify the contract(s) with customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Group plans to use the cumulative effect transition method for the adoption of HKFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018.

Based on the assessment so far, the Group considers that the initial application of HKFRS 15 will not have a significant impact on the Group's results of operations and financial position.

HKFRS 16, Leases

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognizing rental expenses incurred under operating leases on a systematic basis

over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

The Group currently does not have any lease arrangement and considers that the initial application of HKFRS 16 may not have any impact on the Group.

14 Contingent liability

The Group received USD payment from customers of the Group's sales to Sudan during 2013 and 2014, which exposed the Group to potential violations of Sudanese sanctions imposed by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC"). The Group has filed voluntary self-disclosure ("VSD") to OFAC in light of the potential violations on 19 September 2017. As of the date of this report, the VSD is still under review by OFAC and based on all the facts and circumstances and the assessment of the Group's International Sanctions Legal Advisers, the Group is of the view that, the most likely results would be issuance by OFAC of a cautionary letter to close out the case without the imposition of any penalty; however, it is possible that a monetary fine up to US\$438,968 will be required if OFAC were to decide to impose an administrative penalty on the Group. According to the above assessment, the Directors do not consider it probable that the above administrative penalty will be imposed by OFAC and therefore no provision has been made in the consolidated financial statements for the contingent liabilities arising from the above potential violations as at 31 December 2017 and 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

We develop, manufacture and market oil refining agents and fuel additives that are primarily applied to reduce undesirable emissions and comply with the evolving regulatory requirements. We aspire to bring forth an innovative, environmentally sustainable generation of oil refining technology with our oil refining agents and fuel additives. Our oil refining agents are used to refine crude oil and extend the working life of oil refining units, enhancing economic efficiencies and, with respect to oil refineries, reducing undesirable emissions in the form of industrial waste. Our fuel additives are used to assist customers in complying with evermore stringent mandatory emissions regulations while maintaining the quality and efficiency of fuels. Our key oil refining agents are desulfurizing agents and metal passivators, while our key fuel additives are lubricity improvers. We are among the earliest of our peers to enter the PRC oil refining agents and fuel additives industry and formed long-standing relationships with various Affiliates of three state-owned conglomerates, namely Sinopec, CNPC and CNOOC.

Leveraging on our core competitive strengths, namely, the top five position in the oil refining agents and fuel additives industry, the capability of complying with the evermore stringent environmental regulations, our long-term customer relationships and strong research and development capabilities, and our experienced senior management team, together with the continuing efforts in developing our businesses, 2017 was another remarkable year. For the year ended 31 December 2017, we recorded a total revenue of RMB186.8 million, which represented a 37.7% increase from the total revenue of RMB135.7 million for the year ended 31 December 2016.

Future Plan and Prospects

Going forward, we plan to implement the following strategies, which we believe, will further strengthen our core competitive strengths and enable us to capture rising business opportunities:

- Increase our production capacity to meet rising customer demand by upgrading the production capacity of our Yixing Plant;
- Expand our product mix to create new market opportunities while continuing to enhance the quality of our existing products and technologies;
- Expand our customer base to diversify our revenue sources by reaching out to non state-owned oil refineries and potential customers overseas;
- Extend our upstream reach and produce certain key raw materials to lower procurement costs and exercise greater control over product quality by building up production facilities; and
- Continue enhancing our research and development capabilities to develop innovative, high-quality oil refining agents and fuel additives.

Since 31 December 2017, we did not experience any significant change in our pricing and there was no material change in our cost of principal raw materials. Further, to the best of our Directors' knowledge, since 31 December 2017, there was no development in our industry which may materially and adversely affect our business.

Results of Operations

The following table sets forth certain income and expense items from our consolidated statements of profit or loss and other comprehensive income and such items as a percentage of our revenue for the periods indicated:

	Year ended 31 December			
	2016		2017	
	RMB'000	%	RMB'000	%
Revenue	135,650	100.0	186,823	100.0
Cost of sales	(74,514)	(54.9)	(117,665)	(63.0)
Gross profit	61,136	45.1	69,158	37.0
Other income	2,548	1.9	846	0.5
Sales and marketing expenses	(9,680)	(7.1)	(7,547)	(4.0)
General and administrative expenses	(9,372)	(6.9)	(21,900)	(11.8)
Research and development expenses.....	(5,509)	(4.1)	(7,941)	(4.3)
Profit from operations	39,123	28.8	32,616	17.4
Finance costs	—	—	(297)	0.2
Profit before taxation	39,123	28.8	32,319	17.3
Income tax	(5,777)	(4.3)	(4,942)	(2.7)
Profit for the year	<u>33,346</u>	<u>24.6</u>	<u>27,377</u>	<u>14.7</u>

Revenue

Our revenue increased by 37.7% from RMB135.7 million for the year ended 31 December 2016 to RMB186.8 million for year ended 31 December 2017, primarily due to increases in revenue derived from oil refining agents we sold and revenue derived from fuel additives and oil refining agents we distributed.

By Product

For the years ended 31 December 2016 and 2017, the majority of our revenue was derived from oil refining agents that we sold. For the years ended 31 December 2016 and 2017, revenue derived from oil refining agents we sold represented 64.0% and 60.0% of our total revenue, respectively. The following table sets forth a breakdown of our revenue by product category for the periods indicated:

	Year ended 31 December			
	2016		2017	
	RMB'000	%	RMB'000	%
<i>Products sold</i>				
Oil refining agents.....	86,705	64.0	112,176	60.0
Fuel additives.....	33,973	25.0	34,161	18.3
<i>Products distributed</i>				
Oil refining agents.....	5,346	3.9	18,597	10.0
Fuel additives.....	9,626	7.1	21,889	11.7
Total revenue.....	135,650	100.0	186,823	100.0

Revenue derived from oil refining agents we sold increased by 29.4% from RMB86.7 million for the year ended 31 December 2016 to RMB112.2 million for the year ended 31 December 2017. This increase was primarily because: (i) sales volumes of desulfurizing agents increased, such that revenue generated from sales of those products increased by RMB26.7 million from the year ended 31 December 2016 to the year 31 December 2017. This was mainly due to a significant purchase order of those products by one of our customers to service its new oil-refining units; and (ii) sales volumes for corrosion inhibitors increased, such that revenue generated from sales of those products increased by RMB3.7 million from the year ended 31 December 2016 to the year 31 December 2017. These increases were partially offset by: (i) decreases in our sales volumes of neutralizing agents, such that revenue generated from sales of those products decreased by RMB4.4 million from the year ended 31 December 2016 to the year 31 December 2017; and (ii) decreases in our selling price of defoaming agents, such that revenue generated from sales of those products decreased by RMB1.4 million from the year ended 31 December 2016 to the year ended 31 December 2017.

Revenue derived from fuel additives we sold remained stable for the years ended 31 December 2016 and 2017.

Revenue derived from oil refining agents we distributed increased significantly from RMB5.3 million for the year ended 31 December 2016 to RMB18.6 million for the year ended 31 December 2017. This increase was primarily because sales volumes for desulfurizing agents increased in line with rising customer demand, such that revenue generated from distribution of those products increased by RMB13.3 million from the year ended 31 December 2016 to the year ended 31 December 2017.

Revenue derived from fuel additives we distributed substantially increased from RMB9.6 million for the year ended 31 December 2016 to RMB21.9 million for the year ended 31 December 2017. This increase was primarily because: (i) sales volumes for lubricity improvers increased in line with rising customer demand, such that revenue generated from sales of those products increased by RMB6.3 million from the year ended 31 December 2016 to the year ended 31 December 2017; and (ii) revenue from EURENCO's diesel oil cetane number improvers we distributed increased by RMB6.0 million for the year ended 31 December 2017.

By geography

For the years ended 31 December 2016 and 2017, we sold the majority of our products to customers in China. The following table sets forth the breakdown of our revenue by geography for the periods indicated:

	Year ended 31 December			
	2016		2017	
	RMB'000	%	RMB'000	%
China.....	102,680	75.7	163,300	87.4
Sudan.....	29,555	21.8	21,060	11.3
Others ⁽¹⁾	3,415	2.5	2,463	1.3
Total revenue	<u>135,650</u>	<u>100.0</u>	<u>186,823</u>	<u>100.0</u>

Note:

(1) Other countries and regions in which we had sales for the years ended 31 December 2016 and 2017 included Chad, Niger and Algeria in Africa. We sell our products to certain of our customers in these countries and regions through their designated agents.

Revenue derived from the PRC market increased from RMB102.7 million for the year ended 31 December 2016 to RMB163.3 million for the year ended 31 December 2017 primarily due to the increasing domestic customer demand. Revenue derived from the Sudan market decreased from RMB29.6 million for the year ended 31 December 2016 to RMB21.1 million for the year ended 31 December 2017 primarily due to the decrease in sales volume to the Sudan market.

Cost of sales

Our cost of sales increased by 57.9% from RMB74.5 million for year ended 31 December 2016 to RMB117.7 million for the year ended 31 December 2017. This was primarily due to the increase in: (i) our raw material costs, the principal component of our cost of sales, by 43.1% from RMB60.1 million for the year ended 31 December 2016 to RMB86.0 million for the year ended 31 December 2017; and (ii) cost of distribution, which increased by RMB17.3 million from RMB11.9 million to RMB29.2 million for the same periods.

By nature

Our cost of sales primarily includes raw material costs and cost of distribution. Our cost of sales for the years ended 31 December 2016 and 2017 was RMB74.5 million and RMB117.7 million, respectively, representing 54.9% and 63.0% of our total revenue, respectively. The following table sets forth the components of our cost of sales by nature for the periods indicated:

	Year ended 31 December			
	2016		2017	
	RMB'000	%	RMB'000	%
Raw material costs.....	60,123	80.7	86,021	73.1
Cost of distribution.....	11,919	16.0	29,192	24.8
Labor costs.....	1,418	1.9	1,378	1.2
Utilities costs.....	420	0.6	454	0.4
Depreciation.....	305	0.4	350	0.3
Others.....	329	0.4	270	0.2
Total cost of sales.....	74,514	100.0	117,665	100.0

By product

The following table sets forth our cost of sales by product category for the periods indicated:

	Year ended 31 December			
	2016		2017	
	RMB'000	%	RMB'000	%
<i>Products sold</i>				
Oil refining agents.....	40,695	54.6	68,580	58.3
Fuel additives.....	21,899	29.4	19,893	16.9
<i>Products distributed</i>				
Oil refining agents.....	4,642	6.2	13,929	11.8
Fuel additives.....	7,278	9.8	15,263	13.0
Total cost of sales.....	74,514	100.0	117,665	100.0

Our cost of sales for oil refining agents we sold increased by 68.5% from RMB40.7 million for the year ended 31 December 2016 to RMB68.6 million for the year ended 31 December 2017. This increase was primarily because: (i) we consumed higher volumes of raw materials as our sales volumes increased; and (ii) prices for MDEA increased for the year ended 31 December 2017.

Our cost of sales for fuel additives we sold decreased by 9.2% from RMB21.9 million for the year ended 31 December 2016 to RMB19.9 million for the year ended 31 December 2017. This decrease was primarily because prices for tall oil fatty acid decreased for the year ended 31 December 2017.

Our cost of sales for oil refining agents we distributed increased significantly from RMB4.6 million for the year ended 31 December 2016 to RMB13.9 million for the year ended 31 December 2017. This increase was primarily because sales volumes for desulfurizing agents increased and we thus purchased higher volumes of desulfurizing agents for distribution for the year ended 31 December 2017, partially offset by a decrease in purchase prices.

Our cost of sales for fuel additives we distributed substantially increased from RMB7.3 million for the year ended 31 December 2016 to RMB15.3 million for the year ended 31 December 2017. This increase was primarily because sales volumes for both diesel oil cetane number improvers and lubricity improvers increased and we thus purchased higher volumes of both products for distribution for the year ended 31 December 2017.

Gross profit and gross profit margin

For the years ended 31 December 2016 and 2017, our gross profit amounted to RMB61.1 million and RMB69.2 million, respectively. Our gross profit margin was 45.1% and 37.0%, respectively, for the same periods. The table below sets forth our gross profit and gross profit margin by product category for the periods indicated:

	Year ended 31 December			
	2016		2017	
	Gross profit	Gross profit	Gross profit	Gross profit
	margin	margin	margin	
	RMB'000	%	RMB'000	%
<i>Products sold</i>				
Oil refining agents.....	46,010	53.1	43,596	38.9
Fuel additives	12,074	35.5	14,268	41.8
<i>Products distributed</i>				
Oil refining agents.....	704	13.2	4,668	25.1
Fuel additives	2,348	24.4	6,626	30.3
Total gross profit/gross profit margin	61,136	45.1	69,158	37.0

Our gross profit for oil refining agents we sold decreased by 5.2% from RMB46.0 million for the year ended 31 December 2016 to RMB43.6 million for the year ended 31 December 2017. Our gross profit margin decreased from 53.1% for the year ended 31 December 2016 to 38.9% for the year ended 31 December 2017 primarily because the gross profit margin in relation to the significant purchase order by one of our customers, an independent third party of the Company and a subsidiary of CNOOC, with whom we seek to develop a strategic relationship, was 10.7%, and purchase prices for MDEA, a key raw material, increased. Although the gross profit margin of the sale to this customer was relatively low, our Directors believe that it was still within the reasonable range given that the sale was a bulk purchase and it would help us build up a long-term relationship with this customer, who would likely bring us great competitive advantage in the future.

Our gross profit for fuel additives we sold increased by 18.2% from RMB12.1 million for the year ended 31 December 2016 to RMB14.3 million for the year ended 31 December 2017. Our gross profit margin increased from 35.5% for the year ended 31 December 2016 to 41.8% for the year ended 31 December 2017 primarily because prices for tall oil fatty acid decreased for the year ended 31 December 2017.

Our gross profit for oil refining agents we distributed substantially increased from RMB0.7 million for the year ended 31 December 2016 to RMB4.7 million for the year ended 31 December 2017. Our gross profit margin increased from 13.2% for the year ended 31 December 2016 to 25.1% for the year ended 31 December 2017 primarily because our gross profit margin for desulfurizing agents increased from 13.2% to 25.1% for the same periods due to a decrease in purchase prices, thereby raising our gross profit margin for the year ended 31 December 2017 as a whole.

Our gross profit for fuel additives we distributed substantially increased from RMB2.3 million for the year ended 31 December 2016 to RMB6.6 million for the year ended 31 December 2017. Our gross profit margin increased from 24.4% for the year ended 31 December 2016 to 30.3% for the year ended 31 December 2017 primarily because our gross profit margin for lubricity improvers increased by 9.7 percentage point.

Other income

Our other income decreased by 66.8% from RMB2.5 million for the year ended 31 December 2016 to RMB0.8 million for the year ended 31 December 2017 primarily because we recorded net foreign exchange gain of RMB1.6 million for the year ended 31 December 2016 and net foreign exchange loss of RMB0.4 million for the year ended 31 December 2017. Such loss was because our sales to and trade and bills receivables from foreign customers were mainly in U.S. dollars, which depreciated against Renminbi for the year ended 31 December 2017 compared to the appreciation for the year ended 31 December 2016. The loss was partially offset by the slight increase of RMB0.3 million in service income.

Sales and marketing expenses

The following table sets forth a breakdown of our sales and marketing expenses for the periods indicated:

	Year ended 31 December			
	2016		2017	
	RMB'000	%	RMB'000	%
Delivery costs.....	4,241	43.8	4,862	64.4
Hospitality and entertainment costs.....	1,738	18.0	687	9.1
Technical support fees.....	774	8.0	—	—
Labor and welfare.....	668	6.9	536	7.1
Travel expenses.....	486	5.0	608	8.0
Depreciation costs.....	521	5.4	284	3.8
Costs related to the tendering process.....	489	5.1	433	5.7
Conference and marketing.....	546	5.6	2	0.1
Others.....	217	2.2	135	1.8
Total sales and marketing expenses.....	9,680	100.0	7,547	100.0

Our sales and marketing expenses decreased by 22.0% from RMB9.7 million for the year ended 31 December 2016 to RMB7.5 million for the year ended 31 December 2017 primarily because of a decrease in the hospitality and entertainment costs of RMB1.1 million, a decrease in technical support fees of RMB0.8 million as we did not incur any expenses for the year ended 31 December 2017 in relation to consulting on the quality standards and technical requirements of one of our customers and a decrease in the costs related to conference and marketing of RMB0.5 million, partially offset by an increase in delivery costs of RMB0.6 million.

General and administrative expenses

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended 31 December			
	2016		2017	
	RMB'000	%	RMB'000	%
Professional service fees	335	3.6	13,988	63.9
Labor and welfare	2,664	28.5	2,636	12.0
Taxes	1,532	16.3	1,786	8.2
Depreciation and amortization	1,615	17.2	1,040	4.7
Office and vehicles expenses	782	8.4	737	3.4
Hospitality and entertainment costs	745	7.9	659	3.0
Travel expenses	988	10.5	482	2.2
Bad debts	104	1.1	(65)	(0.3)
Others	607	6.5	637	2.9
Total general and administrative expenses	9,372	100.0	21,900	100.0

Our general and administrative expenses substantially increased from RMB9.4 million for the year ended 31 December 2016 to RMB21.9 million for the year ended 31 December 2017 primarily because of the increase of RMB13.7 million in professional service fees in relation to the Listing.

Research and development expenses

Our research and development expenses increased by 44.1% from RMB5.5 million for the year ended 31 December 2016 to RMB7.9 million for the year ended 31 December 2017 primarily due to an increase in our raw material costs for experimentation purposes increased by RMB1.6 million because the number of our customers increased and they had different requirements in product features, which consumed more raw materials to facilitate research activities. Our travel expenses and staff costs also increased by RMB0.3 million and RMB0.3 million, respectively.

Income tax expense

Our income tax expense decreased by 14.5% from RMB5.8 million for the year ended 31 December 2016 to RMB4.9 million for the year ended 31 December 2017 primarily because of a decrease in our profit before taxation. Our effective tax rate slightly increased from 14.8% for the year ended 31 December 2016 to 15.3% for the year ended 31 December 2017.

Profit for the year

As a result of the foregoing, our profit decreased by 17.9% from RMB33.3 million for the year ended 31 December 2016 to RMB27.4 million for the year ended 31 December 2017, and our net profit margin decreased from 24.6% to 14.7% during the same period.

*Liquidity and Capital Resources***Selected items of the consolidated statements of financial position**

The following table sets forth a summary of our assets and liabilities as of the dates indicated:

	As of 31 December	
	2016	2017
	RMB'000	RMB'000
Current Assets		
Inventories	16,966	15,746
Trade and other receivables	87,257	91,954
Available-for-sale financial assets	12,000	—
Cash and cash equivalents	2,372	25,973
Total current assets	<u>118,595</u>	<u>133,673</u>
Current liabilities		
Bank loans	—	18,000
Trade and other payables	38,797	27,839
Income tax payable	5,074	4,038
Total current liabilities	<u>43,871</u>	<u>49,877</u>
Net current assets	<u>74,724</u>	<u>83,796</u>

Our net current assets increased from RMB74.7 million as of 31 December 2016 to RMB83.8 million as of 31 December 2017. Our current asset increased from RMB118.6 million as of 31 December 2016 to RMB133.7 million as of 31 December 2017, mainly due to: (i) an increase in cash and cash equivalents of RMB23.6 million primarily from bank loans; and (ii) an increase in trade and other receivables of RMB4.7 million primarily because of increased sales, partially offset by a decrease of RMB11.0 million in trade and other payables. Our current liabilities increased from RMB43.9 million as of 31 December 2016 to RMB49.9 million as of 31 December 2017, mainly due to an increase of RMB18.0 million in bank loans, partially offset by a decrease of RMB12.0 million in available-for-sale financial assets.

Inventories

Our inventory decreased from RMB17.0 million for the year ended 31 December 2016 to RMB15.7 million for the year ended 31 December 2017.

Our raw materials increased from RMB9.5 million as of 31 December 2016 to RMB11.0 million as of 31 December 2017 mainly because we purchased more raw materials primarily MDEA, among others, to meet rising customer demand for our products. This trend corresponded to our increased revenue during the same period.

Our finished goods decreased from RMB6.1 million as of 31 December 2016 to RMB4.2 million as of 31 December 2017 primarily because of a decrease of RMB2.0 million in the inventory level of desulfurizing agents.

The following table sets forth the average turnover days of our inventories for the periods indicated:

	<u>Year ended 31 December</u>	
	<u>2016</u>	<u>2017</u>
	(days)	
Average turnover days of inventories ⁽¹⁾	70.9	50.7

Note:

- (1) Average turnover days of inventories for a year equals average inventories divided by cost of sales for the year and multiplied by 365. Average inventories are calculated as inventories at the beginning of the year plus inventories at the end of the year, divided by two.

Our average turnover days of inventories decreased from 70.9 days in 2016 to 50.7 days in 2017 primarily because our sales volume increased while our inventory level remained relatively stable for the same periods.

Trade and other receivables

Our total trade and bills receivables increased from RMB63.0 million as of 31 December 2016 to RMB83.4 million as of 31 December 2017 primarily because of the increase in trade receivables of RMB23.6 million primarily due to the increased sales for the year ended 31 December 2017, partially offset by the decrease in bills receivables of RMB3.3 million.

The table below sets forth the average turnover days of our trade and bills receivables for the periods indicated:

	<u>Year ended 31 December</u>	
	<u>2016</u>	<u>2017</u>
	(days)	
Average turnover days of trade and bills receivables ⁽¹⁾	118.5	122.2

Note:

- (1) Average turnover days of trade and bills receivables for a year equals average trade and bills receivables divided by revenue for the year and multiplied by 365. Average trade and bills receivables are calculated as trade and bills receivables at the beginning of the year plus trade and bills receivables at the end of the year, divided by two.

Our average turnover days of trade and bills receivables remained stable for the years ended 31 December 2016 and 2017.

Trade and other payables

Our trade and other payables decreased from RMB38.8 million as of 31 December 2016 to RMB27.8 million as of 31 December 2017 primarily due to the settlement of dividends payable amounting to RMB22.8 million, partially offset by: (i) an increase of RMB3.1 million in trade payables to our suppliers due to increased purchases; and (ii) an increase of RMB8.8 million in other payables and accruals primarily due to: (a) the unpaid listing expenses of RMB6.3 million; (b) the increase in tax payable of RMB0.8 million; and (c) the increase in employee compensation payable of RMB0.4 million.

As of 31 December 2017, our trade payables were unsecured, non-interest-bearing and repayable on demand. All trade payables are expected to be settled within one year.

The table below sets forth the average turnover days of trade payables for the periods indicated:

	<u>Year ended 31 December</u>	
	<u>2016</u>	<u>2017</u>
	(days)	
Average turnover days of trade payables ⁽¹⁾	22.6	23.6

Note:

- (1) Average turnover days of trade payables for a year equals average trade payables divided by cost of sales for the year and multiplied by 365. Average trade payables are calculated as trade payables at the beginning of the year plus trade payables at the end of the year, divided by two.

Our average turnover days of trade payables remained stable for the years ended 31 December 2016 and 2017.

Key Financial Ratios

The following tables set forth certain key financial ratios as of the dates or for the periods indicated:

	<u>As of 31 December</u>	
	<u>2016</u>	<u>2017</u>
Return on equity ⁽¹⁾	31.7%	26.4%
Return on assets ⁽²⁾	24.6%	18.2%
Current ratio ⁽³⁾	2.7	2.7
Quick ratio ⁽⁴⁾	2.3	2.4
Gross profit margin	45.1%	37.0%
Net profit margin	24.6%	14.7%

Notes:

- (1) Return on equity represents profit for the year divided by average equity, calculated as equity at the beginning of the year plus equity at the end of the year, divided by two.

- (2) Return on assets represents profit for the year divided by average assets, calculated as assets at the beginning of the year plus assets at the end of the year, divided by two.
- (3) Current ratio represents total current assets divided by total current liabilities as of the relevant year/period end.
- (4) Quick ratio represents total current assets less inventories divided by total current liabilities as of the relevant year/period end.

Return on equity

Our return on equity decreased from 31.7% as of 31 December 2016 to 26.4% as of 31 December 2017 primarily because we experienced a decrease of 17.9% in net profit for the same period.

Return on assets

Our return on assets decreased from 24.6% as of 31 December 2016 to 18.2% as of 31 December 2018 primarily because we experienced a decrease of 17.9% in net profit and an increase of RMB13.0 million in total assets for the same period.

Current ratio

Our current ratio remained stable for the years ended 31 December 2016 and 2017.

Quick ratio

Our quick ratio remained stable for the years ended 31 December 2016 and 2017.

Capital Expenditures and Commitments

Capital expenditures

The following table sets forth our capital expenditures for the periods indicated:

	As of 31 December	
	2016	2017
	RMB'000	RMB'000
Purchase of items of property, plant and equipment	(2,818)	(400)
Total capital expenditures	<u>(2,818)</u>	<u>(400)</u>

Our capital expenditures amounted to RMB2.8 million and RMB0.4 million for the years ended 31 December 2016 and 2017, respectively. For the year ended 31 December 2017, our capital expenditures were spent on the purchase of analytical instruments in relation to quality control for our lubricity improvers.

Capital commitments

As at 31 December 2016 and 2017, we had no capital commitments.

Indebtedness

We had bank borrowings of RMB18.0 million and unutilized banking facilities of RMB2.0 million as of 31 January 2018. Such bank borrowings were guaranteed by a security interest over our land use rights and properties as collateral, as well as a personal guarantee by Mr. Ge and Ms. Gu. The personal guarantee was released on 26 September 2017.

As of 31 January 2018, save as disclosed above and in “— Contingent Liabilities,” we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptance (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities. Since 31 December 2017 and up to the date of this Prospectus, there has not been any material adverse change in our indebtedness.

Borrowings

The following table sets forth our total debts as at the dates indicated:

	<u>As of 31 December</u>	
	<u>2016</u>	<u>2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Secured short-term bank borrowings	<u>—</u>	<u>18,000</u>

As of 31 December 2016, we did not have any bank borrowings. As of 31 December 2017, we had bank loans amounting to RMB18.0 million for our working capital needs.

Quantitative and Qualitative Disclosures about Market Risks

Please refer to the section headed “Financial Information — Quantitative and Qualitative Disclosures about Market Risk” in this Prospectus for further information.

Code on Corporate Governance Practices

As we were not yet listed on the Stock Exchange for the year ended 31 December 2017, the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (“**Corporate Governance Code**”) was not applicable to us during such period under review. After the Listing, we will comply with the code provisions set forth in the Corporate Governance Code.

Review of Our Preliminary Financial Information

We established an audit committee, with effect from the Listing in Compliance with the Corporate Governance Code. The members of the audit committee have discussed with our management, and reviewed, the 2017 Preliminary Financial Information as set out in the appendix.

The unaudited financial information in respect of our Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the 2017 Preliminary Financial Information above have been agreed with the Reporting Accountants following their work under Practice Note 730 “Guidance for Auditors Regarding Preliminary Announcements of Annual Results”

issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The work performed by the Reporting Accountants in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the Reporting Accountants on the 2017 Preliminary Financial Information.

Purchase, Sales or Redemption of Our Shares

As we were not yet listed on the Stock Exchange for the year ended 31 December 2017, this disclosure requirement is not applicable to us.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Companies Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 6 July 2017 under the Cayman Companies Law. The Company's constitutional documents consist of its Memorandum and its Articles of Association.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Cayman Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 11 March 2018 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of Shares

The share capital of the Company consists of ordinary Shares.

(ii) Variation of rights of existing Shares or classes of Shares

Subject to the 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 the Shares or any class of Shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one third in nominal value of the issued Shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of Shares held by them) shall be a quorum. Every holder of Shares of the class shall be entitled to one vote for every such Share held by him.

Any special rights conferred upon the holders of any Shares or class of Shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such Shares, be deemed to be varied by the creation or issue of further Shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (1) increase its share capital by the creation of new Shares;
- (2) consolidate all or any of its capital into Shares of larger amount than its existing Shares;
- (3) divide its Shares into several classes and attach to such Shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the Directors may determine;
- (4) subdivide its Shares or any of them into Shares of smaller amount than is fixed by the Memorandum; or
- (5) cancel any Shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the Shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of Shares

All transfers of Shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Stock Exchange or in such other form as the Board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the Share until the name of the transferee is entered in the register of members in respect of that Share.

The Board may, in its absolute discretion, at any time transfer any Share upon the principal register to any branch register or any Share on any branch register to the principal register or any other branch register.

The Board may decline to recognize any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of Share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant Share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the Board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid Shares are free from any restriction on transfer and free of all liens in favor of the Company.

(v) Power of the Company to purchase its own Shares

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

(vi) Power of any subsidiary of the Company to own Shares in the Company

There are no provisions in the Articles relating to ownership of Shares in the Company by a subsidiary.

(vii) Calls on Shares and forfeiture of Shares

The Board may from time to time make such calls upon the members in respect of any monies unpaid on the Shares held by them respectively (whether on account of the nominal value of the Shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent (20%) per annum as the Board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any Shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the Board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the Shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any Share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited Share and not actually paid before the forfeiture.

A person whose Shares have been forfeited shall cease to be a member in respect of the forfeited Shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the Shares, together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent (20%) per annum as the Board determines.

(b) Directors**(i) Appointment, retirement and removal**

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who

wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any Shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of Director shall be vacated if:

- (1) he resigns by notice in writing delivered to the Company;
- (2) he becomes of unsound mind or dies;
- (3) without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;
- (4) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (5) he is prohibited from being a Director by law; or
- (6) he ceases to be a Director by virtue of any provision of law or is removed from office pursuant to the Articles.

The Board may appoint one or more of its body to be managing Director, joint managing Director, or deputy managing Director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the Board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue Shares and warrants

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any Shares or class of Shares, any Share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The Board may issue warrants conferring the right upon the holders thereof to subscribe for any class of Shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Cayman Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any Shares or any class of Shares, all unissued Shares in the Company are at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no Shares shall be issued at a discount.

Neither the Company nor the Board is obliged, when making or granting any allotment of, offer of, option over or disposal of Shares, to make, or make available, any such allotment, offer, option or Shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any Board meetings, committee meetings or general meetings or separate meetings of any class of Shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing Director, joint managing Director, deputy managing Director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The Board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or former Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration therefore in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a Director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a Director, officer or member of, or from his interest in, such other company. The Board may also cause the voting power conferred by the Shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be Directors or officers of such other company, or voting or providing for the payment of remuneration to the Directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the Board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (1) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (2) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (3) any contract or arrangement concerning an offer of Shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;
- (4) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of Shares or debentures or other securities of the Company by virtue only of his/their interest in Shares or debentures or other securities of the Company; or
- (5) any proposal or arrangement concerning the adoption, modification or operation of a Share Option Scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The Board may meet for the dispatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any Shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid Share of which he is the holder but so that no amount paid up or credited as paid up on a Share in advance of calls or installments is treated for the foregoing purposes as paid up on the Share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of Shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the Shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any Shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such Shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

The Company must hold an annual general meeting of the Company every year other than the year of the Company's adoption of the Articles within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the Shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (1) the declaration and sanctioning of dividends;
- (2) the consideration and adoption of the accounts and balance sheet and the reports of the Directors and the auditors;
- (3) the election of Directors in place of those retiring;
- (4) the appointment of auditors and other officers;
- (5) the fixing of the remuneration of the Directors and of the auditors;
- (6) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued Shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (7) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

(v) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued Shares of that class.

(vi) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more Shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(f) Accounts and audit

The Board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Cayman Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the Board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the Directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the Directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any Share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the Shares in respect whereof the dividend is paid but no amount paid up on a Share in advance of calls shall for this purpose be treated as paid up on the Share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any Shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of Shares credited as fully paid up, provided that the Shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that Shareholders entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

The Company may also upon the recommendation of the Board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of Shares credited as fully paid up without offering any right to Shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of Shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the Shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect

of such Shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the Shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any Share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the Board, at the registered office or such other place at which the register is kept in accordance with the Cayman Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the Board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority Shareholders in relation to fraud or oppression. However, certain remedies are available to Shareholders of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of Shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the Shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the Shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any Shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Cayman Companies Law, if warrants to subscribe for Shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a Share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a Share on any exercise of the warrants.

3. CAYMAN COMPANIES LAW

The Company is incorporated in the Cayman Islands subject to the Cayman Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (“**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Cayman Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company’s articles of association or the Cayman Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company’s memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Cayman Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of 20 years from 3 August 2017.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Cayman Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Cayman Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorizing civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorized by the company's Articles of Association and published in the Gazette.

(r) *Reconstructions*

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) *Takeovers*

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) *Indemnification*

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VI to this Prospectus. Any person wishing to have a detailed summary of Cayman Companies Law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of the Company and Registration under Part 16 of the Companies Ordinance**

The Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 6 July 2017.

The Company was duly registered in Hong Kong under Part 16 of the Companies Ordinance as a non-Hong Kong company on 4 October 2017. Our principal place of business in Hong Kong for the purpose of registration under Part 16 of the Companies Ordinance is at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. In compliance with the requirements of the Companies Ordinance, Mr. Young Ho Kee Bernard has been appointed as the agent for the acceptance of service of process and any notice required to be served on the Company in Hong Kong.

As the Company was incorporated in the Cayman Islands, it operates subject to the relevant laws and regulations of the Cayman Islands and to its constitution which comprises the Memorandum of Association and the Articles of Association. A summary of certain parts of its constitution and relevant aspects of the Cayman Companies Law is set out in Appendix IV to this Prospectus.

2. Changes in the Authorized and Issued Share Capital of the Company

- (a) As of the date of incorporation of the Company on 6 July 2017, its authorized share capital was HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each;
- (b) the authorized share capital of the Company was increased from HK\$380,000 to HK\$15,000,000 by the creation of an additional 1,462,000,000 Shares pursuant to a resolution passed by our Shareholders referred to in paragraph 3 below and subject to the conditions contained therein;
- (c) pursuant to the resolutions passed by our Board and our Shareholders on 11 March 2018, an aggregate of 359,999,999 Shares will be allotted and issued on the Listing Date under the Capitalization Issue to the Shareholder whose name appears on the register of members of the Company as of 11 March 2018.

Immediately following completion of the Share Offer and the Capitalization Issue, but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, 480,000,000 Shares will be issued fully paid or credited as fully paid and 120,000,000 Shares will remain unissued.

Other than the exercise of the Over-allotment Option, the exercise of the general mandate to issue Shares referred to in paragraph 3 below and the exercise of the options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorized but unissued share capital of the Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as aforesaid, there has been no alteration in the share capital of the Company since its incorporation.

3. Resolutions in Writing Passed by Our Shareholders on 11 March 2018

Pursuant to the written resolutions passed by our Shareholders on 11 March 2018, among other things:

- (a) the authorized share capital of the Company was increased from HK\$380,000 to HK\$15,000,000 divided into 1,500,000,000 Shares by the creation of an additional 1,462,000,000 Shares to rank *pari passu* with the then existing Shares in all respects;

- (b) the Company approved and adopted the Memorandum of Association and the Articles of Association which will become effective from the date of these resolutions and on the Listing Date respectively;
- (c) conditional on the share premium account of the Company being credited and the Company having sufficient distributable reserves arising from the issue of the Offer Shares by the Company as a result of the Share Offer or otherwise having sufficient balance, the Capitalization Issue was approved, and our Directors were authorized to capitalize an amount of HK\$3,599,999.99 standing to the credit of the share premium of the Company and apply such sum in paying up in full at par value a total of 359,999,999 Shares for allotment and issue to the existing shareholder of the Company whose name appears on the register of members of the Company as of the close of business on the date of these resolutions, namely Innovative Green Holdings, and the Shares to be allotted and issued pursuant to the Capitalization Issue shall rank *pari passu* in all respects with the then existing issued Shares, and our Directors were authorized to give effect to such appropriation, capitalization and distribution and to all such things and sign all such documents in relation thereto;
- (d) conditional on (i) the Listing Committee granting Listing of and permission to deal in the Shares in issue and to be issued as mentioned in this Prospectus; (ii) the Offer Price having been determined; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise (collectively, the “**Conditions**”), in each case on or before the date falling 30 days after the date of this Prospectus, the Share Offer and the Over-allotment Option were approved and our Directors were authorized to offer, allot and issue the Offer Shares and other Shares as may be required to be allotted and issued pursuant to the Share Offer or otherwise upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this Prospectus and in the relevant Application Forms;
- (e) conditional on the fulfillment of the Conditions, the rules of the Share Option Scheme, the principal terms of which are set out in “ — Share Option Scheme,” were approved and adopted, and our Directors or any committee thereof established by the Board were authorized, at their sole discretion, to grant options to subscribe for the Shares under the Share Option Scheme and to allot, issue and deal with the Shares pursuant to the exercise of options granted under the Share Option Scheme and to take such action as they consider necessary, expedient or desirable to implement the Share Option Scheme;
- (f) conditional on the fulfillment of the Conditions, a general unconditional mandate was given to our Directors to exercise all powers of the Company to allot, issue and deal with (including the power to make an offer or agreement, or to grant securities (including options, warrants, bonds, or otherwise) which would or might require Shares to be allotted and issued, whether during the continuance of such mandate or thereafter), otherwise than pursuant to: (i) a rights issue; (ii) scrip dividend schemes or similar arrangements in accordance with the Articles of Association; (iii) any issue of Shares upon exercise of rights of subscription or conversion attaching to warrants of the Company or any securities (if any) which are convertible into Shares; (iv) the Share Offer or the exercise of the

Over-allotment Option; (v) the Share Option Scheme; or (vi) a specific authority granted by the Shareholders in general meeting, Shares with a total number not exceeding the sum of:

- (i) 20% of the total number of Shares in issue immediately following the completion of the Capitalization Issue and the Share Offer (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options that may be granted under the Share Option Scheme); and
- (ii) the total number of Shares repurchased by the Company pursuant to the authority granted to our Directors as referred to in paragraph (g) below,

until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or any other applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders of the Company revoking or varying the authority given to our Directors, whichever occurs first;

- (g) conditional on the fulfillment of the Conditions, a general unconditional mandate (“**Repurchase Mandate**”) was given to our Directors to exercise all powers of the Company to repurchase Shares on the Stock Exchange and/or on any other stock exchange on which the securities of the Company are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and requirements of the Listing Rules and/or equivalent rules or regulations of such other stock exchange, with a total number not exceeding 10% of the total number of Shares in issue and to be issued immediately following completion of the Capitalization Issue and the Share Offer (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme), until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or any other applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first;
- (h) the general unconditional mandate granted to our Directors pursuant to paragraph (f) above be extended by the total number of Shares repurchased pursuant to the Repurchase Mandate; and
- (i) the service contracts entered into by the Company with each of the Directors in respect of his/her appointment as Director, respectively were approved, confirmed and ratified.

4. Reorganization

The companies comprising our Group underwent the Reorganization to rationalize our Group’s structure in preparation for the Listing. For more information, see “History, Reorganization and Corporate Structure.”

5. Changes in the Share Capital of the Subsidiaries of the Company

The subsidiaries of the Company are listed in the Accountants’ Report, the text of which is set out in Appendix I to this Prospectus. Save as disclosed in the section headed “History, Reorganization and Corporate Structure,” no other alteration in the share capital of each of the Company’s subsidiaries took place within two years immediately preceding the date of this Prospectus.

6. *Repurchase by the Company of Its 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 the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the resolution passed by our then Shareholders on 11 March 2018, the Repurchase Mandate was given to the Directors authorizing any repurchase by us 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 total number of Shares in issue immediately following the completion of the Share Offer and the Capitalization Issue, such mandate to expire at the conclusion of our next annual general meeting, the date by which our next annual general meeting is required by our Articles of Association or any other applicable Cayman Islands laws to be held or when revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever first occurs.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for such purpose in accordance with our Articles of Association, the laws of the Cayman Islands and the Listing Rules. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Under the Cayman Islands laws, any repurchases by the Company may be made out of profits of the Company, out of the Company's share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorized by the Articles and subject to the provisions of the Cayman Companies Law, out of capital.

Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of the profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorized by the Articles and subject to the provisions of the Cayman Companies Law, out of capital.

(iii) *Trading restrictions*

The total number of Shares which we may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the Capitalization Issue and the Share Offer. We 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. We are 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. We are required to procure that the broker appointed by us 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.

(v) 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 us 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 us and our Shareholders as a whole.

(c) Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws 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 our working capital or gearing position 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 our working capital requirements or gearing levels which in the opinion of the Directors are from time to time appropriate for us.

The exercise in full of the Repurchase Mandate, on the basis of 480,000,000 Shares in issue immediately following the completion of the Capitalization Issue and the Share Offer (but without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any option that may be granted under the Share Option Scheme), could accordingly result in 48,000,000 Shares being repurchased by us during the period prior to (1) the conclusion of our next annual general meeting; (2) the date by which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or (3) the revocation or variation of the Repurchase Mandate by an ordinary resolution of the Shareholders in general meeting, whichever occurs first (“**Relevant Period**”).

(d) General

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any Shares to us or our subsidiaries.

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. We have not repurchased any Shares since our incorporation.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in our voting rights is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert may obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code unless a whitewash waiver is obtained. Save as aforesaid, the Directors are not aware of any consequence which would arise under the Takeovers Code as a result of a repurchase upon exercise of the Repurchase Mandate after the Listing.

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 us that he or she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

7. Summary of Material Contracts


The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this Prospectus and are or may be material:

- (a) the Deed of Non-Competition;
- (b) the Deed of Indemnity;
- (c) the Public Offer Underwriting Agreement; and
- (d) a share transfer agreement dated 9 September 2017 entered into between China Grand New Material and Full Success, pursuant to which China Grand New Material acquired all the equity interest in Jiangsu Chuangxin from Full Success at the nominal consideration of one Hong Kong dollar.





8. Intellectual Property Rights of Our Group

- (a) Trademarks

As of the Latest Practicable Date, we were the registered owner of the following trademark:

No.	Trademark	Owner	Place of Registration	Class	Registration Number	Registration Date	Expiry Date
1		Jiangsu Chuangxin	Hong Kong	1	304180671	21 June 2017	20 June 2027

As of the Latest Practicable Date, applications had been made for the registration of the following trademarks:

No.	Trademark	Applicant	Place of Registration	Class	Application Number
1		Jiangsu Chuangxin	PRC	1	26502805
2		Jiangsu Chuangxin	PRC	4	26498895
3		Jiangsu Chuangxin	PRC	35	26483157
4		Jiangsu Chuangxin	PRC	40	26498902

(b) Patents

As of the Latest Practicable Date, we were the registered owner of the following patents in the PRC:

No.	Patent Name	Type	Owner	Patent Number	Application Date	Grant Date
1	A type of high sulfur high acid crude oil Calcium removers and its preparation method (一種高硫高酸原油脫鈣劑及其製備方法)	Invention	The Company	ZL201310116888.0	3 April 2013	7 January 2015
2	A type of catalytic cracking gasoline sulfur-reducing agent (一種催化裂化汽油降硫助劑)	Invention	The Company	ZL201310116784.X	3 April 2013	28 January 2015
3	A method of extracting useful metal from waste catalyst hydrogenation (從加氫廢催化劑中提取有用的金屬方法)	Invention	The Company	ZL201110100657.1	21 April 2011	13 March 2013
4	A type of high efficient antimony trioxides filtering recovery unit (一種高效三氧化二銻粉過濾回收裝置)	Utility	The Company	ZL201320167334.9	3 April 2013	25 September 2013
5	A type of accurate temperature control unit for tubular reactor (一種管式反應器的溫度精確控制裝置)	Utility	The Company	ZL201320166735.2	3 April 2013	25 September 2013
6	A type of desulfurizing agents unit for distillation vacuum system (一種脫硫劑裝置精餾抽真空系統)	Utility	The Company	ZL201320166828.5	3 April 2013	25 September 2013

No.	Patent Name	Type	Owner	Patent Number	Application Date	Grant Date
7	A system for condensed water heat recovery (一種冷凝水熱量回收系統)	Utility	The Company	ZL201320165614.6	3 April 2013	25 September 2013
8	A new type of slurry scale inhibitors injection unit (一種新型油漿阻垢劑注入裝置)	Utility	The Company	ZL201320164989.0	3 April 2013	25 September 2013
9	A flow ratio of automatic unit for tubular reactor (一種管式反應器的流量自動配比裝置)	Utility	The Company	ZL201520167504.2	24 March 2015	5 August 2015
10	A high efficient and low-energy production system for desulfurizing agents (一種高效低能耗脫硫劑的生產系統)	Utility	The Company	ZL201520324561.7	19 May 2015	16 September 2015
11	A type of desulfurizing agents unit for vacuum condensed fluid unit (一種脫硫劑真空冷凝液處理裝置)	Utility	The Company	ZL201520325675.3	19 May 2015	16 September 2015
12	A type of amine solution recovery system for compound neutralizing corrosion inhibitors (一種複配中和緩蝕劑的胺液回收系統)	Utility	The Company	ZL201520766109.6	30 September 2015	24 February 2016
13	A strong adaptability production system for electric desalting remover (一種強適應性電脫鹽劑的生產系統)	Utility	The Company	ZL201520765881.6	30 September 2015	24 February 2016

No.	Patent Name	Type	Owner	Patent Number	Application Date	Grant Date
14	A type of molecular distillation equipment for ester type improvers (一種酯型抗磨劑分子精餾設備)	Utility	The Company	ZL201520765743.8	30 September 2015	2 March 2016
15	A production system for inhibiting antifouling agents (一種緩蝕抗垢劑的生產系統)	Utility	The Company	ZL201520765883.5	30 September 2015	2 March 2016
16	A delayed coking production system for specified demulsifiers (一種延遲焦化專用破乳劑的生產系統)	Utility	The Company	ZL201520765889.2	30 September 2015	2 March 2016
17	A production system of residuum hydrogenation (一種渣油加氫裝置用清淨劑的生產系統)	Utility	The Company	ZL201520784048.6	12 October 2015	20 April 2016
18	A type of compound lubricity improvers production unit (一種複配型柴油抗磨劑的生產裝置)	Utility	The Company	ZL201520765724.5	30 September 2015	8 February 2017

As of the Latest Practicable Date, an application had been made for the registration of the following patent in China:

No.	Patent Name	Type	Applicant	Application Date	Application Number
1	A type of selective ultra-low emission desulfurizing agent (一種選擇性超低排放脫硫劑)	Invention	Jiangsu Chuangxin	4 September 2017	201710784542.6

(c) Domain Names

As of the Latest Practicable Date, we had registered the following domain names which we believe are material to our business:

Registrant	Domain Names	Expiry Date
Jiangsu Chuangxin	jscxsh.cn	28 June 2020

Save as disclosed herein, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material to our Group's business.

FURTHER INFORMATION ABOUT OUR DIRECTORS**9. Particulars of Service Contracts**

Each of our executive Directors and independent non-executive Directors has entered into a service contract or appointment letter with the Company pursuant to which each of them has agreed to act as Director for a fixed term of three years commencing from their respective date of appointment unless terminated by either party thereto giving not less than one month's prior written notice.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with the Company or any of its subsidiaries other than agreements expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

10. Directors' Remuneration

Remuneration of approximately RMB165,000, RMB165,000, RMB164,000 and RMB566,000 in aggregate were paid by our Group to our Directors for each of the three years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017.

Under the current arrangements, it is expected that our Directors will be entitled to receive an aggregate remuneration of approximately HK\$1,065,438 (equivalent to approximately RMB902,000), for the year ended 31 December 2017, excluding the discretionary bonuses payable to the executive Directors.

None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017 as (i) an inducement to join or upon joining the 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 members of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any remuneration for each of the three years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017.

II. Disclosure of Interests

- (a) Interests and short positions of Directors or chief executive of the Company in the share capital of the Company and its associated corporations

So far as our Directors are aware, immediately following completion of the Capitalization Issue and the Share Offer (assuming the Over-allotment Option is not exercised and taking no account of any Shares which may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme), the interests and short positions of our Directors and chief executive of the Company in the Shares or underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed, will be as follows:

<u>Name</u>	<u>Name of our Group member/associated corporation</u>	<u>Capacity</u>	<u>Number and class of securities (L)⁽¹⁾</u>	<u>Approximate percentage of shareholding in the same class of securities of the relevant company</u>
Mr. Ge	The Company	Interest in controlled corporation ⁽²⁾	360,000,000 Shares	75%
Ms. Gu	The Company	Interest in controlled corporation ⁽²⁾	360,000,000 Shares	75%

Notes:

- (1) The letter “L” denotes the entity/person’s long position in the Shares or the shares in the share capital of the relevant associated corporation.
- (2) Innovative Green Holdings, a beneficial owner of 360,000,000 Shares, is owned as to 50% and 50% by Mr. Ge and Ms. Gu, respectively, and therefore each of Mr. Ge and Ms. Gu is deemed to be interested in the 360,000,000 Shares held by Innovative Green Holdings under Part XV of the SFO.

Save as disclosed above, so far as our Directors are aware, immediately following completion of the Capitalization Issue and the Share Offer (assuming the Over-allotment Option is not exercised and taking no account of any Shares which may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme), none of our Directors and chief executive of the Company has any interests or short positions in the Shares or underlying Shares and debentures of the Company or its associated corporations which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed.

(b) Substantial shareholders and their interests disclosable under the SFO

So far as is known to our Directors, Immediately following completion of the Capitalization Issue and the Share Offer (assuming the Over-allotment Option is not exercised and taking no account of any Shares which may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme), the following persons (other than a Director or the chief executive of the Company) will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group:

Name	Capacity	Number and class of securities (L) ⁽¹⁾	Approximate percentage of shareholding in the same class of securities of the relevant company
Innovative Green Holdings ⁽²⁾	Beneficial owner	360,000,000 Shares	75%

Notes:

- (1) The letter “L” denotes the entity/person’s long position in the Shares.
- (2) Innovative Green Holdings is owned as to 50% and 50% by Mr. Ge and Ms. Gu, respectively, and therefore each of Mr. Ge and Ms. Gu is deemed to be interested in the 360,000,000 Shares held by Innovative Green Holdings under Part XV of the SFO.

Save as disclosed above, our Directors are not aware of any person (other than a Director or the chief executive of the Company) who will, immediately following completion of the Capitalization Issue and the Share Offer (assuming the Over-allotment Option is not exercised and taking no account of any Shares which may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme), have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of our Group.

12. Agency Fees or Commissions Received

Except as disclosed in the section headed “Underwriting,” no commissions, discounts, brokerages or other special terms have been granted 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.

13. Related Party Transactions

During the two years immediately preceding the date of this Prospectus, our Group engaged in the related party transactions as mentioned in Note 22 of the Accountants’ Report set out in Appendix I to this Prospectus.

14. Disclaimers

Save as disclosed in this Prospectus:

- (i) none of our Directors or any persons referred to in the paragraph headed “— Other Information — 22. Qualifications and Consents of Experts” has any direct or indirect interest in the promotion of, or in any assets which have been within the two years immediately preceding the date of this Prospectus acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired, disposed of by or leased to any member of our Group nor will any Director apply for Shares either in his own name or in the name of a nominee;
- (ii) none of our Directors or any persons referred to in the paragraph headed “— Other Information — 22. Qualifications and Consents of Experts” 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; and
- (iii) none of the persons referred to in the paragraph headed “— Other Information — 22. Qualifications and Consents of Experts” has any shareholding in any member in our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member in our Group.

SHARE OPTION SCHEME**15. Summary of the Terms of the Share Option Scheme**

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by a written resolution of all the Shareholders passed on 11 March 2018 and adopted by a resolution of our Board on 11 March 2018. The terms of the Share Option Scheme are in accordance with the provisions under the Listing Rules. As of the Latest Practicable Date, no option has been granted or agreed to be granted by the Company pursuant to the Share Option Scheme.

(a) Purpose of the Share Option Scheme and eligibility

The purpose of the Share Option Scheme is to motivate the Eligible Persons (as defined below) to optimize their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of Executives (as defined below), to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time during the life of the Share Option Scheme to offer the grant of any Option (as defined below) to any Eligible Person as the Board may in its absolute discretion select. The basis of eligibility shall be determined by the Board from time to time.

(b) Conditions of the Share Option Scheme

The Share Option Scheme shall come into effect on the Listing Date subject to the following conditions having been fulfilled:

- (i) the approval of all the Shareholders of the Company for the adoption of the Share Option Scheme and authorization be given to our Directors to grant Options and to allot, issue and deal with Shares under the Share Option Scheme;

- (ii) the approval of the Stock Exchange for the listing of and permission to deal in, any Shares to be allotted and issued pursuant to the exercise of the Options in accordance with the terms and conditions of the Share Option Scheme; and
- (iii) the obligations of the underwriters under the Underwriting Agreement(s), if any, becoming unconditional and not being terminated in accordance with the terms thereof or otherwise.

If the conditions referred to the above are not satisfied within six calendar months after the Adoption Date:

- (i) the Share Option Scheme will forthwith determine;
- (ii) 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;
- (iii) 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
- (iv) the Board may further discuss and devise another share option scheme that is applicable to a private company for adoption by the Company.

(c) Administration

Subject to the fulfillment of the conditions and the termination provisions of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date. Upon the expiry of the Share Option Scheme, no further Options will be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme. The Share Option Scheme shall be subject to the administration of the Board whose decision on all matters arising in relation to the Share Option Scheme or its interpretation or effect shall (save as otherwise provided in the Share Option Scheme) be final and binding on all parties. The Board may delegate any or all of its powers in relation to the Share Option Scheme to any of its committees.

(d) Who may join

The Board may, in its absolute discretion, offer options (“**Options**”) to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

- (i) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group (“**Executive**”);
- (ii) any proposed employee, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group;
- (iii) a director or proposed director (including an independent non-executive director) of any member of our Group;
- (iv) a direct or indirect shareholder of any member of our Group;
- (v) a supplier of goods or services to any member of our Group;
- (vi) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;
- (vii) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and

- (viii) an associate (as defined in the Listing Rules) of any of the persons referred to in paragraph (i) to (vii) above. (the person referred above are the “**Eligible Persons**”)

(e) Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date (“**Scheme Mandate Limit**”) provided that:

- (i) the Company may at any time as the Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not exceed 10% of the Shares in issue as at the date of approval by our Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Share Option Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of the Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. The Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules; and
- (ii) the Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by the Company before such approval is obtained. The Company shall issue a circular to our Shareholders containing the details and information required under the Listing Rules.

Notwithstanding paragraph (i) above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of our Group shall not exceed 30% of our Shares in issue from time to time.

(f) Maximum entitlement of each participant

The maximum number of Shares issued and to be issued upon exercise of the Options granted to any one Eligible Person (including exercised and outstanding Options) in any 12-month period shall not exceed 1% of our Shares in issue from time to time. Where any further grant of Options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of our Shares in issue, such further grant shall be separately approved by our Shareholders in general meeting with such Eligible Person and his close associates or his associates (if such Eligible Person is a connected person) abstaining from voting. The Company shall send a circular to our Shareholders disclosing the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the Options to be granted to such Eligible Person must be fixed before the approval of our Shareholders and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Options.

The maximum numbers in respect of which Options may be granted shall be adjusted in such manner as the auditors of the Company (“**Auditors**”) shall certify in writing to the Board to be fair and reasonable in the event of any alteration to the capital structure of the Company in accordance with paragraph (v) whether by way of capitalisation of profits or reserves, rights issue, consolidation, reclassification, reconstruction, subdivision or reduction of the number of our Shares but shall not in any event exceed the limits imposed by the Listing Rules.

(g) Offer and grant of Options

Subject to the terms of the Share Option Scheme, our Board shall be entitled at any time within 10 years after the Adoption Date to offer the grant of an Option to any Eligible Person as our Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as our Board may (subject to the terms of the Share Option Scheme) determine provided that:

- (i) no Options shall be granted under the Share Option Scheme after the termination of the Share Option Scheme in accordance with paragraph (t);
- (ii) no Options shall be granted if the Company would be required to issue a prospectus or offer document in respect of such grant under relevant laws or regulations applicable to the Company;
- (iii) no Options shall be granted if the grant would result in a breach by the Company or our Directors of relevant laws or regulations (including those relating to securities); and
- (iv) any Option, once issued, shall not be reissued under the Share Option Scheme.

(h) Granting Options to Connected Persons

Subject to the terms in the Share Option Scheme, but only insofar as and for so long as the Listing Rules require, where any offer of an Option is proposed to be made to a Director, chief executive or a substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates, such offer must first be approved by the independent non-executive Directors (excluding the independent non-executive Director who or whose associate is the grantee of an Option).

Where any grant of Options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director or any of their respective associates would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the relevant class of securities in issue; and
- (ii) (where the securities are listed on the Stock Exchange) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5.0 million,

such further grant of Options must be approved by our Shareholders, with such person, his associates and all core connected persons of the Company (as defined in the Listing Rules) abstaining from voting in favor of such general meeting.

Approval from our Shareholders is required for any change in the terms of Options granted to a participant who is a substantial shareholder or an independent non-executive Director or any of their respective associates.

If in accordance with the terms of the Share Option Scheme, the Board determines to offer the grant of an Option to an Eligible Person, the Board shall forward to the relevant Eligible Person an offer letter specifying:

- (i) the Eligible Person's name, address and occupation;
- (ii) the offer date;
- (iii) the Acceptance Date (as defined below);
- (iv) the number of Shares in respect of which the Option is offered;
- (v) the subscription price and the manner of payment of the subscription price of the Shares on and in consequence of the exercise of the Option;
- (vi) how the expiry date in relation to that Option is ascertained;
- (vii) the method of acceptance of the Option which shall, unless the Board otherwise determines, be as set out in “ — 15. Summary of the terms of the Share Option Scheme — (i) Offer period and number accepted”;
- (viii) the method of exercise of the Option which shall, unless the Board otherwise determines, as set out in “ — 15. Summary of the terms of the Share Option Scheme — (n) Exercise of Option”; and
- (ix) such other terms and conditions relating to the offer of the Option which in the opinion of the Board are fair and reasonable but not being inconsistent with the rules and procedures applicable to the Share Option Scheme and requiring the Eligible Person 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.

(i) Offer period and number accepted

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favor of the Company of HK\$1.0 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Person, being a date not later than 30 days after the offer date (“**Acceptance Date**”). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option in the manner as set out in this paragraph (i). To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

(j) Restriction on the time of grant of Options

The Board shall not offer the grant of any Option to any Eligible Person after inside information has come to its knowledge, until such inside information has been announced pursuant to the requirements of the Listing Rules or during the period commencing one month immediately preceding the earlier of: (i) the date of the Board meeting (as such date is first notified to the Stock Exchange

in accordance with the Listing Rules) for the approval of the 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 the Company to publish an announcement of 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.

(k) Vesting and performance target

Subject to the provisions of the Listing Rules, our Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as our Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period when the right to exercise the Option in respect of all or some of our Shares to which the Option relates shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as our Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no performance target which need to be achieved by the grantee before the Option can be exercised.

(l) Amount payable for Options

The amount payable on acceptance of an Option is HK\$1.0.

(m) Subscription price

The subscription price in respect of any particular Option shall be such price as our Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

- (i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and
- (ii) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheet for the five business days (as defined in the Listing Rules) immediately preceding the offer date.

(n) Exercise of Option

- (i) An Option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the period, in respect of an Option, commencing immediately after the business day (as defined in the Listing Rules) on which the Option is deemed to be granted and accepted in accordance to the Share Option Scheme ("**Commencement Date**") and expiring on such date of the expiry of the Option as our Board may in its absolute discretion determine and which shall not exceed 10 years from the Commencement Date but subject to the provisions for early termination thereof contained in the Share Option Scheme ("**Expiry Date**") ("**Option Period**") in the manner as set out in the Share Option Scheme by the grantee (or his legal personal representative(s)) by giving notice in writing to the Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the

notice is given. Within 30 days after receipt of the notice and, where appropriate, receipt of a certificate from the Auditors pursuant to the Share Option Scheme, the Company shall accordingly allot and issue the relevant number of Shares to the grantee (or his legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the grantee (or his legal personal representative(s)) share certificate(s) in respect of the Shares so allotted.

- (ii) The exercise of any Option shall be subject to the members of the Company in general meeting approving any necessary increase in the number of Shares which may fall to be issued by the Company.
- (iii) Subject as hereinafter provided, an Option may be exercised by the grantee at any time during the Option Period, provided that:
 - (a) in the event that the grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full), he (or his legal representative(s)) may exercise the Option up to the grantee's entitlement (to the extent not already exercised) within a period of 12 months following his death or permanent disability or such longer period as our Board may determine;
 - (b) in the event that the grantee ceases to be an Executive by reason of his retirement pursuant to such retirement scheme applicable to our Group at the relevant time, his Option (to the extent not already exercised) shall be exercisable until the expiry of the relevant Option Period;
 - (c) in the event that the grantee ceases to be an Executive by reason of his transfer of employment to an affiliate company, his Option (to the extent not already exercised) shall be exercisable until the expiry of the relevant Option Period unless our Board in its absolute discretion otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as our Board has determined;
 - (d) in the event that the grantee ceases to be an Executive for any reason (including his employing company ceasing to be a member of our Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his employment to an affiliate company or the termination of his employment with the relevant member of our Group by resignation or on the grounds that he has been guilty of serious misconduct or other culpable reason ("**Culpable Termination**"), his Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless our Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as our Board may in its absolute discretion determine following the date of such cessation;
 - (e) in the event that the grantee ceases to be an Executive by reason of the termination of his employment by resignation or Culpable Termination, his Option (to the extent not already exercised) shall lapse on the date on which the notice of termination is served (in the case of resignation) or the date on which the grantee is notified of the termination of his employment (in the case of Culpable Termination) and not be exercisable unless our Board otherwise determines in which event the Option (or such remaining part thereof) shall be

exercisable within such period as our Board may in its absolute discretion determine following the date of such service or notification. A resolution of our Board resolving that the Executive's Option has lapsed pursuant to this paragraph (n)(iii)(e) shall be final and conclusive;

- (f) if a grantee being:
 - (i) an executive Director ceases to be an Executive but remains a non-executive Director, his Option (to the extent not already exercised) shall be exercisable until the expiry of the relevant Option Period unless our Board in its absolute discretion otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as our Board has determined; or
 - (ii) a non-executive Director ceases to be a Director:
 - (1) by reason of retiring pursuant to the Articles and who notifies the Company that he is not offering himself for re-election at the Company's annual general meeting ("**Non-Executive Director Retirement**"), his Option (to the extent not already exercised) shall be exercisable until the expiry of the relevant Option Period unless our Board in its absolute discretion otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as our Board has determined; or
 - (2) for reasons other than Non-Executive Director Retirement, his Option (to the extent not already exercised) shall lapse on the date of cessation of such appointment and not be exercisable unless our Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as our Board may in its absolute discretion determine following the date of such cessation;
- (g) if:
 - (i) our Board in its absolute discretion at any time determines that a grantee has ceased to be an Eligible Person; or
 - (ii) a grantee has failed to or no longer satisfies or complies with such criteria or terms and conditions that may be attached to the grant of the Option or which were the basis on which the Option was granted, his Option (to the extent not already exercised) shall lapse on the date on which the grantee is notified thereof (in the case of (i)) or on the date on which the grantee has failed to or no longer satisfies or complies with such criteria or terms and conditions as aforesaid (in the case of (ii)) and not be exercisable unless our Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as our Board may in its absolute discretion determine following the date of such notification or the date of such failure, non-satisfaction or non-compliance. In the case of (i), a resolution of our Board resolving that the grantee's Option has lapsed pursuant to this paragraph (g) shall be final and conclusive;

- (h) if a grantee (being a corporation):
 - (i) has a liquidator or receiver appointed anywhere in the world in respect of the whole or any part of the assets or undertaking of the grantee; or
 - (ii) has suspended, ceased or threatened to suspend or cease business; or
 - (iii) is unable to pay its debts; or
 - (iv) otherwise becomes insolvent; or
 - (v) suffers a change in its constitution, management, directors or shareholding which in the opinion of our Board is material; or
 - (vi) commits a breach of any contract entered into between the grantee or its associate and any member of our Group,

its Option (to the extent not already exercised) shall lapse on the date of appointment of the liquidator or receiver or on the date of suspension or cessation of business or on the date when the grantee is deemed to be unable to pay its debts as aforesaid or on the date of notification by the Company that the said change in constitution, management, directors or shareholding is material or on the date of notification by the Company of the said breach of contract (as the case may be) and not be exercisable unless our Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as our Board may in its absolute discretion determine following the date of such occurrence. A resolution of our Board resolving that the grantee's Option has lapsed pursuant to this paragraph (h) by reason of breach of contract or material change in the constitution, management, directors or shareholding as aforesaid shall be final and conclusive;

- (i) if a grantee (being an individual):
 - (i) is unable or has no reasonable prospects of being able to pay his debts within the meaning of the Bankruptcy Ordinance (Chapter 6 of the Laws of Hong Kong) or any other applicable law or has otherwise become insolvent; or
 - (ii) has made any arrangement or composition with his creditors generally; or
 - (iii) has been convicted of any criminal offense involving his integrity or honesty; or
 - (iv) commits a breach of any contract entered into between the grantee or his associate and any member of our Group, his Option (to the extent not already exercised) shall lapse on the date on which he is deemed unable or to have no reasonable prospects of being able to pay his debts as aforesaid or on the date on which a petition for bankruptcy has been presented in any jurisdiction or on the date on which he enters into the said arrangement or composition with his creditors or on the date of his conviction or on the date of the said breach of contract (as the case may be) and not be exercisable unless our Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such

period as our Board may in its absolute discretion determine following the date of such occurrence. A resolution of the Board resolving that the grantee's Option has lapsed pursuant to this paragraph (i) for breach of contract as aforesaid shall be final and conclusive;

- (j) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of our Shareholders (in the case of a scheme of arrangement), the grantee shall be entitled to exercise his Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by the Company;
- (k) if a compromise or arrangement between the Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company, the Company shall give notice thereof to the grantees who have Options unexercised at the same time as it despatches notices to all members or creditors of the Company summoning the meeting to consider such a compromise or arrangement and thereupon each grantee (or his legal representatives or receiver) may until the expiry of the earlier of:
 - (i) the Option Period;
 - (ii) the period of two months from the date of such notice; or
 - (iii) the date on which such compromise or arrangement is sanctioned by the court,

exercise in whole or in part his Option. Except insofar as exercised in accordance with this paragraph (k), all Options outstanding at the expiry of the relevant period referred to in this paragraph (k) shall lapse. The Company may thereafter require each grantee to transfer or otherwise deal with our Shares issued on exercise of the Option to place the grantee in the same position as would have been the case had such Shares been the subject of such compromise or arrangement; and

- (l) in the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his Options at any time not later than two Business Days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(o) Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Articles and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date or, if that date falls on a day when the register of members of the Company is closed, the first date of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date thereof shall be before the allotment date.

A Share issued upon the exercise of an Option shall not carry rights until the registration of the grantee (or any other person) as the holder thereof.

(p) Duration

Subject to the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the Adoption Date, after which no further options will be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

(q) Lapse of Share Option Scheme

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of any of the period referred to in paragraph (n)(iii) above;
- (iii) subject to paragraph (n)(iii)(l), the date of the commencement of the winding-up of the Company;
- (iv) there is an unsatisfied judgment, order or award outstanding against the grantee or our Board has reason to believe that the grantee is unable to pay or to have no reasonable prospect of being able to pay his/its debts;
- (v) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of the type mentioned in paragraph (n)(iii)(h) or (q)(iv); or
- (vi) a bankruptcy order has been made against any director or shareholder of the grantee (being a corporation) in any jurisdiction.

No compensation shall be payable upon the lapse of any Option, provided that our Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

(r) Reorganization of capital structure

In the event of any alteration to the capital structure of the Company while any Option remains exercisable, whether by way of capitalisation of profits or reserves, open offer, rights issue, consolidation, reclassification, reconstruction, sub-division or reduction of the number of Shares, our Board may, if it considers the same to be appropriate, direct that adjustments be made to:

- (i) the maximum number of Shares subject to the Share Option Scheme; and/or
- (ii) the total number of Shares subject to the Option so far as unexercised; and/or
- (iii) the subscription price of each outstanding Option.

Where our Board determines that such adjustments are appropriate (other than an adjustment arising from a capitalisation issue), the Auditors shall certify in writing to our Board that any such adjustments are in their opinion fair and reasonable, provided that:

- (i) any such adjustments shall be made on the basis that the aggregate subscription price payable by the grantee on the full exercise of any Option shall remain as nearly as practicable the same as (but shall not be greater than) as it was before such event;
- (ii) any such adjustments shall be made in accordance with the provisions as stipulated under Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time; and
- (iii) the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustments.

The capacity of the Auditors in this paragraph is that of experts and not arbitrators and their certification shall be final and binding on the Company and the grantees in the absence of manifest error. The costs of the Auditors shall be borne by the Company.

If there has been any alteration in the capital structure of the Company as referred to in this paragraph, the Company shall, upon receipt of a notice from the grantee in accordance with paragraph (n)(i) inform the grantee of such alteration and shall either inform the grantee of the adjustment to be made pursuant to the certificate of the Auditors obtained by the Company for such purpose, or if no such certificate has yet been obtained, inform the grantee of such fact and instruct the Auditors to issue a certificate in that regard in accordance with this paragraph.

(s) Cancellation of Options

Our Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (“**Cancellation Date**”):

- (i) the grantee commits or permits or attempts to commit or permit a breach of paragraph (u) or any terms or conditions attached to the grant of the Option;
- (ii) the grantee makes a written request to our Board for the Option to be cancelled; or
- (iii) if the grantee has, in the opinion of our Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of the Company or its subsidiary.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as at the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that our Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

(t) Termination

The Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

(u) Transferability

An Option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any Option or attempt so to do (save that the grantee may nominate a nominee in whose name our Shares issued pursuant to the Share Option Scheme may be registered), except with the prior written consent of our Board from time to time. Any breach of the foregoing shall entitle the Company to cancel any outstanding Option or part thereof granted to such grantee.

(v) Alteration

The Share Option Scheme may be altered in any respect by a resolution of our Board subject to that the following shall not be carried out except with the prior sanction of an ordinary resolution of our Shareholders in general meeting, provided always that the amended terms of the Share Option Scheme shall comply with the applicable requirements of the Listing Rules: (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); (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 grantee; (iii) any change to the authority of our Board or any person or committee delegated by the Board pursuant to paragraph (c) to administer the day-to-day running of the Share Option Scheme; and (iv) any alteration to the aforesaid provisions.

(w) Disputes

Any dispute arising in connection with the Share Option Scheme (whether as to the number of Shares the subject of an Option, the amount of the subscription price or otherwise) shall be referred to the decision of the Auditors who shall act as experts and not as arbitrators and whose decision shall, in the absence of manifest error, be final and conclusive and binding on all persons who may be affected thereby.

(x) Miscellaneous

- (i) The Company shall bear the costs of establishing and administering the Share Option Scheme (including the costs of the Auditors).
- (ii) A grantee shall be entitled to inspect copies of all notices and other documents sent by the Company to its members at the same time or within a reasonable time of such notices or documents being sent, which shall be made available to him during normal office hours at the principal office of the Company in Hong Kong.
- (iii) Any notices, documents or other communication between the Company and a grantee shall be in writing and may be sent by prepaid post or by personal delivery to, in the case of the Company, its principal office in the PRC or Hong Kong and, in the case of the grantee, his address as notified to the Company from time to time.

- (iv) Any notice or other communication served:
 - (a) by the Company shall be deemed to have been served 24 hours after the same was put in the post or if delivered by hand, when delivered; and
 - (b) by the grantee shall not be deemed to have been received until the same shall have been received by the Company.
- (v) All allotments and issues of Shares pursuant to the Share Option Scheme shall be subject to any necessary consents under the relevant laws, enactments or regulations for the time being in force in the Cayman Islands or elsewhere and a grantee shall be responsible for obtaining any governmental or other official consent that may be required by any country or jurisdiction in order to permit the grant or exercise of his Option. By accepting an offer or exercising his Option, the grantee thereof is deemed to have represented to the Company that he has obtained all such consents. A grantee shall indemnify the Company fully against all claims, demands, liabilities, actions, proceedings, fees, costs and expenses which the Company may suffer or incur (whether alone or jointly with other party or parties) for or in respect of any failure on the part of the grantee to obtain any necessary consent or to pay tax or other liabilities referred therein. The Company shall not be responsible for any failure by a grantee to obtain any such consent or for any tax or other liability to which a grantee may become subject as a result of his participation in the Share Option Scheme.
- (vi) A grantee shall pay all taxes and discharge all other liabilities to which he may become subject as a result of his participation in the Share Option Scheme or the exercise of any Option.
- (vii) The Share Option Scheme shall not confer on any person any legal or equitable rights (other than those constituting the Options themselves) against the Company directly or indirectly or give rise to any cause of action at law or in equity against the Company.
- (viii) The Share Option Scheme shall not form part of any contract of employment between the Company or any of its subsidiaries and any Executive and the rights and obligations of any Executive under the terms of his office or employment shall not be affected by his participation in it and the Share Option Scheme shall afford such an Executive no additional rights to compensation or damages in consequence of the termination of such office or employment for any reason.

(y) Governing law

The Share Option Scheme and all Options granted thereunder shall be governed by and construed in accordance with the laws of Hong Kong.

OTHER INFORMATION**16. Tax and Other Indemnities**

Our Controlling Shareholders (“**Indemnifiers**”) have entered into the Deed of Indemnity with and in favor of the Company (for itself and as trustee for each of its present subsidiaries) (being the material contract (b) referred to in the paragraph headed “— Further Information about the Business of Our Group — 7. Summary of Material Contracts”) to provide indemnities on a joint and several basis, in respect of, among other matters, any taxation duty and liability (“**Taxation**”), including:

- (a) any liability to any form of taxation, duty and liability to contribute whenever created or imposed, whether of Hong Kong or of any other part of the world, including without limitation, to the extent applicable, any form of tax, duty, impost, levy, charge, fee, deduction, withholding, rate or contributions to social insurance and housing provident funds or any amount payable to the revenue, customs or fiscal or other governmental authorities, whether of Hong Kong or any other part of the world;
- (b) all costs, interest, fines, penalties, charges, liabilities and expenses incidental or relating to any liability to Taxation or the deprivation of any relief or of a right to repayment of Taxation which is the subject of the indemnity given by the Indemnifiers pursuant to the terms of the Deed of Indemnity;
- (c) the amounts of any loss, reduction, cancellation or deprivation of any relief, allowance, concession, exemption, set off or deduction in computing profits, income, expenditure or other assessable sum, event or circumstance against which a Taxation is assessed or any right to repayment or credit granted (“**Relief**”), or (if smaller) the amount by which the liability to any such Taxation of a member of our Group would have been reduced by such Relief or repayment if there had been no such loss, reduction, cancellation or deprivation as aforesaid; and

any claim, counter claim, assessment, notice, demand or other documents issued or action taken by or on behalf of any person, authority or body (“**Taxation Claim**”), falling on any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Listing Date or any event or transaction on or before the Listing Date, whether alone or in conjunction with any circumstances whenever occurring and whether or not such Taxation or taxation claim is chargeable against or attributable to any other person, firm, company or corporation.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that provision or reserve has been made for such Taxation or Taxation Claim in the audited consolidated accounts of the Company in the Accountants’ Report as set out in Appendix I to this Prospectus or in the audited accounts of the relevant member of our Group for the three financial years ended 31 December 2016 and the nine months ended 30 September 2017;
- (b) to the extent that such Taxation or Taxation Claim or liability falling on any member of our Group in respect of any accounting period commencing on or after 1 October 2017 and ending on the Listing Date, where such Taxation or Taxation Claim would not have arisen but for some act or omission of, or transaction voluntarily entered into by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, otherwise than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Listing Date; and

- (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date or pursuant to any statement of intention made in the Prospectus; or
- (c) to the extent that such Taxation or Taxation Claim arises or is incurred as a result of the imposition of Taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or any other relevant authority (whether in Hong Kong or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such Taxation or Taxation Claim arises or is increased by an increase in rates of Taxation or Taxation Claim after the date of the Deed of Indemnity with retrospective effect; or
- (d) to the extent of any provision or reserve made for Taxation and Taxation Claim in the audited consolidated accounts of the Company in the Accountants' Report as set out in Appendix I to this Prospectus or in the audited accounts of the relevant member of our Group for the three financial years ended 31 December 2016 and the nine months ended 30 September 2017, which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers liability (if any) in respect of Taxation and Taxation Claim shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied to reduce the Indemnifiers' liability in respect of Taxation and Taxation Claim shall not be available in respect of any such liability arising thereafter.

The Indemnifiers have also undertaken to indemnify and keep indemnified, upon demand, each of the members of our Group against all costs, losses and expenses incurred or suffered by the member of our Group arising from or in connection with the non-compliance matters relating to (i) housing provident fund contributions, and (ii) social insurance contributions (collectively, the “**Non-compliance Matters**”), if and to the extent that the aggregate amount of costs, losses and expenses relating to one type of Non-compliance Matter (either (i) or (ii)) exceeds the provision amount for outstanding contributions relating to such type of Non-compliance Matter accrued during the Track Record Period as described in “Business — Legal Proceedings and Compliance — Compliance” of this Prospectus.

Our Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of our subsidiaries in the Cayman Islands, the BVI and the PRC, being jurisdictions in which one or more of the companies comprising our Group were incorporated.

17. *Litigation*

Neither the Company nor any of its subsidiaries is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against the Company or any member of our Group that would have a material adverse effect or the results of operations or financial condition of our Group.

18. *Application for Listing of Shares*

The Sole Sponsor has made an application on behalf of the Company to the Listing Committee for the Listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein.

The Listing of the Shares on the Stock Exchange is sponsored by Orient Capital (Hong Kong) Limited.

19. *Sole Sponsor's Fee, Agency Fee or Commission*

The Sole Sponsor will receive a fee of approximately HK\$4.8 million for acting as the sole sponsor to the Listing.

Save for the aforesaid fee, the Sole Sponsor will not receive any agency fee or commission out of the Share Offer.

20. *Promoter*

The Company has no promoter as the term is defined under the Listing Rules.

21. *Preliminary Expenses*

The preliminary expenses incurred by the Company were approximately HK\$50,744 and were paid by the Company.

22. *Qualifications and Consents of Experts*

The qualifications of the experts who have given opinions or advices in this Prospectus are as follows:

Name	Qualification
Orient Capital (Hong Kong) Limited	Licensed for Type 6 regulated activity (advising on corporate finance) under the SFO
KPMG	Certified public accountants
Jingtian & Gongcheng	Legal advisors to the Company as to PRC law
China Insights Consultancy Limited	Industry consultant
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Hogan Lovells	Legal advisers as to International Sanctions law
Dirdeiry & Partners	Legal advisers as to Sudan law

Each of the experts set out in the table above has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of its reports and/or letters and/or opinions and summaries of opinions (as the case may be) and/or the references to its name or summaries of opinion included in the form and context in which they are respectively included.

None of the experts named above:

- (i) is interested beneficially or non-beneficially in any shares in any member of our Group; or
- (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.

23. *Binding Effect*

This Prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding up and Miscellaneous Provisions) Ordinance insofar as applicable.

24. *Bilingual Prospectus*

Pursuant to Rule 11.14 of the Listing Rules and section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), the English language and Chinese language versions of this Prospectus are being published separately but are available to the public at the same time.

25. Miscellaneous

- (a) Save as disclosed in this Prospectus, within the two years preceding the date of this Prospectus:
- (i) no share or loan capital of the Company or any of its subsidiaries had been issued or agreed to be issued or was proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of the Company or any of its subsidiaries was under option or was agreed conditionally or unconditionally to be put under option;
 - (iii) no commission had been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any share in the Company or any of its subsidiaries; and
 - (iv) no commissions, discounts, brokerages or other special terms had been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries.
- (b) Our Directors have confirmed that (i) there has been no material adverse change in the financial or trading positions of our Group since 30 September 2017 (being the date to which the latest audited consolidated financial information of our Group were made up); and (ii) there had not been any interruption in the business of our Group which might have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this Prospectus.
- (c) The Company has no founder, management or deferred shares.
- (d) No securities of our Group are listed, and no listing of any such securities is proposed to be sought, on any other stock exchange.
- (e) The principal register of members of the Company will be maintained in the Cayman Islands by the Principal Share Registrar and a branch register of members of the Company will be maintained in Hong Kong by the Hong Kong Share Registrar. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Hong Kong Share Registrar and may not be lodged in the Cayman Islands.
- (f) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.
- (g) Our Group had not issued any debentures nor did it have any outstanding debentures or any convertible debt securities as of the Latest Practicable Date.

APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this Prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (1) copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms;
- (2) the written consents referred to in “Appendix VI — Statutory and General Information — Other Information — 22. Qualifications and Consents of Experts” in this Prospectus; and
- (3) copies of the material contracts referred to in “Appendix VI — Statutory and General Information — Further Information about the Business of Our Group — 7. Summary of Material Contracts” in this Prospectus.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Troutman Sanders at 34/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this Prospectus:

- (1) the Memorandum of Association and the Articles of Association;
- (2) the Accountants’ Report from KPMG, the text of which is set out in Appendix I to this Prospectus;
- (3) the audited financial statements of each of the companies now comprising our Group for each of the three financial years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017 (or such period since their respective dates of incorporation of the relevant member of our Group, when it is shorter), except for those companies for which there are no statutory audit requirements in their respective jurisdictions of incorporation or establishment;
- (4) the report on the unaudited pro forma financial information of our Group from KPMG, the texts of which are set out in Appendix II to this Prospectus;
- (5) the Cayman Companies Law;
- (6) the letter of advice prepared by Conyers Dill & Pearman, summarizing certain aspects of Cayman Companies Law as referred to in Appendix IV to this Prospectus;
- (7) the PRC legal opinion prepared by our PRC Legal Advisers in respect of our Group’s overall business operations in the PRC;
- (8) the legal memorandum issued by Hogan Lovells, legal advisers to the Company as to International Sanctions law;
- (9) the Sudanese legal opinion prepared by Dirdeiry & Partners in respect of our Group’s payment arrangements with Khartoum Refinery via United Wealth and Earn Wealth in accordance with the relevant laws and regulations in Sudan;
- (10) the material contracts referred to in “Appendix V — Statutory and General Information — Further Information about the Business of Our Group — 7. Summary of Material Contracts”;
- (11) the service contracts referred to in “Appendix V — Statutory and General Information — Further Information about Our Directors — 9. Particulars of Service Contracts”;

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

- (12) the industry report prepared by CIC;
- (13) the rules of the Share Option Scheme; and
- (14) the written consents referred to in “Appendix V — Statutory and General Information — Other Information — 22. Qualifications and Consents of Experts.”



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江蘇創新環保新材料有限公司
Jiangsu Innovative Ecological New Materials Limited