

BUSINESS

BUSINESS OVERVIEW

We are an established logistics service provider in the PRC offering a wide range of logistics services to meet the needs of our customers' supply chains, which include (i) transportation; (ii) warehousing; (iii) in-plant logistics; and (iv) customisation services (consisting mainly of labelling services and bundling services).

The scope of logistics services that we provide to each customer varies as different customers often require different kinds of services and expertise. We normally offer transportation services to our customers to deliver our customers' inventory (which includes production materials, components and finished goods) to their downstream clients, manufacturing plants and/or designated locations. We also offer warehousing services to our customers. During the Track Record Period, we had five warehouses located in Guangdong Province with an approximate total area of 59,000 sq.m..

Apart from the provision of traditional transportation and warehousing services, we also provide our customers with in-plant logistics services which cover the management of the movement of (i) production materials and components and work-in-progress to the production lines within their manufacturing plants; and (ii) finished goods out to their factory gate. Our range of services gives us a competitive advantage over other logistics service providers in the PRC which offer only a limited range of services.

Our business is built on a customer-oriented culture, and we focus on establishing relationships with reputable customers by providing flexible, reliable and timely logistics services. With our proven track record in the logistics industry, we have established a broad customer base comprising customers from various industries, including pharmaceutical, FMCG, packaging, health and beauty and other industries.

Our two largest customers, Customer A and Customer B, are a multi-national pharmaceutical company and a multi-national consumer goods company, respectively. As at the Latest Practicable Date, we had maintained long-standing business relationships with Customer A and Customer B for approximately 15 and 20 years, respectively. Our revenue attributable to Customer A and Customer B in aggregate amounted to approximately RMB106.2 million, RMB109.3 million and RMB24.5 million for the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, which accounted for approximately 70.7%, 71.0% and 65.3% of our total revenue for the corresponding period. We work closely with Customer A and Customer B to develop logistics and supply chain solutions to meet their specific requirements. Apart from the provision of typical transportation and warehousing services, we also provide Customer A and Customer B with in-plant logistics services within their manufacturing plants. To the best knowledge of our Directors, we had been the sole provider of in-plant logistics services to Customer A and Customer B in Guangdong Province during the Track Record Period and as at the Latest Practicable Date. Our service agreements with Customer A and Customer B typically have a term of one to two years.

We had transactions with 82, 88 and 72 customers, respectively, for the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, of which 17, 16 and two were our new customers obtained in the respective periods. The revenue contributed by our new customers obtained during the Track Record Period amounted to approximately RMB0.7 million, RMB8.3 million and RMB6.3 million for the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, respectively.

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With the support of our experienced management team, we have become a logistics service provider equipped with experienced staff, a diverse vehicle fleet and information technology support capable of handling a large amount of customer orders. As at 31 March 2017, we had a total of 862 full-time employees. In order to enhance the flexibility and cost effectiveness of our services, we engaged subcontractors for the provision of certain transportation services. As at 31 March 2017, our vehicle fleet comprised 23 vehicles which were all self-owned. The vehicles are of various tonnages to fit the different needs of our customers.

For the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, our total revenue was approximately RMB150.3 million, RMB154.0 million and RMB37.6 million, respectively. For the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, our net profit was approximately RMB13.3 million, RMB16.9 million and RMB2.3 million, respectively (before deducting the [REDACTED] expenses of approximately RMB[REDACTED] and [REDACTED] for the year ended 31 December 2016 and the three months ended 31 March 2017, respectively).

The following table sets out the breakdown of our revenue by types of our logistics services during the Track Record Period:

	Year ended 31 December				Three months ended 31 March			
	2015		2016		2016		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
					(unaudited)			
Transportation	51,338	34.2	55,358	36.0	9,853	31.1	14,783	39.4
Warehousing	37,194	24.8	37,251	24.2	8,784	27.7	9,613	25.6
In-plant logistics	58,524	38.9	59,271	38.5	12,590	39.7	12,947	34.5
Customisation (<i>Note</i>)	<u>3,221</u>	<u>2.1</u>	<u>2,095</u>	<u>1.3</u>	<u>464</u>	<u>1.5</u>	<u>212</u>	<u>0.5</u>
	<u>150,277</u>	<u>100.0</u>	<u>153,975</u>	<u>100.0</u>	<u>31,691</u>	<u>100.0</u>	<u>37,555</u>	<u>100.0</u>

Note: Customisation services mainly include labelling services and bundling services.

According to the CIC Report, the logistics industry in the PRC is expected to grow with the gradual acceleration of China’s economic growth, and further penetration of logistics services into lower-tier cities. In addition, the manufacturing industry in the PRC has been gradually adopting a more quality-focused approach and an increasing number of foreign manufacturers who are used to outsource their non-core operations such as logistics is expected to set branches in the PRC. The third-party logistics industry in the PRC had a total revenue of approximately RMB1,199.2 billion in 2016 and the industry is expected to have a total revenue of approximately RMB1,886.6 billion by 2021, which would represent a CAGR of approximately 9.5% from 2016 to 2021. Going forward, we will continue to focus on the provision of logistics services in the PRC. As at the Latest Practicable Date, we did not have any plan to commence new business other than our existing logistics services business after [REDACTED].

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COMPETITIVE STRENGTHS

Our Directors consider that we possess the following competitive strengths:

We have established a solid reputation in the logistics industry in Guangdong Province to provide a broad range of flexible and quality logistics services to meet the needs of our customers’ supply chains

An established reputation and track record are important factors that affect customers’ choice of logistics service providers. Our Group is an established logistics service provider in the PRC with over 20 years of operation in the logistics industry. Our Directors believe that our Group has successfully built up a solid reputation for providing a broad range of quality logistics services to meet the needs of our customers’ supply chains, which include (i) transportation; (ii) warehousing; (iii) in-plant logistics; and (iv) customisation services (consisting mainly of labelling services and bundling services). These services are complementary to each other. As opposed to providing a single type of logistics service to customers, we, based on our experience, industry knowledge and understanding of the market, provide a broad range of logistics services for our customers with a view to ensuring accurate inventory movement, efficient warehousing and pre-production preparation management for our customers.

For instance, apart from the provision of traditional transportation and warehousing services, we also provide our customers with in-plant logistics services which cover the management of the movement of (i) our customers’ production materials, components and work-in-progress to the production lines within their manufacturing plants; and (ii) finished goods out to their factory gate. Our range of services gives us a competitive advantage over other logistics service providers in the PRC which offer only a limited range of services.

In addition, prior to the provision of logistics services, we will discuss with our customers in relation to (i) their delivery plan, which specifies the points of delivery and the delivery schedule; (ii) their warehousing plan, which includes storage requirements; and (iii) their other logistics plans, which include their shipping schedules and other specific logistics requirements, if any. Such information will be transmitted into our intelligent logistics management system for the advanced planning of the supply chain process and to ensure efficient flow of services. We believe our ability to plan logistics solutions in advance not only allows us to provide our customers with flexible logistics services, but also, in the long run, enhances our collaborations and relationship with our customers.

Our Directors believe that our ability to provide logistics services to our customers for over 20 years would not only enable us to generate stable revenue, but such relationship, can also demonstrate our ability to perform and complete logistics services to a high quality standard and build up our reputation in the logistics industry in the PRC.

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We maintain long-standing relationships with our stable and reputable customers in the PRC

We have established long-standing business relationships with our customers from various industries including pharmaceutical, FMCG, packaging, health and beauty and other industries. Most of our major customers are multi-national companies with operation in the PRC that require our logistics services to meet the needs of their supply chains. Our Group has established strong and close working relationships with our major customers. For example, as at the Latest Practicable Date, we had maintained long-standing business relationships with our two largest customers, Customer A and Customer B, for approximately 15 and 20 years, respectively.

Our Directors believe that it is vital for us to continue to develop and maintain long-standing business relationships with our existing customers and at the same time, strive to seek new customers and expand our customer base to different industries. To this end, we will strive to understand the evolving needs of our existing and potential customers on an on-going basis and cater our services to match their logistics needs. With respect to our existing customers, our customer service personnel would communicate with the customers regularly and collect feedback from them so as to enable us to respond to such feedback in a timely manner.

Our Directors believe the high quality of our services will continue to enable us to maintain long-standing business relationships with our customers and we consider this is a key factor to our success in the logistics industry. It would also enable us to attract new customers through referral and word of mouth.

We ensure that our high standard of quality control can be achieved

Our Directors consider that our ability to maintain the quality of logistics services would not only enhance our brand image and market recognition but is also crucial to the long term growth of our Group. In view of this, we will endeavour to deliver the best service quality to our customers. To ensure that our services are performed to the highest quality standards, we have a quality assurance team comprising three quality assurance officers as at 31 March 2017, who supervise a quality control team comprising eight quality control staff as at 31 March 2017.

To cater for the different specific needs of our customers in the provision of logistics services, we have developed a comprehensive set of SOP with our customers to guide and regulate our daily business operations. Our quality assurance officers are responsible for formulating and implementing systematic quality control policies and SOP that are integrated into our operational processes in order to maximise the overall quality standard of our services. They also oversee, in general, compliance of the quality control policies and SOP by different departments of our Group. In addition, the quality control team is supervised and led by the quality assurance officers, and is also responsible for carrying out sample checks and inspections on the inventory to be delivered or stored to identify quality defects. We have devised our own standard of performance policy and we may also adopt our client's performance standard or indicators upon requests.

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In particular, we have met the KPIs set by Customer A and Customer B, our two largest customers during the Track Record Period. We have also obtained awards from them in a number of years for our high quality standards. We had not experienced any material complaints from our customers in relation to the quality of our services during the Track Record Period. With increasing demand from our customers for our logistics services, we believe our high service quality is the key that allows us to remain competitive in the logistics industry and ensure our ability to retain our customers and attract new customers.

Our executive Directors and senior management personnel possess extensive industry expertise and strong execution capability

According to the CIC report, a competent management team is essential for a company to compete successfully in the logistics market by adjusting its business strategies in a timely manner and by operating based on customers’ needs and market conditions.

A majority of our executive Directors and senior management personnel possess extensive industry expertise and strong execution capability. For example, Mr. Li JX (being the chairman of the Board and an executive Director) and Mr. Li JM (being the chief executive officer and an executive Director) have on average more than 20 years of experience in the logistics industry. Owing to their extensive experience and knowledge in the logistics industry in the PRC, they are competent to discharge their duties in an effective and reliable manner.

Most members of our senior management team also possess hands-on and in-depth knowledge in the logistics industry and our operation. Our senior management team has an average of more than 15 years of experience in the logistics industry in the PRC. Please refer to the section headed “Directors, Senior Management and Employees” in this document for the backgrounds and experience of our executive Directors and senior management personnel.

With such expertise and capability, our management team has the leadership, vision and industry knowledge required to anticipate and take advantage of market opportunities, and execute business strategies to maximise our Shareholders’ benefit.

BUSINESS STRATEGIES

Our Group’s principal objectives are to sustain the continuous growth of our business and maintain our competitive advantages to strengthen our position as a logistics service provider in the PRC. To achieve this, we intend to focus on the following strategies:

Upgrading our existing warehouses by installing automated storage facilities and system

As a logistics service provider, we are well-positioned to provide quality logistics services to our customers. In order to maintain our competitiveness and strengthen our position in the logistics industry in the PRC, we intend to improve our existing warehouses by installing automated storage facilities and system.

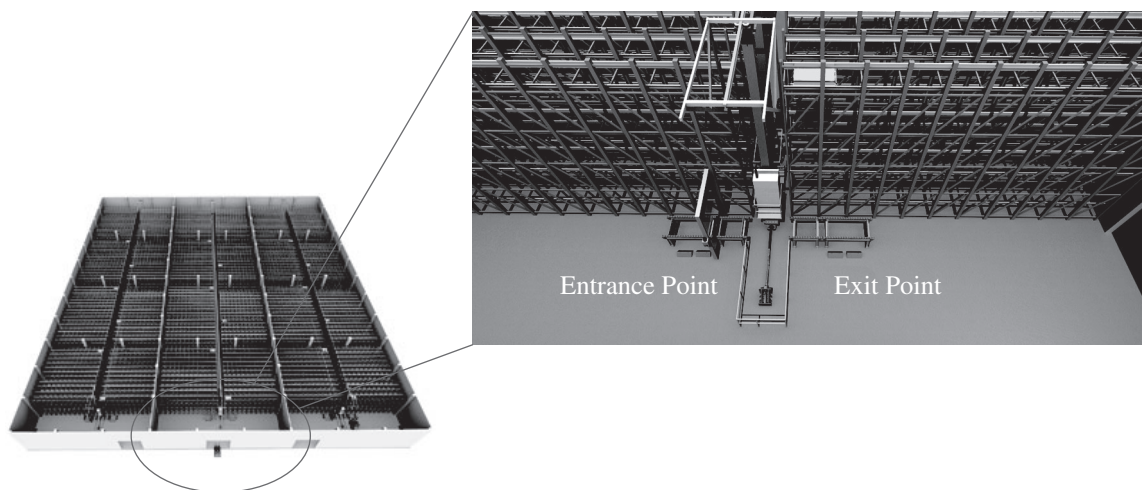
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According to the CIC Report, due to the increasing volume of products and the rising demands for faster responses in logistics services, more logistics service providers are expected to utilise automated storage facilities and system. Compared with traditional manual-based warehouses, intelligent automated storage facilities and systems are expected to largely improve the productivity and efficiency in handling, loading and unloading the inventory in warehouses. The inventory management is improved by using an automated storage system, as it can track each movement of the inventory with higher accuracy and efficiency. The use of automated storage facilities and system is expected to increase to satisfy the ever-changing market demand. Our Directors believe that there is a promising future landscape for the automated warehouse. For more details, please refer to the section headed “Industry Overview — Future trends of China’s 3PL industry” in this document.

We have conducted a feasibility analysis to substantiate this expansion plan. In an automated warehouse, most of the tasks relating to inventory storing, retrieving, and moving are carried out by the automated storage facilities and system. Inventory can be moved automatically by robotic cranes, along with conveyors and overhead pulley systems. Generally, inventory in the automated warehouse is tagged and scanned on arrival to allow them to be located by computer. The location of inventory could be continuously updated as they move in and out of the warehouse. Since all the facilities and equipment in an automated warehouse, including pallets and trays, conveyors, robotic cranes and stackers, are movable and could be assembled, installed and disassembled piece by piece, in the event that the lease of the automated warehouse could not be renewed, all the facilities and equipment could be retained and transported to the new warehouse.

In addition, with automated storage facilities and system, possible usage of available floor space and building height can be maximised to free up additional storage space as a result of the reduced physical footprint and narrower aisles. Based on an internal feasibility study, the capacity of the warehouse is expected to increase by approximately 30% after the installation of the automated storage facilities and system.

Set out below is sample of the design drawing of an automated storage facilities and system for illustration purposes:



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We believe the installation of automated storage facilities and system is crucial for maintaining our competitiveness and strengthening our position in the logistics industry in the PRC for the following reasons:

- ***Maintaining sufficient capacity to meet the increasing demand for our warehousing services:*** During the Track Record Period, we rented five premises as our warehouses in Guangdong Province with an approximate total area of 59,000 sq.m.. For the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, the utilisation rate of our warehouses reached approximately 84.3%, 86.7% and 87.3%, respectively. According to the CIC Report, in January 2017, the State Council issued a circular that provides measures to boost foreign investment and it is expected that this will further stimulate the demand for warehousing services in the PRC. As the foreign manufacturers have a higher degree of specialisation comparing to local companies in the PRC, they tend to focus on their core businesses and outsource non-core parts of their business. In 2016, around 70% of Fortune 500 companies were using warehouse outsourcing services, while it was still a relatively new concept for Chinese companies. Moreover, foreign-invested manufacturers usually have limited local resources, and it is a more efficient solution for them to use agents or outsourcing services to manage their warehousing segments. Therefore, the market size for warehousing services in the PRC is expected to continue to grow at a CAGR of 12.8% from 2016 to 2021. As such, we expect that the demand for our warehousing services will continue to increase due to (i) the increasing amount of foreign investment expected to flow into China due to the measures implemented by the PRC government to boost foreign investment; and (ii) the expected transition of domestic companies' practices towards a willingness to outsource non-core businesses, such as warehousing services to third parties. With the use of automated storage facilities and system, the space utilisation of our warehouses could be optimised to expand our capacity and capture these market opportunities in the logistics industry.
- ***Improving quality and reliability:*** Automated warehousing facilities and system could enhance the efficient movement of inventory. As compared with a conventional manual warehouse, inventory in an automated warehouse could be retrieved and moved faster and more accurately without any delays or human errors. Every pallet or tray is picked up and deposited regardless of where it is located in the warehouse and may be transferred within the warehouse at the same average speed. Automated storage facilities and system could also track the inventory accurately at all stages and permit rapid inventory movement. In addition, through the consistent, predictable and smooth handling of inventory by an automated system, we believe that product damage and waste could be substantially reduced.
- ***Saving labour costs and rental costs of equipment:*** Our Directors believe that once the automated warehouse has been set up, ongoing operating costs could be reduced in the long run. Currently, inventory in our warehouses is principally loaded and unloaded by the manpower of our warehousing staff with the use of forklifts. By using automated storage facilities and systems, the need for forklifts, forklift drivers and warehousing staff would be largely reduced. Based on the best estimate of our Directors in light of the current market conditions, our staff costs and rental costs of equipment would be expected to be reduced by approximately RMB1.0 million per year with an automated warehouse.

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- ***Creating a safer working place:*** Compared with conventional methods, the need for our warehousing staff to physically lift heavy products is largely eliminated. Apart from reducing the risk of injury, since many of the repetitive and laborious duties in the warehouse are performed by automated storage facilities and system, the risk of workers developing occupational injuries is also reduced. Upgrading our existing warehouses with automated storage facilities and system allows us to carry out our logistics processes in a safer manner, which we believe can enhance our Group's corporate profile, market reputation and brand awareness.

Our Directors expect that the installation of automated storage facilities and system into our warehouses would take place in stages, according to the then prevailing market demand and conditions as well as financial resources available to our Group. At the first stage of automation, we target to finish upgrading one of our existing warehouses by the end of 31 December 2018. It is estimated that the whole process will take around six to nine months, which will include the design stage and the construction stage.

Based on the best estimate of our Directors in light of the current market conditions and the quotations obtained from suppliers, the estimated capital expenditure for upgrading each warehouse with automated storage facilities and system is approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), which includes the estimated costs for hardware (including pallets and trays, conveyors, robotic cranes, stackers), software, delivery and installation. The relevant payback period is estimated to be approximately four years after taking into account a number of factors including (i) additional revenue derived from increased capacity; (ii) saved labour costs and rental costs of equipment such as forklifts; (iii) installation costs; and (iv) additional maintenance and utility cost incurred for the automated warehouse.

To implement the aforementioned first stage of automation by installing automated storage facilities and system in one of our warehouses, we expect to use approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), of which (i) approximately HK\$[REDACTED] million will be satisfied by the net proceeds from the [REDACTED], and (ii) approximately HK\$[REDACTED] million will be satisfied by our internally generated fund.

Following the completion of the first stage of automation, depending on the then prevailing market demand and financial resources available to our Group, including the internally generated fund, bank borrowings and/or funds raising from the equity or debt market, we will then decide when we should proceed to next stages of automation, i.e. to install automated storage facilities and system in our other warehouses. Our Directors confirm that we will only proceed to next stages of automation when our Group has sufficient funds to finance the above automation strategy and ensure that the implementation of the above expansion plan will not affect our business operations.

Expanding our existing in-plant logistics business in the North China and East China regions to better position us in the PRC logistics industry

As a logistics service provider, we offer not only traditional transportation services and warehousing services to our customers, but also in-plant logistics services to them along their supply chains. Our Directors believe our in-plant logistics services could reduce a large share of our customers' fixed costs in terms of labour, equipment and systems management by seconding a team of skilled and experienced staff to their manufacturing plant to facilitate the logistics among different production

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processes and also assist the customers to coordinate with the external logistics systems, including our transportation and warehousing services provided. As at 31 March 2017, we seconded 634 staff to seven manufacturing plants of our customers. Our Directors believe that, as the logistics industry is expected to continue to grow in the PRC, our Group, with our logistics experience and expertise, is therefore strategically positioned to become a major in-plant logistics service provider for more customers in the PRC.

In 2001 and 2012, we expanded our in-plant logistics business to Tianjin and Jiangsu Province, respectively. For the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, our revenue from in-plant logistics services derived from the North China and East China regions totally amounted to approximately RMB30.1 million, RMB28.2 million and RMB6.3 million, representing approximately 20.0%, 18.3% and 16.8% of our total revenue, respectively.

Leveraging on our technical expertise and industry experience in in-plant logistics business, we plan to strengthen our position as an in-plant logistics service provider in North China and East China, particularly Tianjin and Jiangsu Province. According to the CIC Report, the development of in-plant logistics industry is relatively mature in Guangdong Province, and there were approximately 600 in-plant logistics service providers in 2016. Whereas the in-plant logistics industry has been on its early stage of development in Jiangsu Province and Tianjin. There were only approximately 230 and 100 logistics companies providing in-plant logistics service in Jiangsu Province and Tianjin respectively in 2016. The current operators in the logistics industry in Jiangsu Province and Tianjin generally focus on provision of transportation and warehousing services and lack required technical expertise, technology and skilled staff in providing in-plant logistics services. On the other hand, with the development of the consumer market and the increasingly diversified consumer needs, manufacturers in different industries are focusing more on developing their products and manufacturing process. As a result, more and more companies are expected to employ in-plant logistics service providers in order to reduce cost, elevate productivity and increase efficiency, which creates a relatively large untapped market for in-plant logistics service providers in Jiangsu Province and Tianjin. In particular, based on the CIC Report, in the forthcoming years, there will be an increasing number of foreign-invested manufacturers investing in Tianjin and Jiangsu Province, and they tend to focus on their core manufacturing processes and outsource the non-core operations, such as in-plant logistics, to third parties. As such, the market of in-plant logistics services is anticipated to experience rapid growth. In anticipation of the growing demand in in-plant logistics services, specifically in Tianjin and Jiangsu Province, our strategy is to expand our portfolio of in-plant logistics services and strengthen our customer base in Tianjin and Jiangsu Province in order to boost our financial performance and enhance our market share. Our Directors are positive about our strategy to expand our in-plant logistics business from Guangdong Province to Tianjin and Jiangsu Province because we see business opportunities from potential customers who have logistics needs to these regions based on the aforementioned.

In addition, our Directors believe that there will be sufficient demand to warrant such expansion as we have been approached by certain existing customers asking for the in-plant logistics services in the aforementioned regions. For example, in March 2017, Customer A had indicated its intention to invite us to participate in the tendering process to become the in-plant logistics service provider for its newly established manufacturing plants in Tianjin, Shanghai and Suzhou. We have further received a written invitation from Customer A in July 2017 to participate in the tender (which will begin in October 2017) for the in-plant logistics services to be provided starting from 2018 for its newly established manufacturing plants in Tianjin, Shanghai and Suzhou, in view of the long-standing relationship between

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Customer A and our Company together with our extensive experience and expertise in the logistics industry. Taking into account the facts that (i) we have been the sole provider of in-plant logistics services to Customer A in Guangdong Province during the Track Record Period and as at the Latest Practicable Date; (ii) we do not have any material disagreement with Customer A; and (iii) we have passed its key performance indicators and achieved its quality assurance key elements all through and received a number of awards and appreciation letters from Customer A, our Directors consider these are positive indicators and are confident that we will be able to win the tendering and expand our business with Customer A going forward.

Based on the best estimate of our Directors and preliminary communication with Customer A, we target to second approximately 30 additional staff to the Customer A's manufacturing plant for the years ending 31 December 2018 and 2019, respectively. In addition, we would also provide the rental and maintenance services of our forklifts and other equipment within the manufacturing plant to facilitate the whole production logistics process.

Leveraging on our existing network, we plan to continue to put in more resources and further seek business opportunities to expand our in-plant logistics business in the North China and East China regions.

To pursue this strategy, we intend to use approximately HK\$[REDACTED] million, representing approximately [REDACTED]% of the net proceeds from the [REDACTED], as well as our operating cash flow on this expansion plan.

Expanding our vehicle fleet to enhance our transportation services and save our operating costs in the long run

Our transportation services are well-integrated into our whole logistics solutions to deliver our customers' inventory to their downstream clients, manufacturing plants and/or designated locations. According to the CIC Report, the market size for transportation services in the PRC is expected to continue to grow at a CAGR of 3.7% from 2016 to 2021, due to the flourishing e-commerce industry, the rising purchasing power of Chinese people, and the immense international trade volume. In addition, in December 2016, 18 government departments including Ministry of Transport and Ministry of Foreign Affairs issued a notification about encouraging multimodal transport and new transportation service models. Such incentive measures are all expected to further stimulate the development of the transportation market. To capture the new business opportunities and the anticipated growth in the orders for our transportation services, it is imperative for us to strengthen our competitiveness by expanding our vehicle fleet.

As at 31 March 2017, our vehicle fleet consisted of 23 vehicles which were all self-owned. We also engage independent subcontractors for the provision of transportation services on an as-needed basis. For the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, our sub-contracting logistics services expenses amounted to approximately RMB31.4 million, RMB35.7 million and RMB9.8 million, respectively, representing approximately 56.3%, 65.7% and 67.8% of our total direct cost, respectively. Notwithstanding our control procedures over the subcontractors, there is no assurance that our subcontractors' performance could fully meet the requirements of our Group or our customers.

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To better control the quality of our transportation services, we intend to expand our own vehicle fleet by purchasing five additional trucks and recruiting approximately 10 additional drivers to align with the growth of our business. In addition, by expanding our self-owned vehicle fleet, in the long run, we could save our operating costs. We will be more capable of adapting our transportation services to our customers and create a more distinct corporate identity, thereby enhancing customer loyalty.

To pursue this strategy, we intend to use approximately HK\$[REDACTED] million, representing approximately [REDACTED]% of the net proceeds from the [REDACTED], as well as our operating cash flow on this expansion plan.

Enhancing our sales and marketing efforts

We consider maintaining active business relationships with our existing and potential customers in the logistics industry to be important for our Group to explore new and potential business opportunities. Currently, our new customers are mainly (i) referred from our existing customers; and (ii) walk-in customers who engaged us to provide logistics services due to our reputation and track record. The marketing activities of our Group are mainly conducted by our Directors and senior management.

In order to further diversify and expand our customer base and capture additional business opportunities, we plan to enhance our sales and marketing efforts by setting up a separate department, initially consisting of approximately seven sales specialists solely for sales and marketing purposes. We target to actively contact potential companies which may require logistics services in order to explore potential business opportunities. In addition, we plan to launch marketing and promotional campaigns to enhance our exposure to more potential customers through various means, including (i) redesigning our website for marketing purposes; (ii) producing and sending marketing materials such as our Group's brochures to prospective customers; and (iii) participating in promotional activities such as industry exhibitions and trade fairs.

To pursue this strategy, we intend to use approximately HK\$[REDACTED] million, representing approximately [REDACTED]% of the net proceeds from the [REDACTED], as well as our operating cash flow on this expansion plan.

SERVICES AND OPERATIONS

We offer a wide range of logistics services to meet the needs of our customers' supply chains, which include (i) transportation; (ii) warehousing; (iii) in-plant logistics; and (iv) customisation services (consisting mainly of labelling services and bundling services).

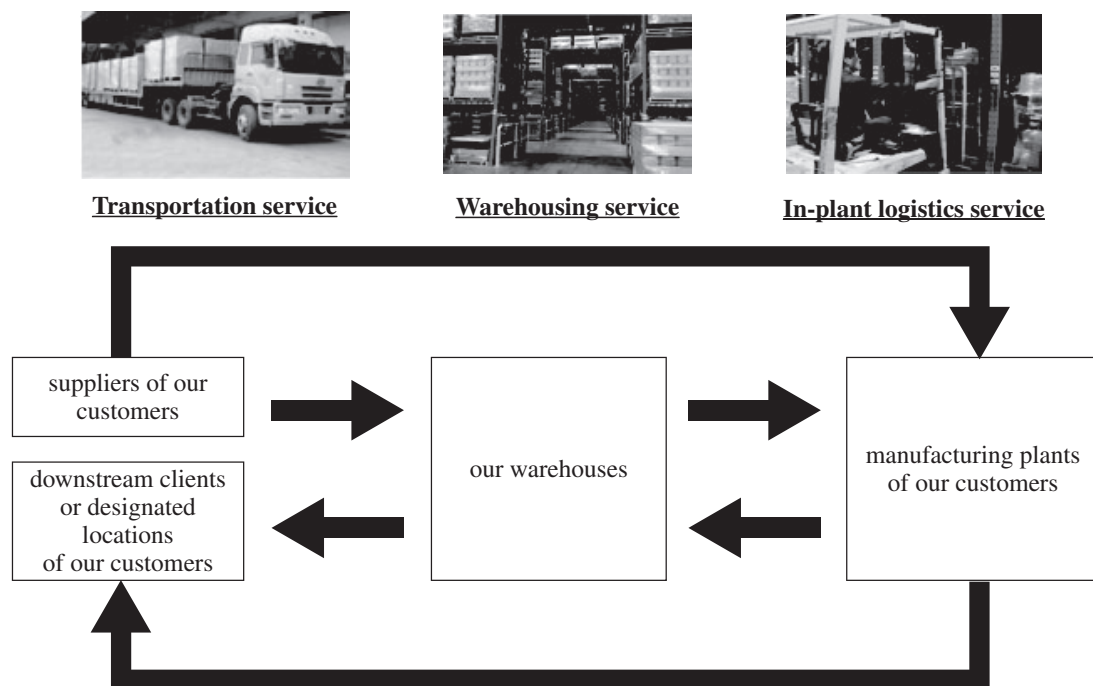
Our logistics services are principally designed to manage the inventory level of our customers and shorten the lead time for delivery of (i) production materials or components from the suppliers to our customers; and/or (ii) finished goods from our customers to their designated locations or downstream clients, thereby enhancing the efficiency of the manufacturing and sales operations of our customers. Our logistics services enable our customers to (i) ensure that the delivery of production materials, components and finished goods meet their production schedules and sales requirements; (ii) reduce their resources in the management of their daily logistics operations, such as storage, handling and transportation of their production materials and components, work-in-progress or finished goods; and (iii) save themselves from incurring significant investments and maintenance expenses in the logistics infrastructure such as warehouses and trucks.

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The scope of the logistics services that we provide to each customer varies as different customers often requires different kinds of services and expertise. As opposed to providing a single type of logistics service to customers, we, based on our experience, industry knowledge and understanding of the market, provide a wide range of logistics services for our customers with an aim to ensure accurate inventory movement, efficient warehousing and pre-production preparation management for our customers.

For customers which do not require all our logistics services based on their own consideration and/or individual circumstances at the relevant times, we also provide a single type of our logistics services to them.

The following diagram illustrates the major types of logistics services we normally offer our customers:



The following table sets out the breakdown of our revenue by the type of logistics service during the Track Record Period:

	Year ended 31 December				Three months ended 31 March			
	2015		2016		2016		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Transportation	51,338	34.2	55,358	36.0	9,853	31.1	14,783	39.4
Warehousing	37,194	24.8	37,251	24.2	8,784	27.7	9,613	25.6
In-plant logistics	58,524	38.9	59,271	38.5	12,590	39.7	12,947	34.5
Customisation <i>(Note)</i>	3,221	2.1	2,095	1.3	464	1.5	212	0.5
	<u>150,277</u>	<u>100.0</u>	<u>153,975</u>	<u>100.0</u>	<u>31,691</u>	<u>100.0</u>	<u>37,555</u>	<u>100.0</u>

Note: Customisation services mainly include labelling services and bundling services.

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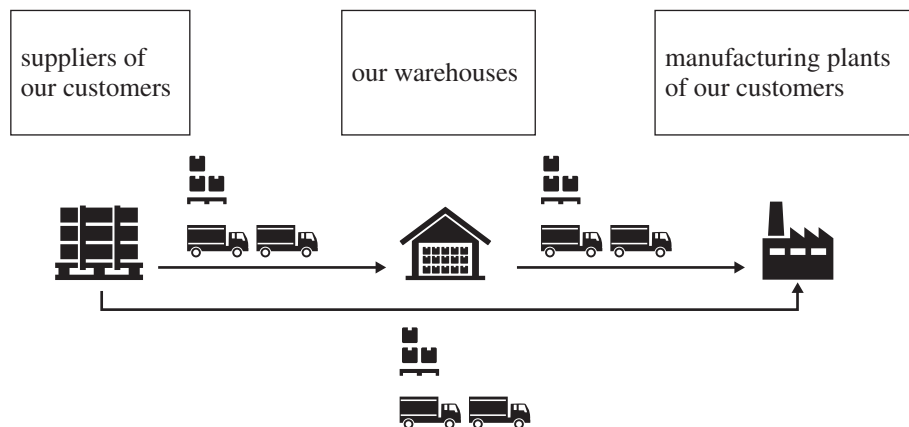
According to the CIC Report, the logistics industry in the PRC is expected to grow with the gradual acceleration of China’s economic growth, and further penetration of logistics services into lower-tier cities in the years ahead. In addition, the manufacturing industry in the PRC has been gradually adopting a more quality-focused approach and an increasing number of foreign manufacturers who used to outsource their non-core operations such as logistics is expected to set branches in the PRC. The third-party logistics industry in the PRC is expected to maintain positive growth with a CAGR of 9.5% from 2016 to 2021. Our Directors believe that the growth in the logistics industry in the PRC will continue to provide business opportunities to our Group.

Transportation services

We normally offer transportation services to our customers to deliver our customers’ inventory (which includes production materials, components and finished goods) to their downstream clients, manufacturing plants and/or designated locations. Our transportation services cover across PRC.

Our transportation services can be broadly divided into two categories, namely (i) delivery of production materials or components; and (ii) delivery of finished goods.

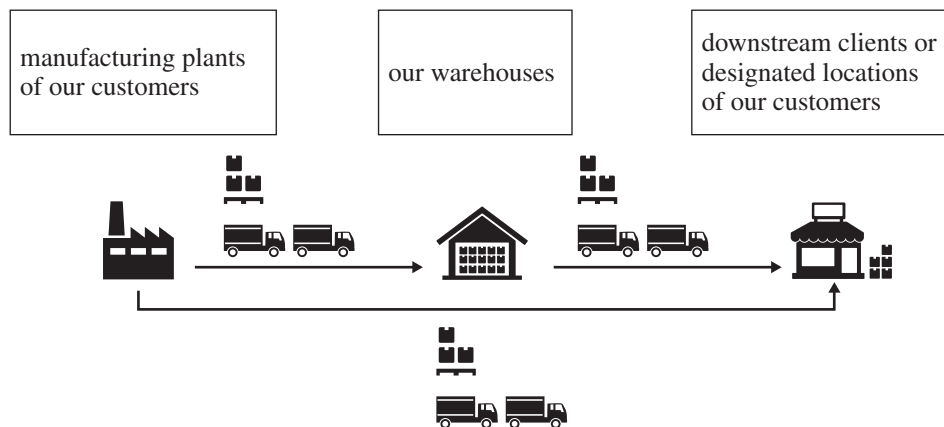
(1) delivery of production materials or components



We coordinate with our customers for the delivery of production materials or components normally from their suppliers to (i) the manufacturing plants of our customers directly; or (ii) our warehouse for sorting and/or storage, and will be subsequently delivered to the customers’ manufacturing plants at such times and in such quantities according to the production requirements of the customers.

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(2) *delivery of finished goods*



Our Group also provides transportation services in respect of the finished goods of our customers, with an aim to optimise the distribution of these finished goods to their downstream clients and/or designated locations as efficiently as possible. We transport and deliver a diverse range of finished goods ranging from FMCG to pharmaceutical and medical products within the PRC. At the instructions of our customers, we normally arrange for transportation of the finished goods from their manufacturing plants to (i) the downstream clients or the designated locations of our customers; or (ii) our warehouses for temporary storage pending distribution to ultimate destinations.

In order to provide efficient transportation services to meet the needs of our customers, we first obtain from our customers' instructions, requirements and information relating to the types and quantities of inventory to be delivered, delivery dates and locations of delivery. Such instructions, requirements and information will be transmitted into our intelligent logistics management system to plan the delivery process and for monitoring, to ensure accurate and efficient delivery of the production materials, components to be supplied and/or the finished goods to be delivered.

By implementing our logistics solutions, the production materials or components can be delivered to the customers' manufacturing plants accurately and on a JIT basis. Our customers will also be able to enjoy the economic benefits of having a lower inventory level of the requisite production materials or components kept at the customers' own storage facilities, and to ensure that the delivery of production materials, components and finished goods meet their production schedules and sales requirements.

As at 31 March 2017, we had 65 employees responsible for the provision of transportation services and our vehicle fleet consisted of 23 vehicles which were all self-owned. The vehicles are of various sizes and tonnages to fit the different needs of our customers. Most of our trucks are also equipped with a GPS to monitor the location of each truck on a real-time basis.

Upon specific request by our customers, we also offer, through outsourcing to third parties, sea transportation services to designated locations within the time limits specified by the customers. We devise for our customers the mode appropriate of transportation, by road and sea or

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through a combination of these modes, to ensure the entire transportation process is effectively carried out. The whole delivery process is monitored by our staff to ensure that the standard of our service is maintained.

Furthermore, we also offer export sea freight forwarding agency services to our customers upon specific request to enhance and facilitate our transportation services. Typically, upon receipt of instructions from our customers, our Group, through outsourcing to independent subcontractors, assist our customers to obtain cargo space from shipping companies or shipping agents that meet the customers’ requirements. We also arrange the delivery of the subject inventory to the port for shipment. Depending on the destination of the inventory to be delivered, we also provide, through outsourcing to independent subcontractors, ancillary services including arranging for customs declaration and clearance, preparing transportation and customs documentation on behalf of our customers as required by the relevant PRC authorities.

In order to increase our flexibility and cost effectiveness in carrying out our services, we engage independent subcontractors for the provision of certain transportation services. During the Track Record Period, we had engaged 27 subcontractors for transportation services. We generally do not enter into long-term agreements with the subcontractors. For further details, please refer to the paragraph headed “Suppliers” under this section.

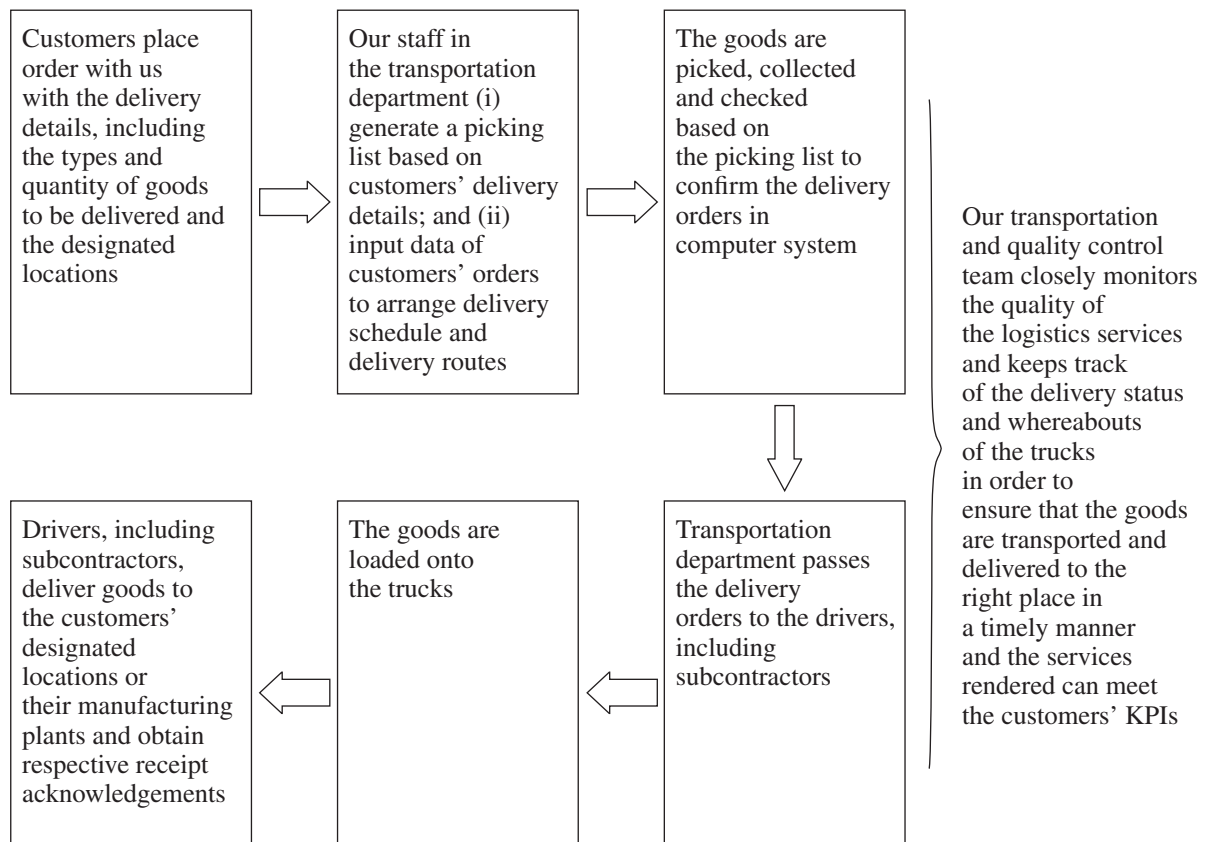
With the aid of our intelligent logistics management system, we are able to plan the delivery route in advance based on the customers’ orders in order to ensure timely delivery of the products to our customers.

The total revenue contributed by our transportation services amounted to approximately RMB51.3 million, RMB55.4 million and RMB14.8 million for the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, which accounted for approximately 34.2%, 36.0% and 39.4% of our total revenue for the corresponding period.

Generally, it takes approximately one to 20 days from the date of order to the completion of our delivery to our customers’ designated locations depending on the distance of delivery route and transportation mode.

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The below diagram shows the general work flow for our transportation services:



Warehousing services

We offer inventory storage to our customers as part of our logistics services. During the Track Record Period, we had five warehouses in Guangdong Province with a total area of approximately 59,000 sq.m.. Our five warehouses are equipped with a closed-circuit television surveillance system supported by periodic guard patrols. In addition, we closely monitor the temperature and humidity level in our storage compartments in order to fulfill the needs of different customers effectively and maintain the condition of the goods. The conditions of storage are normally specified in the service agreements with our customers, including the storage temperature, humidity and capacity. As at 31 March 2017, we had 116 employees responsible for the warehousing services. The team is led by Mr. Jiang Xianchuan, one of our senior management team who has over 15 years of relevant experience, and three warehouse managers.

During the Track Record Period, the goods we stored for our customers included medical and pharmaceuticals products, FMCG, packing materials and health and beauty products. Our Directors consider that the five warehouses would facilitate our overall logistics business, and in particular, the provision of in-plant logistics services, as these warehouses are used to provide logistics services for temporary storage of inventory pending dispatch to the manufacturing plants of our customers or distribution to their downstream clients or designated locations. Nevertheless, other than in-plant logistics customers, our warehouses also serve over 30 customers and the machinery and equipment installed therein can generally be used to provide warehousing services to different customers and are not specifically designed only for customers who require our in-plant logistics services.

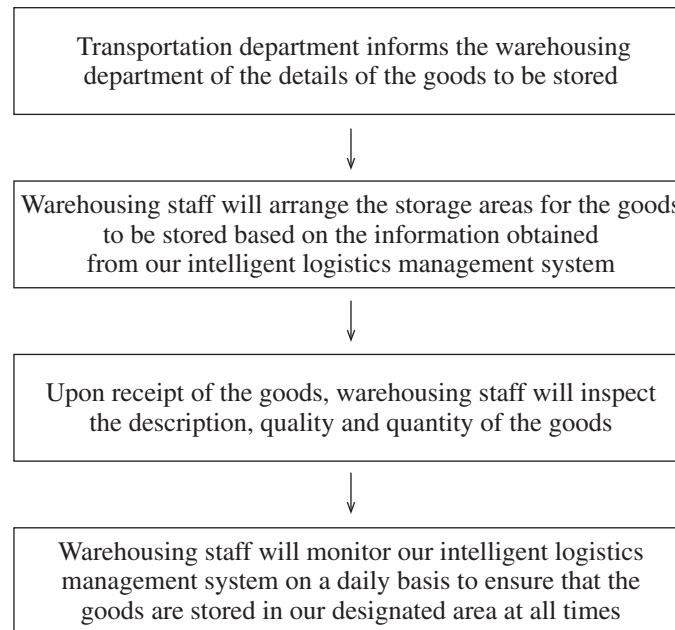
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During the Track Record Period, we leased our warehouses from five Independent Third Parties for a period of three to six years. During the Track Record Period, we had not experienced any difficulty in renewing our leases for our warehouses at commercial terms acceptable to us. In addition, our Directors are of the view that there is no significant difficulty for us to locate alternative suitable storage facilities and warehouses in the regions in which we operate, and thus we do not expect any material impact on our business if the leases in respect of our warehouses are not renewed upon expiry.

In general, our pharmaceutical customers impose more stringent requirements on our logistics services for their pharmaceutical and medical products as required by the relevant government authorities. The temperatures and humidity levels of our warehouses are therefore strictly controlled for storage of such products to maintain their condition. In particular, Customer A obtained the licence indicating the storage sites of their medical equipment, materials and products (the “**Medical Licence**”), where two of our warehouses were primarily used for storing the pharmaceutical products of Customer A are located. The Medical License is valid from 9 March 2015 to 8 March 2020 and is subject to annual inspection by the Food and Drug Administration of Guangdong Province.

Currently each of our warehouses is equipped with our intelligent logistics management system that stores the relevant data relating to each customer’s specifications and other information. Our intelligent logistics management system also assist our storage management including coding, sorting and loading of goods and enables management and customers to keep track of the level of inventory and control the inventory in the warehouse on the first-in first-out principle.

The below diagram shows the general work flow for our warehousing services:



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The table below demonstrates the average number of pallets and storage area leased per month and the utilisation rate of the five warehouses we operated during the Track Record Period:

	Year ended 31 December		Three months ended
	2015	2016	31 March 2017
Total number of pallets ⁽¹⁾	41,741	45,461	52,901
Average number of pallets leased per month ⁽²⁾	31,495	35,721	39,454
Total storage area ⁽¹⁾ (sq.m.)	31,939	29,085	23,376
Average storage area leased per month ⁽²⁾ (sq.m.)	29,718	27,558	23,376
Average utilisation rate (%)	84.3	86.7	87.3

Notes:

- (1) The total number of pallets and storage area available at the five warehouses we operated during the Track Record Period. For further details of these five warehouses, please refer to the paragraph headed “Properties” in this section.
- (2) The figure represents the average number of pallets and storage area leased by our customers per month during the year.

During the Track Record Period, we maintained our five warehouses at the same respective sites with the same floor area. The difference in the number of pallets and storage area available throughout the Track Record Period was due to our rearrangement of pallets and storage area to accommodate additional storage space as requested by our customers. The general trend of increase in the utilisation rate during the Track Record Period was generally in line with the increase in revenue from warehousing services during the years.

Our fees are normally charged with reference to the number of pallets and storage space leased. Handling fees are also charged relating to various goods-handling services such as loading and unloading of goods in and out of the warehouses. Our customers are typically obliged to pay for a minimum monthly charge for our warehousing services regardless of the quantity of inventory stored and the charge will be adjusted upwards according to the size of storage space leased.

The total revenue contributed by our warehousing services amounted to approximately RMB37.2 million, RMB37.3 million and RMB9.6 million for the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, respectively, which accounted for approximately 24.8% , 24.2% and 25.6% of our total revenue for the corresponding period, respectively.

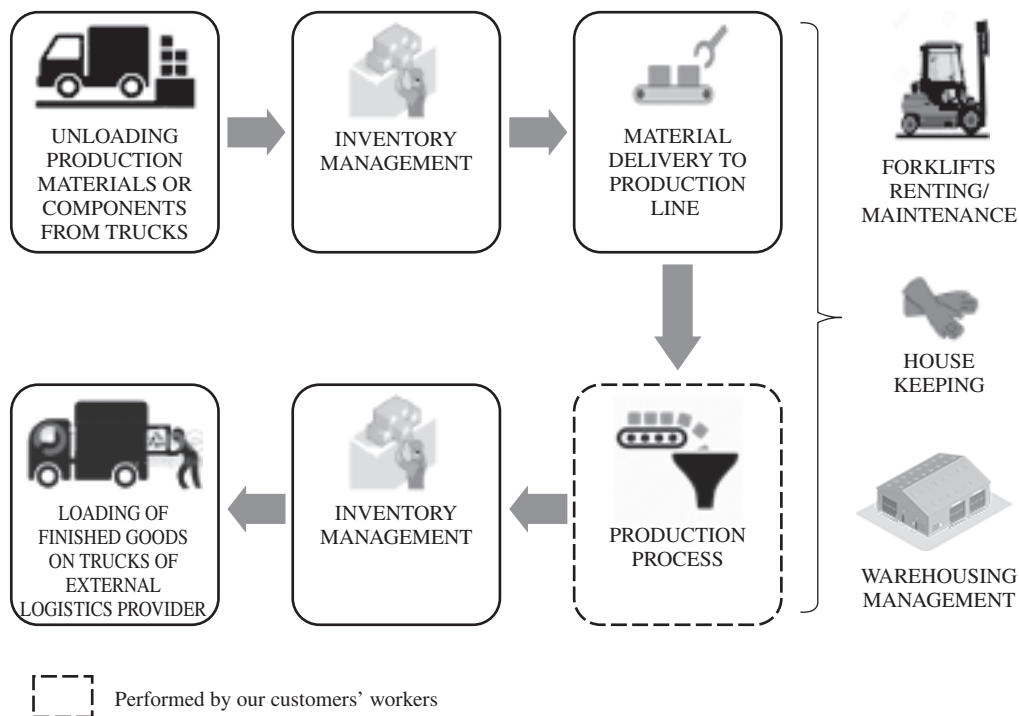
In-plant logistics services

As a logistics service provider, we offer not only traditional transportation services and warehousing services to our customers, but also in-plant logistics services to them along their supply chains. Our in-plant logistics services cover the management of the movement of (i) production materials and components and work-in-progress to the production lines within their manufacturing plants; and (ii) finished goods out to their factory gate.

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We employ a team of skilled and experienced staff and second them to our customers' manufacturing plants for the provision of in-plant logistics services. Our team works side-by-side with our customers' factory staff to efficiently plan and execute the production logistics process. Our in-plant logistics services include a wide range of activities within our customers' manufacturing plants to facilitate the logistics among different production processes, including the pick up and unloading of production materials and components, in-plant warehousing and inventory management, delivery of raw materials to production lines, housekeeping, loading of finished goods on tracks of external logistics providers. In addition, we also provide the rental and maintenance services of our forklifts and other equipment within our customers' manufacturing plants to facilitate the whole production logistics process. Generally, the related maintenance and repair costs and expenses for the rented forklifts and other equipment are borne by us.

The below diagram shows the general work flow for our in-plant logistics services:



In general, our Group develops plans with our customers in relation to, among others, (a) the inspection process upon pick up of the production materials; (b) the warehousing plan, including the sorting, storage of the production materials, components, work-in-progress or finished goods and the inventory management in the manufacturing plants of our customers; (c) production plan, including the production schedule and coordination between our staff and the production staff of our customers, so as to ensure that these production materials and components can be delivered to the customers' production lines accurately and on a JIT basis; and (d) delivery plan, including the schedule and route of the dispatch of finished goods for external logistics. After the concrete logistics solution has been agreed with our customers, our Group will devise the in-plant logistics services to implement the solution agreed.

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Our Directors believe that all processes in the manufacturing plants should be considered connected to the external logistics systems, including our transportation and warehousing services provided. Our customers, by outsourcing in-plant logistics to our Group allows them to focus on their manufacturing process and reduces a large share of their fixed costs in terms of labour, equipment and systems management. In addition, by implementing our in-plant logistics plan, the JIT delivery of production materials and components can be achieved to meet their production schedule and requirement. The production efficiency could therefore be increased by receiving production materials only when needed and in ready condition.

Since the seconded staff members are our own employees, we are responsible for (i) their on-going payroll; (ii) the entire recruitment process, which includes recruitment advertising, interview and assessment; (iii) employment contract maintenance; and (iv) other administrative support. We are also responsible for the continuous training and management of the seconded staff working at our customers’ manufacturing plants. As at 31 March 2017, we seconded 634 staff to seven manufacturing plants of our customers. These seven manufacturing plants are located within Guangdong Province, Jiangsu Province and Tianjin. During the Track Record Period, we also engaged dispatched staff sourced from labour dispatch providers to assist in our in-plant logistics work. For further details, please refer to the paragraph headed “Employee and dispatched workers” in this section.

The following table sets out the breakdown of our revenue from in-plant logistics services by area during the Track Record Period:

	Year ended 31 December				Three months ended 31 March			
	2015		2016		2016		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(unaudited)							
Guangdong Province	28,445	48.6	31,038	52.4	6,360	50.5	6,632	51.2
Tianjin	21,224	36.3	18,543	31.3	3,917	31.1	4,039	31.2
Jiangsu Province	<u>8,855</u>	<u>15.1</u>	<u>9,690</u>	<u>16.3</u>	<u>2,313</u>	<u>18.4</u>	<u>2,276</u>	<u>17.6</u>
	<u><u>58,524</u></u>	<u><u>100.0</u></u>	<u><u>59,271</u></u>	<u><u>100.0</u></u>	<u><u>12,590</u></u>	<u><u>100.0</u></u>	<u><u>12,947</u></u>	<u><u>100.0</u></u>

Our fees are charged with reference to the production volume of our customers’ manufacturing plants using our in-plant logistics services, number of goods handled, number of staff and equipment seconded or leased and time involved in processing the relevant in-plant logistics activities. Handling fees are also charged relating to various goods-handling services such as the loading and unloading of goods in and out of their manufacturing plants. Our customers are typically obliged to pay for a minimum monthly charge for our in-plant logistics services regardless of the quantity of goods handled and the charge will be adjusted upwards according to the quantity of goods handled.

The total revenue contributed by our in-plant logistics services amounted to approximately RMB58.5 million, RMB59.3 million and RMB12.9 million for the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, respectively, which accounted for approximately 38.9%, 38.5% and 34.5% of our total revenue for the corresponding period.

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Customisation services

Once inventory has been stored in our warehouses, we frequently communicate with our customers, so that our customers can provide detailed instructions to our staff on how they would like their inventory to be handled based on their needs. Our customisation services mainly comprised the labelling services (i.e. sticking labels onto the surface of the inventory according to customers' instructions from time to time) and the bundling services (i.e. bundling the inventory to facilitate handling and transportation) generally provided inside our warehouses on an as-needed basis. The employees who are responsible for warehousing services will also handle the customisation services.

Labelling services

Depending on the needs of our customers, we offer labelling services so that the inventory of our customers is properly labelled in accordance with the customers' instructions before they are prepared for delivery out of our warehouses. The labelling services we provide vary from customer to customer and we allocate the staff at our warehouses depending on the demand from our customers to provide these services.

Our customers in general would provide the labels to us for processing the customisation activities. Our customers will be solely responsible for the contents stated on the labels.

Bundling services

On an as-needed basis, we also offer bundling services so that the inventory of our customers is bundled together before they are loaded onto trucks for delivery. Inventory is bundled together generally on a flat transport structure (typically a wooden board) known as a pallet in order to facilitate the mechanical handling of stacked goods. Bundled inventory can then be easily handled by common mechanical equipment such as forklift for moving around in our warehouses or for loading on to a truck for delivery.

Our fees are charged with reference to the number of goods, procedures and time involved in processing the relevant customisation activities.

The total revenue contributed by our customisation services amounted to approximately RMB3.2 million, RMB2.1 million and RMB0.2 million for the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, respectively, which accounted for approximately 2.1%, 1.3% and 0.5% of our total revenue for the corresponding period.

CUSTOMERS

We serve customers from various industries, mainly including pharmaceutical, FMCG, packaging, health and beauty and other industries. Most of our major customers are multi-national companies which require our logistics services to meet the needs of their supply chains. During the Track Record Period and up to the Latest Practicable Date, all of our five largest customers were all Independent Third Parties, and none of them were also our suppliers.

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Our pharmaceutical customers include Customer A and other customers whose principal business is the sale of pharmaceutical products including (i) renal products, such as dialysis; and (ii) hospital products, such as premixed drugs and infusion pumps. These types of products are generally provided to drug distributors, drug stores and hospitals.

Our FMCG customers include Customer B and other customers whose principal business is the sale of FMCG such as (i) baby and family care products, for instance, diapers and tissues; (ii) household products, such as laundry detergent and softeners; (iii) beauty products, such as cosmetics and face cleansers; and (iv) health and grooming products, such as toothpaste and razor blades. These types of products are generally sold in supermarkets, grocery stores, drug stores and department stores.

The table below sets out the breakdown of our revenue by industry type of the customers during the Track Record Period:

	Year ended 31 December				Three months ended 31 March			
	2015		2016		2016		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(unaudited)							
Pharmaceutical	66,265	44.1	66,483	43.2	13,403	42.3	14,203	37.8
FMCG	56,220	37.4	57,886	37.6	12,044	38.0	16,834	44.8
Packaging <i>(Note 1)</i>	15,578	10.4	15,720	10.2	3,313	10.5	3,144	8.4
Health and beauty <i>(Note 2)</i>	9,266	6.2	9,237	6.0	2,215	7.0	2,066	5.5
Others	<u>2,948</u>	<u>1.9</u>	<u>4,649</u>	<u>3.0</u>	<u>716</u>	<u>2.2</u>	<u>1,308</u>	<u>3.5</u>
	<u>150,277</u>	<u>100.0</u>	<u>153,975</u>	<u>100.0</u>	<u>31,691</u>	<u>100.0</u>	<u>37,555</u>	<u>100.0</u>

Note:

1. Customers from packaging industry mainly include manufacturers of plastic packaging products for use in FMCG products such as shampoo, detergents and skin care products.
2. Customers from health and beauty industry mainly include manufacturers of gelatin and collagen peptides.

During the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, the revenue contributed by the pharmaceutical customers, mainly Customer A, amounted to approximately RMB66.3 million, RMB66.5 million and RMB14.2 million, respectively, which accounted for approximately 44.1%, 43.2% and 37.8% of our total revenue for the corresponding period. The revenue contributed by the FMCG customers, mainly Customer B, amounted to approximately RMB56.2 million, RMB57.9 million and RMB16.8 million, respectively, which accounted for approximately 37.4%, 37.6% and 44.8% of our total revenue for the corresponding period.

The revenue contributed by customers in other industries increased by approximately 57.7% from approximately RMB2.9 million for the year ended 31 December 2015 to approximately RMB4.6 million for the year ended 31 December 2016, and further increased by approximately 82.7% from approximately RMB0.7 million for the three months ended 31 March 2016 to approximately RMB1.3

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million for the three months ended 31 March 2017. The increasing trend of our revenue contributed by customers in other industries during the Track Record Period shows our considerable efforts to diversify our customer base and reduce our reliance on Customer A and Customer B.

General terms of agreements with customers

We enter into master service agreements with our customers in relation to our services rendered including transportation, warehousing, in-plant logistics and customisation services. These agreements are generally for a term of one to two years. It is our business strategy and commercial decision not to enter into service agreements with our customers for a term longer than three years, unless our customers insist, so that we can preserve the flexibility in negotiating and adjusting our service fees, and maintain our profit margin in view of fluctuations in fuel prices, labour cost and operation costs from time to time.

We set out below a summary of typical terms of the master service agreement:

Scope of services

The service agreement normally specifies the basic types of services we provide to customers including but not limited to (i) transportation; (ii) warehousing; (iii) in-plant logistics; and/or (iv) customisation services. Additionally, our service agreement may also specify the conditions of the storage area and SOP to be complied with.

Title of goods

The title, benefit, interest and rights in the customer's goods shall remain the sole and exclusive property of the customer at all times.

Liability

Generally, the service agreements set out the respective rights and obligations of our Group and our customers and the KPIs of respective customers. We shall be liable for any loss or damage caused by misdelivery, delay in delivery or failure to deliver the goods of the customer. We are also liable for any loss or damages to goods that are in our custodies. During the Track Record Period, we had not experienced any material misdelivery, delay in delivery or failure of delivery.

Termination

We or our customers may at any time by giving the other party certain days prior written notice to terminate the service agreements without cause. Such notice period ranged from seven to 90 calendar days for the service agreements during the Track Record Period. The service agreements may also generally be terminated immediately by our customers serving written notice on us if we (i) fail to observe or perform any provisions of the service agreements; (ii) fail to fulfil our obligation persistently over a certain period; and (iii) cease to carry on our business. During the Track Record Period, none of our service agreements had been terminated by reason of material breach by us or the other party to the service agreement.

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Pricing policy and payment terms

We price our services on a “cost-plus” basis. Our pricing policy takes into account various factors and some of the material factors when negotiating with our customers include: (i) type of services required; (ii) prevailing market rates offered by other logistics service providers; (iii) cost analysis taking into account potential increases in wages, fees for any third party service provider and the location; (iv) the operating lease rentals in respect of rented premises; and (v) our budget and determination of a reasonable profit margin. Customers who require customised storage space or complex handling services are subject to a higher fee.

The rate of our service fees would be agreed upon by our customers and us when we negotiate the terms of the master service agreements. To reduce the risk of costs (such as fuel and labour) increment over time, unless our customers insist in the course of negotiation, we normally enter into relatively short-termed master service agreements of one to two years with our customers only to maintain the flexibility to adjust our service fees when entering into new service agreements with our customers.

In general, the contract sum is not set out in the relevant master service agreements and we issue invoices to charge our customers on a monthly basis based on the quantity of services we rendered in that particular month, hence the monthly fee varies depending on the actual quantity of services rendered. Certain service agreements, mainly for our warehousing services and in-plant logistics services, provide for a minimum monthly charge which the customers are obliged to pay us regardless of the quantity of services rendered.

During the Track Record Period, all revenue from our services was derived from the PRC and denominated either in RMB or USD. Generally, the payment method is bank transfer.

The general price range for our different types of services under the major charging basis during the Track Record Period is indicated in the following table for illustration purpose:

Types of services	RMB
Transportation	22 to 2,951 per ton
Warehousing	42 to 70 per pallet (per month)
In-plant logistics	0.05 to 0.6 per box (per month)
Customisation	0.25 to 2.0 per piece

We have different charging bases for different customers. The major charging basis for the transportation services is based on the volume of goods delivered. There are also other charging bases which include the number of boxes, cubic metres and the number of dropping points of our customers’ products.

The major charging basis for the warehousing services is based on the number of pallets and storage space leased.

In determining the in-plant logistics services fees, we communicate with our customers in advance regarding, among others, (i) the anticipated production volume of the respective manufacturing plant; and (ii) the expected number of staff and equipment required to be seconded or leased to the manufacturing plant in order to meet the logistics needs. The rate of our in-plant logistics service fees is

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then determined on a cost plus basis primarily taking into account our estimated cost and targeted margin. The charging basis for the in-plant logistics services is negotiated and determined on a case-by-case basis with individual customers or manufacturing plants to maintain the flexibility to accommodate their needs. The charging basis is specified in the relevant service agreements with our customers and is based typically either by (i) the total number of goods handled within different stages of the in-plant logistics process mainly including the loading and unloading of inventory and the delivery of raw materials to production lines; (ii) the total production volume of our customers' manufacturing plants using our in-plant logistics services; or (iii) the number of staff and equipment seconded or leased to the manufacturing plants.

The major charging basis for the customisation services is based on the number of goods handled. Our Directors consider that our different charging bases are in line with industry norm.

Credit policy

For long-term customers with a good credit quality and payment history, we generally grant a credit period of no longer than 90 days. For certain customers, our Group may demand for full settlement upon issuance of invoice after the provision of services. The length of credit period granted varies on a case-by-case basis depending on the customer's reputation and credibility, payment history and business relationship with our Group. We periodically review the credit terms and our customer's payment record and, if necessary, revise the credit terms granted to our customers after review. In January 2017 when our service agreement was renewed with Customer A, in relation to our transportation services provided to Customer A, the credit period was adjusted from 60 days to 77 days from the invoice date as requested by Customer A. We also closely monitor any outstanding overdue amounts and take measures to collect any outstanding amounts. During the Track Record Period, we did not experience any material difficulty in collecting payment from our customers.

As at 31 December 2015 and 2016 and 31 March 2017, we recorded trade receivables of approximately RMB38.5 million, RMB42.4 million and RMB44.3 million, respectively, of which approximately RMB1.1 million, RMB5.0 million and RMB5.4 million, respectively had been past due but not impaired as they were due from customers of whom there was no history of default during the Track Record Period and our Group considered such balances could be recovered based on historical experience. For each of the two years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, our trade receivables turnover days were approximately 94 days, 101 days and 106 days, respectively, which were longer than the maximum credit period of 90 days granted by us to our customers during the Track Record Period. However, due to the strong financial background of our customers, their large-scale operation and their leading position in the industry they engaged and the fact that they had no record of default payment, and our amicable and long standing business relationship with them, we generally allowed our customers to settle our invoices beyond the agreed credit period.

In order to collect overdue trade receivables, material overdue payments are monitored continuously and evaluated on a case-by-case basis by our Directors in order to decide on the appropriate follow-up actions to be taken by us with regard to the relevant customer's normal payment processing procedures, our relationship with the customer, its history of making payments, its financial position as well as the then general economic environment. Follow-up actions to collect overdue trade receivables include but are not limited to active communications with the customers' appropriate personnel (such as the relevant department responsible for processing payments) as well as taking legal action (where appropriate).

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Provision policy

Our policy for impairment loss on trade receivables is based on an evaluation of collectability and aged analysis of the receivables which requires the use of judgment and estimates. Provisions are applied to the receivables when there are events or changes in circumstances which indicate that the balances may not be collectible. We closely review our trade receivable balance and any overdue balances on an ongoing basis and assessments are made by our management on the collectability of overdue balances.

No allowance for doubtful debt was provided during the Track Record Period and no balance of provision for bad and doubtful debt had been recognised as at the end of each reporting period.

Our major customers

The following table sets forth the details of our five largest customers during the Track Record Period:

For the three months ended 31 March 2017

Customer	Principal business of our customer	Commencement year of our business relationship	Approximate % of our total revenue	Payment method	Credit period
Customer A ⁽¹⁾	Pharmaceutical	2002	37.2	Bank transfer	60–77 days ⁽⁸⁾
Customer B ⁽²⁾	FMCG	1997	28.2	Bank transfer	75 days
Customer C ⁽³⁾	FMCG	2015	13.3	Bank transfer	15–90 days
Customer D ⁽⁴⁾	Health and beauty	2003	5.4	Bank transfer	15 days
Customer E ⁽⁵⁾	Logistics	2012	2.1	Bank transfer	5 days
Approximate % of our total revenue attributable to our five largest customers			86.2		

For the year ended 31 December 2016

Customer	Principal business of our customer	Commencement year of our business relationship	Approximate % of our total revenue	Payment method	Credit period
Customer A ⁽¹⁾	Pharmaceutical	2002	39.3	Bank transfer	60 days ⁽⁸⁾
Customer B ⁽²⁾	FMCG	1997	31.7	Bank transfer	75 days
Customer D ⁽⁴⁾	Health and beauty	2003	5.9	Bank transfer	15 days
Customer C ⁽³⁾	FMCG	2015	3.0	Bank transfer	15–90 days
Customer F ⁽⁶⁾	Pharmaceutical	2013	2.9	Bank transfer	30 days
Approximate % of our total revenue attributable to our five largest customers			82.8		

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For the year ended 31 December 2015

Customer	Principal business of our customer	Commencement year of our business relationship	Approximate % of our total revenue	Payment method	Credit period
Customer A ⁽¹⁾	Pharmaceutical	2002	36.5	Bank transfer	60 days ⁽⁸⁾
Customer B ⁽²⁾	FMCG	1997	34.2	Bank transfer	75 days
Customer F ⁽⁶⁾	Pharmaceutical	2013	6.6	Bank transfer	30 days
Customer D ⁽⁴⁾	Health and beauty	2003	6.1	Bank transfer	15 days
Customer G ⁽⁷⁾	Packaging	2003	2.9	Bank transfer	15 days
Approximate % of our total revenue attributable to our five largest customers			86.3		

Notes:

Set out below is the information of our major customers in accordance with the best knowledge, information and belief of our Directors having made all reasonable enquiries:

- (1) Customer A is a group of subsidiaries of a pharmaceutical company listed on the New York Stock Exchange to provide a broad portfolio of essential renal and hospital products. These products are used by hospitals, kidney dialysis centers, nursing homes, rehabilitation centers, doctors’ offices and by patients at home under physician supervision. According to its annual report for the year ended 31 December 2016, it operates in United States, Europe, Asia-Pacific, Latin America and Canada.
- (2) Customer B is a group of subsidiaries of a multi-national consumer goods company incorporated in 1905 and listed on the New York Stock Exchange. It is principally engaged in the sale of consumer goods, including baby and family care products, household products, beauty products and health and grooming products. According to its annual report for the year ended 30 June 2017, its products are sold in more than 180 countries and territories which includes North America, Europe and Greater China.
- (3) Customer C is a PRC based manufacturer of special film products which are mainly used in one-off hygiene products such as sanitary napkin, panty liner.
- (4) Customer D is a subsidiary of a multi-national supplier of gelatin and collagen peptides which are widely used in pharmaceutical and food applications. It operates in United States, Mexico, Brazil, Argentina, France, Belgium, Spain, China, Japan and Malaysia and with a headquarter in Netherlands.
- (5) Company E is a PRC based logistics service provider. It is principally engaged in the provision of warehousing services and transportation services in the PRC.
- (6) Customer F is a subsidiary of a PRC based wholesaler and retailer of pharmaceutical and healthcare products which is listed in Hong Kong. Its products include a selection of health food, organic products and vitamins and supplements.
- (7) Customer G is a PRC based wholly owned subsidiary of a Hong Kong listed company. It is principally engaged in the production of polyvinyl chloride (PVC) blow molding, plastic packaging products and plastic products in the PRC.
- (8) Since January 2017, the credit period offered to Customer A had been adjusted to 77 days in relation to our transportation services provided to them.

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Our business relationships with our five largest customers have an average of more than 10 years as at the Latest Practicable Date. During the Track Record Period, our Group's five largest customers in aggregate accounted for approximately 86.2%, 82.7% and 86.2%, respectively, of our Group's revenue while the largest customer accounted for approximately 36.5%, 39.3% and 37.2%, respectively, of our Group's revenue. None of our Directors, their respective associates or any Shareholder (who or which, to the best knowledge of our Directors owns, more than 5% of the issued share capital of our Company) had any interest in any of the five largest customers during the Track Record Period.

We had transactions with 82, 88 and 72 customers, respectively, for the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, of which 17, 16 and two were our new customers obtained for the respective periods. The revenue contributed by our new customers obtained during the Track Record Period amounted to approximately RMB0.7 million, RMB8.3 million and RMB6.3 million for the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, respectively.

Our relationship with Customer A and Customer B

We have established stable and long-term relationship with Customer A and Customer B for approximately 15 and 20 years, respectively.

As a logistics service provider, we offer not only traditional transportation services and warehousing services to Customer A and Customer B, but also in-plant logistics services to them along their supply chains. To the best knowledge of our Directors, we are the sole provider of in-plant logistics services for Customer A and Customer B in Guangdong Province during the Track Record Period and as at the Latest Practicable Date. Customer A and Customer B conduct regular inspection and assessment on our performance and set performance indicators for us to follow from time to time. Our revenue attributable to Customer A and Customer B in aggregate amounted to approximately RMB106.2 million, RMB109.3 million and RMB24.5 million for the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, which accounted for approximately 70.7%, 71.0% and 65.3% of our total revenue for the corresponding period.

Background of Customer A

Our largest customer, Customer A, is a group of subsidiaries of a pharmaceutical company which is listed on the New York Stock Exchange with a market capitalisation of approximately US\$30 billion as at the Latest Practicable Date. It is principally engaged in the provision of a broad portfolio of essential renal and hospital products. These products are used by hospitals, kidney dialysis centers, nursing homes, rehabilitation centers, doctors' offices and by patients at home under physician supervision. According to its annual report for the year ended 31 December 2016, it operates in United States, Europe, Asia-Pacific, Latin America and Canada. Customer A and its group companies had a total of approximately 48,000 employees as at 31 December 2016.

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The following table sets out the financial highlights of Customer A based on its annual report for the year ended 31 December 2016:

	Year ended 31 December	
	2015	2016
	<i>US\$' million</i>	<i>US\$' million</i>
Total revenue	9,968	10,163
By geographic region:		
<i>United States</i>	40%	42%
<i>Europe</i>	28%	27%
<i>Asia-Pacific</i>	20%	20%
<i>Latin America and Canada</i>	12%	11%
Net earnings from continuing operations	393	4,966
Total assets	20,962	15,546

Based on the annual report of Customer A for the year ended 31 December 2016, its total revenue increased by approximately 2% from the year ended 31 December 2015 to the year ended 31 December 2016. Our Company falls within the Asia-Pacific region, and the revenue contribution from this region remained at approximately 20% of total revenue for the year ended 31 December for the years ended 31 December 2015 and 2016, which in turn the total revenue of Customer A derived in the Asia-Pacific region increased by approximately 2% from the year ended 31 December 2015 to the year ended 31 December 2016. Our Directors are of the view that Customer A can maintain similar and stable financial performance in the PRC and the demand for our logistics services is expected to continue to grow.

Background of Customer B

Our second largest customer, Customer B, is a group of subsidiaries of a multi-national consumer goods company. The parent company of Customer B is listed on the New York Stock Exchange with a market capitalisation of over US\$220 billion as at the Latest Practicable Date. It is principally engaged in the sale of consumer goods, including baby and family care products, household products, beauty products and health and grooming products. Customer B and its group companies had a total of approximately 95,000 employees as at 30 June 2017.

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The following table sets out the financial highlights of Customer B based on its annual report for the year ended 30 June 2017:

	Year ended 30 June	
	2016	2017
	<i>US\$' billion</i>	<i>US\$' billion</i>
Total revenue	65.3	65.1
By geographic region:		
<i>North America</i>	44%	45%
<i>Europe</i>	23%	23%
<i>Greater China</i>	8%	8%
<i>Others</i>	25%	24%
Net earnings from continuing operations	10.0	10.2
Total assets	127.1	120.4

Based on the annual report of Customer B for the year ended 30 June 2017, its total revenue remained relatively stable and decreased by less than 1% from the year ended 30 June 2016 to the year ended 30 June 2017. Our Company falls within the Greater China region, and the revenue of this region accounted for approximately 8% of total revenue of Customer B for both the years ended 30 June 2016 and 2017. As such, it represented that the total revenue of Customer B derived in the Greater China region also remained relatively stable and decreased by less than 1% from the year ended 30 June 2015 to the year ended 30 June 2016. We noted that the slight decrease in total revenue of Customer B was due to a negative impact from foreign exchange, but not due to the decline in its size of ordinary course of business. Our Directors are of the view that Customer B can maintain similar and stable financial performance in the PRC and will not have adverse impact on our Group’s business.

Contractual arrangements with Customer A and Customer B

We offer a wide range of logistics services to both Customer A and Customer B to meet the needs of their supply chains. These include (i) transportation; (ii) warehousing; (iii) in-plants logistics; and (iv) customisation services. We have entered into service agreements with Customer A and Customer B, respectively, relating to the provision of such logistics services (collectively the “**Service Agreements**”). The Service Agreements typically have a term of one to two years.

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As at the Latest Practicable Date, we have entered into the following service agreements with Customer A and Customer B:

Customer A

	Agreement	Term	Termination clause
1	Service agreement for provision of warehousing services in warehouses at No. 59 and No. 61 of Xiantang Road	24 months from April 2017 to March 2019	At any time by giving us not less than 90 days' prior written notice without cause
2	Service agreement for provision of warehousing services in warehouse at No. 63 of Xiantang Road	12 months from August 2017 to August 2018	At any time by giving us not less than 90 days' prior written notice without cause
3	Service agreement for provision of transportation services for a subsidiary in Guangzhou	12 months from January 2017 to December 2017	At any time by giving us not less than 60 days' prior written notice without cause
4	Service agreement for provision of transportation services for a subsidiary in Shanghai	12 months from January 2017 to December 2017	At any time by giving us not less than 60 days' prior written notice without cause
5	Service agreement for provision of in-plant logistics services	24 months from March 2017 to March 2019	At any time by giving us not less than seven days' prior written notice without cause

Customer B

	Agreement	Term	Termination clause
1	Service agreement for provision of transportation and warehousing services	12 months from August 2017 to July 2018	At any time by giving us not less than 30 days' prior written notice without cause
2	Service agreement for provision of in-plant logistics services	24 months from July 2016 to June 2018	At any time by giving us not less than 60 days' prior written notice without cause

The Service Agreements may also be terminated immediately by our customers serving written notice on us if we (i) fail to observe or perform any provisions of the service agreements; (ii) fail to fulfil our obligation persistently over a certain period; and (iii) cease to carry on our business. Our Directors confirm that the Service Agreements with Customer A and Customer B had not been stopped, suspended or terminated before expiration since we commenced our business relationships with Customer A and Customer B. Save and except for the service agreements in relation to our warehousing services and in-plant logistics services under which Customer A and Customer B are obliged to pay us a minimum monthly charge regardless of the quantity of services

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rendered, there is no minimum service engagement commitment imposed on Customer A and Customer B under the Service Agreements. We receive individual purchase order for the services rendered under these Service Agreements.

Under the Service Agreements, we have to comply with Customer A and Customer B's (i) prescribed KPIs at all times for assessment of the standard of our services with categories of services, quality, stewardship, capacity, productivity and safety; and (ii) quality assurance key elements in relation to assessment of the quality of our services. Our service fees are charged according to the rate set out in the Service Agreements and thus, upon expiry of which, the rate of our service fees would be subject to review and further negotiation with Customer A and Customer B.

Renewal of the Service Agreements

There is no automatic renewal clause in the Service Agreements. The current Service Agreements with Customer A and Customer B have various expiration dates between December 2017 to March 2019. Based on our past experience, Customer A and Customer B are generally engaged in negotiation with us for the renewal of the Services Agreements within one to two months before the expiration date thereof for the relevant period. With respect to two of the services agreements entered with Customer A which will expire in December 2017, we had actively approached Customer A regarding the renewal of such service agreements and we had commenced discussion and preparation relating to the estimated amount of works and services to be provided by us to Customer A for the coming year. Customer A, during the course of negotiation, had expressed its intention to renew these two service agreements and asked us to assess whether our current capacity is able to cater for and accommodate the potential amount of services and spaces required by Customer A. Our Directors consider that it is a positive indication and are confident that we will be able to renew these two service agreements.

Furthermore, our Directors are confident that we will be able to renew the Service Agreements and continue the business relationships with Customer A and Customer B for the next term and going forward taking into account the fact that:

- (i) we have been providing logistics services to Customer A and Customer B for approximately 15 and 20 consecutive years and we have not had any material disagreement with Customer A and Customer B and we have not experienced any difficulties in negotiating or renewing our service agreements with them;
- (ii) notwithstanding that Customer A and Customer B can appoint any other logistics service provider in lieu of us or on top of us as our engagement is not on an exclusive basis, it is not easy for them to replace an in-plant logistics service provider as our in-plant logistics services are performed by a team of skilled and experienced staff seconded to their manufacturing plants to facilitate the logistics among different production processes and also assist them to coordinate with the external logistics systems, including our transportation and warehousing services provided. To the best knowledge of our Directors, we were the sole provider of in-plant logistics service of Customer A and Customer B in Guangdong Province during the Track Record Period and as at the Latest Practicable Date; and

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- (iii) we have passed their KPIs and achieve their quality assurance key elements all through and received a number of awards and appreciation letters from Customer A and Customer B, our Directors take the view that there should not be any difficulty or legal impediment for us to renew the Service Agreements with Customer A and Customer B upon expiry.

Mutual and complementary reliance between Customer A and Customer B and our Group

We consider that it is commercially beneficial for both Customer A and Customer B and us to maintain a close and long-term business relationship with each other, for the following reasons:

- (i) *Our extensive knowledge and experience in PRC logistics market:* We believe that our stable relationship with Customer A and Customer B was mainly due to our reputation in the industry, our comprehensive range of services offered, our extensive knowledge and experience in PRC logistics market, our ability to meet their requirements as well as our high standard of service quality. We believe we enable Customer A and Customer B the benefit of maintaining a broad market reach at a lower operating cost.
- (ii) *Valued business partners:* During our long-term course of dealings with Customer A and Customer B, we have offered continuous logistics services to Customer A and Customer B as a valued business partner and we believe both of us have developed, to a certain degree, a mutual reliance and benefit in terms of cost effectiveness and service quality. Attributed to our experienced and capable management staff and logistics team, our Group was not only involved in provision of typical transportation services or warehousing services, we also (a) provided in-plant logistics services to them within their manufacturing plants to reduce a large share of their fixed costs in terms of labour, equipment and systems management; (b) developed an efficient and effective complete logistics flow between them, our Group and their customers and suppliers; (c) applied our experience and first-hand information for providing suggestions to Customer A and Customer B in relation to (i) their delivery plan, including the points of delivery and delivery schedule; (ii) their warehousing plan, including the storage requirements; and (iii) their other logistics plans, including their shipping schedules and other specific logistics requirements with an aim of achieving higher efficiency, effectiveness and cost saving.
- (iii) *In-plant logistics services provided by our Group:* Since 2013 and 1998, we have provided in-plant logistics services to Customer A and Customer B, respectively, by seconding a team of skilled and experienced staff to their manufacturing plant along their supply chains. Our in-plant logistics services are well-integrated into the whole production processes of Customer A and Customer B to facilitate the logistics among their different production processes and also assist them to coordinate with the external logistics systems, including our transportation and warehousing services. To the best knowledge of our Directors, we were the sole provider of in-plant logistics services of Customer A and Customer B in Guangdong Province during the Track Record Period and as at the Latest Practicable Date.

As at 31 March 2017, we seconded over 600 staff in aggregate to the manufacturing plants of Customer A and Customer B. Our team works side-by-side with the factory staff of Customer A and Customer B to efficiently plan and execute the production logistics process. We are also responsible for the continuous training and management of the seconded staff. As at 31

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March 2017, our seconded staff has an average of over three years of experience working at the manufacturing plants of Customer A and Customer B. Through years of cooperation with Customer A and Customer B, our seconded staff has extensive and in depth knowledge of their operations, and in particular, familiarise themselves with the SOP of Customer A and Customer B to be complied with. Our seconded staff has also already acquired thorough understanding on the daily production and logistics flow with customers and suppliers of Customer A and Customer B. Our Directors consider that Customer A and Customer B rely on our experienced seconded staff, to a significant extent, in executing the production logistics process.

By offering comprehensive in-plant logistics services, along with the experienced personnel for executing such services, our Group has an outstanding competitive advantage over the competitors and our Directors believe that as explained below, it is not in the interest of Customer A and Customer B to replace us with another in-plant logistics service provider.

- (iv) *Our capacity to provide a broad range of logistics services to satisfy Customer A and Customer B's need:* We provide a wide range of logistics services to meet the demands and requirements of Customer A and Customer B. Our logistics services range from the provision of transportation, warehousing, in-plant logistics to customisation services which include labelling services and bundling services. These services are inter-related and complementary to each other. For instance, when our Group provides transportation services to Customer A and Customer B in respect of their production materials or finished goods, our warehousing services would facilitate the overall logistics process by providing temporary storage space for inventory pending dispatch to the manufacturing plants of Customer A and Customer B or distribution to their designated locations. Our in-plant logistics services also assist Customer A and Customer B to coordinate with the external logistics systems, including our transportation and warehousing services. Our Directors believe that our ability to provide one-stop integrated logistics services helps to ensure the smooth running of various parts of logistics processes and also reduce the time and resources required by Customer A and Customer B in logistics coordination and implementation.

In addition, prior to the provision of logistics services, we will discuss with Customer A and Customer B in relation to their delivery plan, warehousing plan and other specific logistics requirements. Such information will be transmitted into our intelligent logistics management system for the advanced planning of the supply chain process and to ensure efficient flow of services. We believe our ability to plan logistics solutions in advance could allow us to provide Customer A and Customer B with flexible logistics services which are customised to address not only their demands for specific type of logistics services, but also their overall logistics needs.

According to the CIC Report, notwithstanding that there were over 5,000 logistics service providers in Guangdong Province in 2016, majority of them only act as logistic subcontractors or offer only a limited range or single type of logistics services such as transportation services. Our Directors believe that our one-stop service model will provide a wide range of convenient and quality logistics services to Customer A and Customer B and

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enable us to react to their changing needs quickly and effectively. It gives us a competitive advantage over many other logistics service providers to develop a mutual reliance with Customer A and Customer B.

- (v) *Our diversified transportation network and geographical foothold:* Our base is strategically located in Guangdong Province, which is one of the largest industrial bases in China and a transportation hub with easy access to road and sea transportation. Our Group has the capacity to provide logistics services to meet the logistics demands of Customer A and Customer B not only in Guangdong Province, but also in other regions in the PRC. For instance, our transportation services, by road and sea or through a combination of these modes, cover across PRC. We also offer Customer A and Customer B with export sea freight forwarding agency services to other countries upon specific request. In 2001 and 2012, we expanded our in-plant logistics business with Customer B to Tianjin and Jiangsu Province, respectively, in response to their demand for such services.

In addition, in order to (i) communicate more effectively with employees of Customer A and Customer B; and (ii) improve the overall efficiency of our Group and enable us to provide better service to Customer A and Customer B, we have established branch offices in Huangpu, Tianjin and Taicang in the PRC. Over the years, we have accumulated experience and know-how to enable us to provide comprehensive and quality logistics services to Customer A and Customer B at different regions in the PRC.

Owing to our extensive experience and knowledge in the logistics industry as well as the established transportation network in the PRC, we are competent to provide logistics services at different regions in the PRC to cater for the increasing demand of Customer A and Customer B along with their business development.

- (vi) *Difficulties faced by Customer A and Customer B in engaging another logistics service provider in the PRC in place of our Group:* To the best knowledge and belief of our Directors, our Directors note that the process of identifying and approving new logistics service provider could be time consuming and might result in unforeseen operational problems to Customer A and Customer B. Over the years of cooperation, we have expanded our scope of services to include in-plant logistics services in order to accommodate the needs of Customer A and Customer B from time to time.

On the other hand, Customer A and Customer B may have to incur material initial time and cost to train up new suppliers including the transportation service providers or warehousing service providers. Being multi-national listed companies, Customer A and Customer B have both developed a comprehensive set of SOP to guide their business operations and regulate their service providers. It may take substantial set-up time and cost to integrate with their new logistics service providers to familiarise themselves with their systems and SOP and integrate the same to the new logistics service providers' own systems. By using a replacement logistics service providers without proven track record for working with Customer A and Customer B, Customer A and Customer B are required to undergo the training process from the beginning all over again and such training may not yield successful and desirable result. Under such circumstances, our Directors take the view that Customer A

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and Customer B may need to go through numerous rounds of selection and inevitably incur additional time and cost. Such time and cost will multiply if the new logistics service providers fail to accept and absorb the SOP to their daily operations.

- (vii) *Change of supplier may negatively impact Customer A and Customer B's business operations:* Given that Customer A is a multi-national pharmaceutical company with a broad portfolio of essential renal and hospital products and Customer B is a multi-national consumer goods company which has over 65 brands of products, their logistics network is therefore broad and cross-weaving and our Directors believe that it had taken much time and effort for Customer A and Customer B to establish a unique business ecosystem, so it is not easy for them to replace a long-term supplier in the PRC, like our Group, with a new player, which might cause disruption to their operation in the PRC. In particular, Customer A in general imposes more stringent requirements on the logistics services for its renal and hospital products as required by the relevant government authorities. Therefore, the temperatures and humidity levels of our warehouses are closely monitored in order to fulfill the needs of Customer A in maintaining the condition of its products. Customer A obtained the licence which indicated that the storage sites of medical equipment, materials and products of Customer A, were two of our warehouses which were primarily used for storing pharmaceutical products of Customer A. In the event that Customer A appoints another warehousing service provider, Customer A will have to apply for a change of the licence from the relevant government authorities for the storage of their products. As such, unless there are imminent unresolvable adverse factors arise, such as the quality issue of the suppliers, unreasonable price offered by the suppliers or the incapability and lack of experiences of the suppliers, our Directors are of the view that Customer A and Customer B would normally prefer a stable customer-supplier business relationship.

Alongside maintaining constant long-term business relationship with Customer A and Customer B, we have from time to time identified and taken on new customers. In addition, our Group has continued to enhance our sales and marketing efforts. Please refer to the paragraph headed "Business strategies" in this section for more details. While our Directors confirmed that our Group has no intention to limit ourselves to serving Customer A and Customer B in the future, having taken into account the following factors and measures taken by our Group, our Directors consider that our reliance on Customer A and Customer B would not affect our business prospect:

- (i) *Keep attracting more potential customers:* Our long-term business relationship with Customer A and Customer B, which are renowned companies, can be regarded as a credit of our high quality services to customers which in turn can attract more potential customers. In addition, we believe that our experience in serving Customer A and Customer B will enable us to obtain a deeper understanding of the requirements and quality standards of our customers, and improve the quality of services we offer to other customers. As such, our Directors are of the view that the Service Agreements entered into between Customer A and Customer B and us were beneficial for both parties and the reliance on each other is mutual. We consider our relationship with Customer A and Customer B is in line with our Group's strategy to focus on establishing long-term relationship with reputable customers in the market.

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- (ii) *Leading position of Customer A and Customer B:* Both Customer A and Customer B are leading multi-national companies in the world with a long business history. Our engagement with Customer A and Customer B also allows us to have exposure to serving a leading multi-national company with stringent performance indicators for assessing our performance and the quality of our services, which has benefited us in enhancing the quality of our services and assessing our performance internally. We believe that by utilising similar standards in the provision of transportation services, warehousing services and in-plant logistics services to our other customers, we are able to develop and customise our services for other customers. On the other hand, based on our engagement with Customer A and Customer B in the past 15 and 20 years, respectively, for provision of logistics services, our Directors believe that our business and growth prospect will remain positive going forward.
- (iii) *Introduction of new customers:* To diversify our customer base, the revenue generated from our other customers increased from approximately RMB44.1 million for the year ended 31 December 2015 to RMB44.7 million for the year ended 31 December 2016, and further increased from approximately RMB9.2 million for the three months ended 31 March 2016 to RMB13.0 million for the three months ended 31 March 2017. Our Directors believe that our Group is able to expand our logistics services for new customers in different industries and markets. Our Directors are of the view that the industries and markets in which our services would be needed are fragmented and therefore, offer enormous opportunities to us to expand our business penetration.

The table below sets out the breakdown of our revenue attributable to Customer A and Customer B and other customers during the Track Record Period:

	Year ended 31 December				Three months ended 31 March			
	2015		2016		2016		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(unaudited)							
Customer A	54,784	36.5	60,505	39.3	11,664	36.8	13,964	37.2
Customer B	51,393	34.2	48,770	31.7	10,819	34.1	10,574	28.2
Other customers	<u>44,100</u>	<u>29.3</u>	<u>44,700</u>	<u>29.0</u>	<u>9,208</u>	<u>29.1</u>	<u>13,017</u>	<u>34.6</u>
	<u>150,277</u>	<u>100.0</u>	<u>153,975</u>	<u>100.0</u>	<u>31,691</u>	<u>100.0</u>	<u>37,555</u>	<u>100.0</u>

It is noted that, based on the financial information set out above, the percentage of our Group’s total revenue attributable to Customers A increased by approximately 10.4% for the year ended 31 December 2016. This was mainly due to the increased orders for our warehousing and in-plant logistics services as a result of its business growth and increase in income in the PRC market of Customer A. On the other hand, the percentage of our Group’s total revenue attributable to Customers B decreased by approximately 5.1% for the year ended 31 December 2016. This was mainly due to the change in its logistics planning, resulting in the decrease in orders for our transportation services. For further details, please refer to the section headed “Financial Information — Period to period comparison of results of operation” in this document.

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Our revenue generated from customers other than Customer A and Customer B increased by 1.4% from RMB44.1 million for the year ended 31 December 2015 to RMB44.7 million for the year ended 31 December 2016, and further increased by 41.4% from RMB9.2 million for the three months ended 31 March 2016 to RMB13.0 million for the three months ended 31 March 2017. We had transactions with 82, 88 and 72 customers, respectively, for the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, of which 17, 16 and two were our new customers obtained for the respective periods. The revenue contributed by our new customers obtained during the Track Record Period amounted to approximately RMB0.7 million, RMB8.3 million and RMB6.3 million for the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, respectively.

New customers obtained during the Track Record Period

As concrete measures to lower our reliance on our current major customers which are Customer A and Customer B, we have been diversifying our logistics services to a broader spectrum of industries. In November 2015, our Group commenced its business relationship with a PRC based manufacturer of special film products which are mainly used in one-off hygiene products such as sanitary napkins and panty liners (i.e. Customer C). The revenue generated from Customer C amounted to nil, approximately RMB4.6 million and RMB5.0 million for the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, respectively.

In May 2016, our Group commenced business relationship with a well-known multi-national confectionery company which is famous for its chocolate products (i.e. Customer H). The revenue generated from Customer H amounted to approximately RMB1.6 million and RMB0.5 million for the year ended 31 December 2016 and the three months ended 31 March 2017. Although the revenue generated from Customer H was relatively small, our Directors are of the view that having a stable business relationship with well-known Customer H is a credit to our high quality services which in turn can attract more potential customers.

In May 2016, our Group commenced business relationship with a multi-national industrial chemical manufacturing company (i.e. Customer I). The products of Customer I are generally used to enhance the performance, appeal and processing of a broad range of products used in industrial, paper and consumer-based application. The revenue generated from Customer I amounted to approximately RMB0.6 million and RMB0.2 million for the year ended 31 December 2016 and the three months ended 31 March 2017, respectively.

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The table below sets out the breakdown of our revenue generated from new customers obtained during the Track Record Period:

	Year ended 31 December		Three months ended
	2015	2016	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Customer C	—	4,565	4,993
Customer H	—	1,567	505
Customer I	—	558	223
Other new customers	<u>702</u>	<u>1,565</u>	<u>567</u>
	<u>702</u>	<u>8,255</u>	<u>6,288</u>
Approximate % of total revenue	0.5%	5.4%	16.7%

Our new customers are mainly (i) referred from our existing customers; and (ii) walk-in customers who engaged us to provide logistics services due to our reputation and track record. Our Directors believe that referrals reflect our customers’ satisfaction to our services.

Sustainability of our business

There is no guarantee that we can maintain our business relationship with Customer A and Customer B in the future. Nevertheless, we believe that our business is sustainable based on the factors set out below:

- (i) *We and Customer A and Customer B are inter-dependent:* We, as the current sole provider of in-plant logistics service of Customer A and Customer B in Guangdong Province, provide not only typical transportation and warehousing services to these customers, but also in-plant logistics services to them along their supply chains, from which Customer A and Customer B can enjoy our professional services at a lower operating cost comparing with developing its own warehousing facility or logistics team or engaging repacking staff. Through years of cooperation with Customer A and Customer B, our seconded staff of in-plant logistics services has extensive and in depth knowledge of their operations, and in particular, familiarise themselves with the SOP of Customer A and Customer B to be complied with. Our Directors consider that Customer A and Customer B rely on our experienced seconded staff, to a significant extent, in executing the production logistics process. Our wide range of logistics services are inter-related and complementary to each other to meet the demands and requirements of Customer A and Customer B. Our Directors believe that our ability to provide one-stop integrated logistics services helps to ensure the smooth running of various parts of logistics processes and also reduce the time and resources required by Customer A and Customer B in logistics coordination and implementation.

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We have maintained long and stable business relationships with Customer A and Customer B for approximately 15 and 20 years, respectively, without any interruption and we have not experienced material dispute with them so far. Our Group has already acquired thorough understanding on the daily logistics flow with the customers and suppliers of Customer A and Customer B. In addition, to provide better service to Customer A and Customer B, we have established branch offices in Huangpu, Tianjin and Taicang in the PRC. Over the years, we have established diversified transportation network and accumulated experience and know-how to enable us to provide comprehensive and quality logistics services to Customer A and Customer B at different regions in the PRC. We have met the performance indicators set by Customer A and Customer B throughout the years of collaboration and obtained a number of awards from Customer A and Customer B for our achievement of high quality standards, which demonstrate recognition from them. In this regard, it is economically and technically unreasonable to change the current business relationship with our Group, as Customer A and Customer B may need to adapt to the operation model of the new service provider and face the risk of interruption in operation and the customers and suppliers of Customer A and Customer B with unsatisfactory services provided by the new logistics service provider. According to the CIC Report, in the PRC, there is a strong dependency between manufacturing companies and their logistics service providers as it could save cost and time for the manufacturing companies and it is also easier for them to manage, track and ensure the uniformity of the logistics processes. As a result, we consider that the inter-dependent relationship between Customer A and Customer B and our Group is in line with industry practice.

Based on past experience, our Company generally negotiates with Customer A and Customer B for the renewal of the services agreements within one to two months before the expiration date thereof for the relevant period in practice. Our Directors are fully confident that the Company will be able to renew the services agreements and continue the business relationship with Customer A and Customer B for the next term and going forward and there would not be any material impediment to the renewal of the service agreements with them upon expiry.

- (ii) *Industry landscape:* Our Group is well-positioned in the PRC logistics market. According to the CIC Report, the revenue for the logistics services in the PRC is expected to grow with the gradual acceleration of China’s economic growth, and further penetration of logistics services into lower-tier cities. Over our operating history, we have built up good reputation of reliability and high quality services and our Directors are of the view that we are well prepared to take on new customers and explore new business opportunities. As such, our Directors are of the view that there are plenty of market opportunities available for our Group to further develop our customer base in the long run and reduce the reliance on Customer A and Customer B.
- (iii) *Transferable skills:* Our Group’s services model and facilities are not specifically designed to cater solely for Customers A or B. In contrast, they are flexible and adaptable in serving different customers’ needs. In the unlikely event that our current business relationship with Customer A and Customer B deteriorates, we shall be able to avail our storage space and resources to serve other existing customers and new customers in a timely manner. Our Directors are of the view that, provided that our Group has sufficient resources, our services

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can be readily transferred to serve other potential new customers and satisfy their needs, especially in view of the wide range of logistics services offered by our Group. Based on past experience, our Directors estimate that depending on customers' different needs and requirements, it would take less than one month to a few months to complete the preparations for serving new customers' orders and it does not incur significant costs for our Group to re-allocate our resources to serve new customers' orders. The preparation works required for serving new customers, which does not incur any significant costs, usually include fine-tuning quality procedures to suit individual customer requirements, coordinating with new customers, re-designing the delivery route, allocating warehousing space and updating computer systems to facilitate the process.

- (iv) *Continue to identify potential customers:* In the unlikely event that our current business relationship with Customer A and Customer B deteriorates, we believe that we will be able to respond to market challenges in a timely manner and adjust our business direction swiftly to face any new challenges, as demonstrated by the number of new customers we gained during the Track Record Period. We will continue to monitor the market trend and identify potential customers. We have from time to time identified potential customers to cooperate with.

During the Track Record Period, we had commenced business relationship with several new customers including Customer C, Customer H and Customer I. As a plan to diversify our customer base in the long run, we would continue to (i) maintain a close business relationship with the existing customers; and (ii) identify potential customers, which we consider have good market potential with reference to the industry insights of our Directors. Our Directors believe that, with our experience and proven track record in the logistics industry and our relevant network in the PRC, we will be able to replicate our success in the unlikely event that our relationship with Customer A and Customer B deteriorates.

- (v) *Continue to enhance the quality of our services:* As one of our business strategies, we intend to upgrade our existing warehouses by installation of automated storage facilities and system to provide high quality logistics services to our customers. In addition, we also intend to expand our existing in-plant logistics business in the North China and East China regions and expand our vehicle fleet in order to capture the growing opportunities in the demand for our services. Our Directors believe that such expansion can strengthen our position as a logistics service provider in the PRC to maintain a steady growth of our business at the same time.
- (vi) *Experienced and dedicated management team:* Our management team has extensive and in-depth knowledge of the logistics industry and our Groups' operations. Our executive Directors has an average of 20 years of experience in the logistics industry and managing logistics business. We consider that they are important in driving our future business development. Additionally, we have a stable team of competent staff. As at 31 March 2017, we had 862 full-time employees, of which 290 employees have worked with us for over five years (represented approximately 33.6% to the total number of employees, respectively).

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Material terms of the Service Agreements with Customer A and Customer B

Our agreements with Customer A and Customer B have a term of one to two years. The major salient terms are set out below:

- Scope of services* — The agreement specifies the types of services we provide including but not limited to transportation, warehousing and in-plant logistics services.
- Payment term* — We do not require Customer A and Customer B to pay any deposit, as we have long-term relationship with them. We will issue an invoice to Customer A and Customer B on a monthly basis based on the quantity of services we rendered in that month.
- Credit period* — 60 days to 77 days for Customer A and 75 days for Customer B, respectively. Since January 2017, the credit period offered to Customer A was adjusted to 77 days in relation to our transportation services offered to them.
- Key performance indicators* — We are required to meet the KPIs set by Customer A and Customer B, respectively. In case such KPI results are below the relevant standards, we are required to develop a detailed plan to improve the KPI generally within three calendar days upon receiving written notice from Customers A or B.

The details of material KPIs in relation to our logistics services provided to Customer A and Customer B are set out below:

Concerned aspects	KPI	Descriptions
Transportation	● On-time delivery	To ensure the timely delivery of inventory to the designated locations
	● Accurate and complete delivery	To ensure that all the inventory is delivered to the designated locations in an accurate manner
	● Condition of inventory	To ensure that the inventory is delivered in good condition without damage
	● Customers satisfaction	To be assessed by the number of complaints from (i) Customer A or Customer B; and (ii) their respective customers and suppliers

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Concerned aspects	KPI	Descriptions
Warehousing	<ul style="list-style-type: none"> ● Inventory accuracy and maintenance 	To ensure that the number and location of inventory are correct; and the inventory is maintained in good condition without damage
	<ul style="list-style-type: none"> ● Order accuracy 	To ensure that the inventory is received and dispatched timely and in an accurate manner
	<ul style="list-style-type: none"> ● Quality control and incidents 	To ensure that there is no serious quality incidents
	<ul style="list-style-type: none"> ● Customers satisfaction 	To be assessed by the number of complaints from (i) Customer A or Customer B; and (ii) their respective customers and suppliers
In-plant logistics	<ul style="list-style-type: none"> ● On-time delivery 	To ensure that the materials is delivered to production line timely and in an accurate manner
	<ul style="list-style-type: none"> ● Inventory accuracy and maintenance 	To ensure that the number and location of inventory are correct; and the inventory is maintained in good condition without damage
	<ul style="list-style-type: none"> ● Employee turnover 	To ensure the stability of seconded staff
	<ul style="list-style-type: none"> ● Customers satisfaction 	To be assessed by the number of complaints from Customer A or Customer B

During the Track Record Period and up to the Latest Practicable Date, we had not received any notification from Customer A or Customer B that we had failed to reached their KPI benchmarks. Our revenue and business was not negatively affected by any breaches of KPI. If Customer A or Customer B informs us that our services have failed to meet the requirements of the KPIs, our quality control staff will follow-up the matter by reviewing the performance of our services and providing detailed follow-up improvement plan.

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Apart from the above, there are no changes in material terms in the Service Agreements with Customer A and Customer B during the Track Record Period.

Customer services and new customers

Our customer service department handles customer general enquiries, complaints and feedback and also participates in the process of assessing whether to accept a new customer.

Our new customers are mainly (i) referred from our existing customers; and (ii) walk-in customers who engaged us to provide logistics services due to our reputation and track record. Upon receiving any enquiry about our services from potential customers, we will discuss with the potential customers and understand (i) their delivery plan, including the points of delivery and delivery schedule; (ii) their warehousing plan, including the storage requirements; and (iii) their other logistics plans, including their shipping schedules and other specific logistics requirements, if any, to evaluate our existing schedule and feasibility.

As we aim to establish long-term relationships with reputable customers, we place great emphasis on evaluating the background of the potential customers. We will check the reputation and history of the customers in the industry.

After going through our internal discussion, and once we have confirmed our acceptance of the potential customers, we will provide price quotations to the potential customers specifying our price for different types of services.

We recognise that good customer service is crucial in maintaining our reputation in the market and cultivating customer loyalty. Thus, we closely follow up with the orders and the level of satisfaction of our customers. We also gather customers' feedback and review the flow of our services in order to increase our customers' satisfaction and improve our service quality. As at 31 March 2017, we had six employees in our customer service department.

We had not experienced any material complaints by our customers during the Track Record Period.

SUPPLIERS

Our suppliers mainly include subcontractors for transportation services and landlords. During the Track Record Period, we rented five premises in Guangdong Province as our warehouses with an approximate total area of 59,000 sq.m. from the landlords which are all Independent Third Parties.

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The following table sets forth the breakdown of total direct costs during the Track Record Period:

	Year ended 31 December		Three months ended
	2015	2016	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sub-contracting expense:			
Sub-contracting logistics services expenses	31,369	35,663	9,779
Sub-contracting labour cost	6,523	125	—
Operating lease rentals:			
Operating lease rentals in respect of rented premises	14,492	14,856	3,785
Operating lease rentals in respect of plant and machinery and office equipment	<u>3,303</u>	<u>3,668</u>	<u>860</u>
Total direct costs	<u><u>55,687</u></u>	<u><u>54,312</u></u>	<u><u>14,424</u></u>

The following table sets forth the details of our five largest suppliers during the Track Record Period:

For the three months ended 31 March 2017

Supplier	Principal business with our Group	Commencement year of our business relationship	Locations of business operations	Approximate % of our total direct costs
Supplier A	our subcontractor for transportation services	2016	PRC	20.8%
Supplier B	our subcontractor for transportation services	2014	PRC	18.2%
Supplier C	our subcontractor for transportation services	2015	PRC	11.0%
Supplier D	our subcontractor for transportation services	2011	PRC	8.5%
Supplier E	our landlord	2010	PRC	<u>6.3%</u>
Approximate % of our total direct costs attributable to our five largest suppliers				<u><u>64.8%</u></u>

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For the year ended 31 December 2016

Supplier	Principal business with our Group	Commencement year of our business relationship	Locations of business operations	Approximate % of our total direct costs
Supplier B	our subcontractor for transportation services	2014	PRC	24.7%
Supplier C	our subcontractor for transportation services	2015	PRC	7.8%
Supplier F	our landlord	2013	PRC	7.7%
Supplier D	our subcontractor for transportation services	2011	PRC	7.5%
Supplier E	our landlord	2010	PRC	<u>7.2%</u>
Approximate % of our total direct costs attributable to our five largest suppliers				<u><u>54.9%</u></u>

For the year ended 31 December 2015

Supplier	Principal business with our Group	Commencement year of our business relationship	Locations of business operations	Approximate % of our total direct costs
Supplier B	our subcontractor for transportation services	2014	PRC	22.6%
Supplier D	our subcontractor for transportation services	2011	PRC	9.6%
Supplier F	our landlord	2013	PRC	7.6%
Supplier G	labour dispatch provider	2013	PRC	7.5%
Supplier E	our landlord	2010	PRC	<u>7.3%</u>
Approximate % of our total direct costs attributable to our five largest suppliers				<u><u>54.6%</u></u>

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We have developed close business relationships with our five largest suppliers. Our five largest suppliers had business relationships with us for an average of more than four years as at the Latest Practicable Date. For the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, our direct costs attributable to our five largest suppliers amounted to approximately RMB30.4 million, RMB29.8 million and RMB9.2 million, which accounted for approximately 54.6%, 54.9% and 64.8%, respectively, of our total direct costs, which include operating lease rentals and sub-contracting expenses. Our direct costs attributable to our largest supplier amounted to approximately RMB12.6 million, RMB13.4 million and RMB3.0 million which accounted for approximately 22.6%, 24.7% and 20.8%, respectively, of our total direct costs during the same period.

During the Track Record Period, our five largest suppliers were all Independent Third Parties. None of our Directors, their respective associates or any Shareholder (who or which, to the best knowledge of our Directors owns more than 5% of the issued share capital of our Company) had any interest in our five largest suppliers during the Track Record Period.

Subcontracting arrangement for transportation services

During the Track Record Period, we subcontracted certain transportation services, generally including (i) long-distance transportation services to designated locations across the provinces in the PRC; and (ii) export sea freight forwarding agency services, to Independent Third Parties. We consider that this subcontracting arrangement would (i) minimise our need to employ and maintain a large workforce; and (ii) increase flexibility and cost effectiveness in carrying out our services. For the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, our subcontracting logistics services expenses accounted for approximately 56.3%, 65.7% and 67.8% of our total direct costs, respectively.

During the Track Record Period, we charged our customers based on (i) the service fee schedules we provided to our customers which would be updated from time to time, or (ii) the agreed service fees stated in the master agreements. In cases where our service fees were charged based on the service fee schedules provided by us from time to time, we were able to pass on the increased subcontracting costs to our customers each time we updated our service fee schedules by taking into account the actual logistics fees charged by our subcontractors. In cases where our service fees were agreed upon the entering of the master agreements, although we may be exposed to risk of increased costs throughout the term of the agreements, such agreements generally included terms allowing us to adjust our service fees if fuel price increased over an agreed percentage. Moreover, we could mitigate the risk of increased costs over time through entering into master agreements of relatively short period of time, normally one to two years, such that we were able to adjust our service fees when renewing the agreements.

We did not enter into any long-term subcontracting agreements with any subcontractors for transportation services during the Track Record Period. We normally enter into contracts for a term of one to two years with these subcontractors which are selected through a tendering process or by negotiation. The contracts set out the principal terms of the subcontracting arrangement (such as price and payment term) whereas the terms and conditions of an individual transaction (such as quantity of inventory to be delivered, delivery route and delivery schedule) will be set out in the relevant purchase

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order of the transaction. To secure services from suitable subcontractors, we will first assess the ability of candidates in performing logistics and transportation functions in different aspects as follows:

- business scope, registered capital and organisation structure of the subcontractors
- number and working experience of the staff
- equipment and information systems applied
- licences and permits obtained

Our Directors are of the view that the subcontracting arrangement for transportation services is common within the logistics industry. We maintained a co-operative relationship with our subcontractors and will exercise all reasonable endeavours to cultivate and maintain such relationship. In addition, we require our subcontractors to follow our in-house rules in relation to service quality and occupational safety. All of our subcontractors possess relevant licences for operating their transportation services.

In general, the subcontractors charge us based on the price stated in the subcontracting agreements which specifies the price for each type of services they provided. There is no minimum requirement nor are we required to pay our subcontractors minimum fees for the services.

Our Group engaged 27 subcontractors for transportation services during the Track Record Period. As at the Latest Practicable Date, our five largest subcontractors had business relationships with us for an average of more than three years. Our Group places orders with most of the subcontractors in respect of the transportation schedules at least once per day and will adjust the schedule according to the workload every day. The five largest subcontractors for transportation services accounted for approximately 81.5%, 78.7% and 94.1% of our total subcontracting logistics services expenses, for the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, respectively. During the Track Record Period, there was no material breach of subcontracting agreements by these 27 subcontractors for transportation services. The salient terms of a typical subcontracting agreement for transportation services are set out below:

<i>Terms or duration:</i>	One to two years.
<i>Obligations:</i>	The subcontractors provide transportation services with their own vehicles and machineries (where relevant).
<i>Price:</i>	The subcontracting agreement normally specifies the types of services to be provided and the price of such services. The price is determined by us and individual suppliers and thus, it varies between different agreements.
<i>Credit term:</i>	Generally ranging from 30 to 90 days from the invoice date
<i>Payment terms:</i>	No deposit is required. Amount payable to the subcontractor will be settled monthly.

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Termination: If the subcontractor (i) fails to fulfill its obligations without immediate rectifications; or (ii) ceases to carry on business, the subcontracting agreement will be terminated with immediate effect without any compensation.

The subcontracting agreement can generally be terminated by either party by giving prior written notice of 30 days to 60 days. During the Track Record Period, none of our subcontracting agreements with the subcontractors was terminated by reason of material breach by the subcontractors or cessation of business of the subcontractors.

Quality of subcontractors

In order to ensure the quality of our subcontractors, we implement certain quality control procedures over the subcontractors:

- (i) *Subcontractor selection* — We generally select independent subcontractors based on their track record, their availability, ability or capability to handle the relevant orders, and the cost of service. Based on these factors, our Group selects and maintains a list of approved subcontractors through a tendering process or by negotiation. The selected subcontractors are required to demonstrate experience in performing logistics and transportation functions.
- (ii) *Price and performance review* — We review the performance, turnaround time and pricing terms offered by our subcontractors on an annual basis before we decide to renew the contracts or otherwise. We also assess whether a subcontractor has sufficient resources and skills to fulfill our requirements. If any subcontractor repeatedly fails to meet our quality standards without immediate rectification, we will terminate the subcontracting agreement with the subcontractor with immediate effect without compensation and we will not engage such subcontractor again.
- (iii) *Licences check* — We will check whether the subcontractors possess the relevant licences for operating their business.

During the Track Record Period, we did not experience any material delay of supply due to defaults of our subcontractors. Our Directors have confirmed that none of our suppliers was a major customer during the Track Record Period. In the event that any subcontracting agreement is terminated for whatever reason, our Directors are of the view that we do not anticipate there would be any material difficulties in sourcing new subcontractors for replacement as there are many comparable subcontractors in the market.

SEASONALITY

As a logistics service provider in the PRC, we are primarily engaged in providing services to our customers to serve their needs along their supply chains. Our business performance therefore, to a large extent, is affected by our customers' business performance and developments in the PRC.

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In general, the demands for our services would fluctuate corresponding to the fluctuations in the demands for our customers’ products. Demand for our services is generally stronger during the second half of the year, especially around the Mid-Autumn Festival and the Christmas holidays. Accordingly, we generally record higher sales in the second half of the year and lower sales in the first half of the year. Comparison of the sales and operating results from different periods in any given financial year may not be relied upon as indicators of our performance.

SALES AND MARKETING

Due to our long history in the logistics industry in the PRC and our well-established relationship with our existing customers, we are able to rely on our existing customer base, our reputation in the industry and client referrals to expand our business so that we do not rely heavily on promotional activities.

However, to maintain the market awareness of our brand and our services and taking into account that our services are rendered to different kinds of customers in different locations in the PRC, our staff are required to put on staff uniform when they are at work. We also put the banners with our Group’s names and logos hanged on our fleet of vehicles.

We consider maintaining constant business relationships with our customers and potential customers in the logistics industry is important for our Group to explore new and potential business opportunities. We intend to enhance our sales and marketing strategy in order to promote our brand awareness through various means, including participating in promotional activities such as industry exhibitions and trade fairs. For more details, please refer to the paragraph headed “Business strategies” in this section.

QUALITY CONTROL

Our Directors consider that the ability to maintain the quality of our logistics services is crucial to the long term growth of our Group.

Our quality control measures are implemented by our quality assurance team comprising three quality assurance officers, who would supervise a quality control team comprising eight quality control staff. Most of our customers have developed their own KPIs to review and evaluate our services. To this end, we have developed a comprehensive set of SOP with our customers to guide and regulate our daily business operations to ascertain if our services can meet their KPIs. Our quality assurance officers are responsible for formulating and implementing systematic quality control policies and SOP that are integrated into our operational processes in order to maximise the overall quality consistency of our services. They also oversee, in general, compliance of the quality control policies and SOP by different departments of our Group. Our quality assurance team also monitors our Group’s quality of services to our customers, including Customer A and Customer B, to ensure compliance with the specific performance indicators set by our customers at all times. Our quality control team, supervised and led by the quality assurance officers, is responsible for carrying out sample checks and inspections on the inventory to be delivered or stored to identify quality defects.

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Our quality control policy mainly includes the following processes:

- Operation — Every stage of our operation process is monitored by our quality control team to ensure that the operation process conforms to specific quality control requirements and SOP in order to maximise the overall quality consistency of our services. Supervisors of different operation processes also carry out regular inspection.
- Compliance — Compliance of the quality management policies and procedures by different departments of our Group is monitored by our quality control team. Internal audits to identify areas for improvements are also conducted on a regular basis.
- Machinery and equipment management — Regular inspections and maintenance are carried out by us to ensure the up-to-standard performance of our machinery and equipment.
- Staff quality awareness — Regular trainings and continuous assessments of the performance of staff are conducted.

As at the Latest Practicable Date, Guangzhou World-Link, a subsidiary of our Company, have obtained certificate of ISO9001:2008. The ISO9001 certification is an internationally recognised standard for quality management.

During the Track Record Period and up to the Latest Practicable Date, there was no incident of failure of our quality control systems which had a material impact on our business operations.

ENVIRONMENTAL PROTECTION

Pursuant to the PRC Prevention of Environmental Noise Pollution Law (中華人民共和國環境噪聲污染防治法), noise arising from the industrial and manufacturing activities should not exceed the prescribed emission level. Our Group had complied with the relevant environmental protection laws, including the PRC Prevention of Environmental Noise Pollution Law, and had not been penalised by the environmental protection administration during the Track Record Period. There were no accidents and fatalities which had material adverse impact on the business of our Group during the Track Record Period.

Due to the nature of our business, our operational activities do not directly generate industrial pollutants, and we did not directly incur any cost of compliance with applicable environmental protection rules and regulations during the Track Record Period. Our Directors expect that our Group will not directly incur significant costs for compliance with applicable environmental protection rules and regulations in the future. As at the Latest Practicable Date, our Group had not come across any material non-compliance issues in respect of any applicable environmental protection laws and regulations in the PRC and had not been subject to any administrative penalty as a result of any breach of environmental protection laws or regulations in the PRC.

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HEALTH AND WORK SAFETY

Our Group is subject to the requirements under the local laws, national standards and industrial standards in the PRC to maintain safe working conditions and to protect the occupational health of employees. Please refer to the section headed “Regulatory Overview” in this document for further information about these laws and regulations.

Our Group has established procedures to provide our staff with a safe and healthy working environment by setting out a series of work safety rules in the staff manual for our staff to follow. In addition, our Group provides our employees with occupational safety education and trainings to enhance their awareness of safety issues.

The Directors confirm that, during the Track Record Period, our Group had complied with the relevant PRC health and workplace safety regulatory requirements in all material respects and did not experience any incidents or accidents in relation to workers’ safety or any non-compliance with the applicable laws and regulations relevant to the work safety and health issues. No administrative sanctions or penalties that have a material and adverse effect on our Group’s financial condition or business operations have been imposed on our Group for incidents of non-compliance of any health and safety laws or regulation in the PRC during the Track Record Period.

COMPETITION

According to the CIC Report, the logistics industry in the PRC is fairly fragmented and competitive due to its massive size. However, the third-party logistics industry in Guangdong Province is relatively concentrated comparing to the competitive landscape in China’s nationwide logistics industry. In 2016, Guangdong Province had over 5,000 logistics service providers, with the top five companies occupying approximately 14.8% of the total market share in 2016.

Leading logistics service providers in the PRC are mainly large-scale state-owned enterprises, which generally have more assets, resources and business connections to secure global servicing contracts with multi-national companies. They tend to provide a comprehensive range of services from freight forwarding, supply chain management solutions, customs clearance, freight tracking and monitoring, to distribution solutions.

Our Directors believe that our Group primarily competes with the competitors based on our ability to provide comprehensive, flexible and reliable logistics services to our customers, quality of services (including reliability, responsiveness, expertise and convenience) provided and price.

INFORMATION TECHNOLOGY

Our existing intelligent logistics management system is tailored to cater for our various operational and functional needs, including delivery route planning, tracking and tracing and purchase order management. Our intelligent logistics management system also monitors the status of transportation of goods transported by our vehicle fleet to ensure that inventory is delivered to the correct destinations on time as specified by the customers. The system also allows our customers to log in to check and monitor the level of inventory they have placed for storage at our warehouses. In addition, in light of our growth and expansion, we intend to upgrade our existing warehouses with automated storage facilities and

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system. We believe that the increased level of automation enhances our capacity, quality, reliability and cost efficiency. For more details, please refer to the paragraph headed “Business strategies” in this section.

In respect of our inventory management, our intelligent logistics management system with barcode scanners enables us and our customers to keep track of, and input stock data, discrepancy levels, reordering levels, and control expiry-date products. These features allow efficient inventory management and effective inventory replenishment planning.

In addition, GPS is currently being installed in most of the vehicles in our fleet and can be used for monitoring the location of each vehicle. The use of this system optimises the efficient use of our vehicles.

We engage third party software developers to develop our customised information technology systems. These systems generally can be further tailored to meet new customers’ requirements. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any failure in our operation systems which caused material disruptions to our operations.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, our Group was the registrant of six domain names. Our Group had registered two trademarks in the PRC.

Detailed information of our intellectual property rights is set out in the section headed “Statutory and General Information — B. Further information about the business of our Group — 2. Intellectual property rights of our Group” in Appendix IV to this document.

Our Directors confirmed that we had not experienced any infringement to our intellectual property during the Track Record Period which had a material adverse effect on our business, results of operations, financial condition and prospects. Our Directors further confirmed that we had not received any infringement claims nor had we filed any infringement claims against any third parties during the Track Record Period and up to the Latest Practicable Date.

PROPERTIES

During the Track Record Period, we rented five premises as our warehouses in Guangdong Province with an approximate total gross floor area of 59,000 sq.m.. Since April 2017, we have further expanded our warehouses by leasing a new warehouse in Guangdong Province with an approximate gross floor area of 9,000 sq.m.. In addition, we also rented several units as our offices and temporary staff quarters in Guangdong Province, Tianjin, Jiangsu Province, Zhejiang Province, Fujian Province and Shanghai. Apart from the office located at Citic Plaza in Guangzhou which was leased from Mr. Li JM, Mr. Li JX and their three brothers, all of our leases were entered into with Independent Third Parties.

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As at the Latest Practicable Date, the properties leased by our Group, which were all in the PRC, are set out in the following table:

No	Location of property	Approximate gross floor area (sq.m.)	Date of expiry of lease	Usage
1	No. 59 Xiantang Road, Yongshun Avenue, Luogang District, Guangzhou, Guangdong Province	10,000	31 January 2022	Warehouse
2	No. 3 Warehouse, No. 61 Xiantang Road, Yongshun Avenue, Luogang District, Guangzhou, Guangdong Province	10,000	31 October 2019	Warehouse
3	A2 Warehouse, No. 63 Xiantang Road, Yongshun Avenue, Luogang District, Guangzhou, Guangdong Province	9,000	19 August 2022	Warehouse
4	Xinmiaoshan Warehouse, Jitanger Community, Fengle North Road, Huangpu District, Guangzhou, Guangdong Province	18,000	31 December 2018	Warehouse
5	Jiazhuang Gangao Warehouse, Jitang Village, Huangpu District, Guangzhou, Guangdong Province (Note 2)	12,000	31 May 2019	Warehouse
6	No. 2 Warehouse, No. 61 Xiantang Road, Yongshun Avenue, Luogang District, Guangzhou, Guangdong Province	9,000	15 April 2027	Warehouse
7	Units 1301 and 1302, 13/F, Citic Plaza, No. 233 Tianhe Road North, Guangzhou, Guangdong Province	400	30 November 2019	Office
8	Room 612, Building A, Gangkou Business Centre, Binjiang Avenue West, Gang District, Taicang, Jiangsu Province	80	30 June 2019	Office
9	Room 601 and 602, North Block, Cansong Building, Tairan Six Road, Futian District, Shenzhen, Guangdong Province	10	30 April 2018	Office
10	Room 1706, Dongyi Building, Taihu Road, Hexi District, Tianjin	50	31 May 2018	Office

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No	Location of property	Approximate gross floor area (sq.m.)	Date of expiry of lease	Usage
11	Rooms 305, 306, 403 and 404, No. 18, Eight Lane, Jiazhuang Village, Huangpu District, Guangzhou, Guangdong Province (<i>Note 1</i>)	100	14 December 2017	Staff Quarter
12	Shop No. 3 on Ground Floor, Longtang Village, Lechong Village Committee, Sanbu District, Kaiping, Guangdong Province (<i>Note 1</i>)	30	31 December 2017	Staff Quarter
13	3rd Floor, No. 17 Xihua Main Street, Datang, Guangzhou, Guangdong Province	100	30 June 2018	Staff Quarter
14	Room 402, No. 818 Yihai Road, Haizhu District, Guangzhou, Guangdong Province	100	31 December 2017	Staff Quarter
15	5-2-102, Quanji North Lane, Dasi Town, Xiqing District, Tianjin	100	17 July 2018	Staff Quarter
16	8-501, Jinguang Lane, Zishui Road, Hexi District, Tianjin (<i>Note 1</i>)	50	31 March 2018	Staff Quarter
17	19-1-102, Quanji North Lane, Dasi Town, Xiqing District, Tianjin	140	30 June 2018	Staff Quarter
18	Room 505, Building 55, Heping Garden, Fuqiao Town, Taicang, Jiangsu Province (<i>Note 1</i>)	100	1 December 2019	Staff Quarter
19	Room 302, Building 69, Heping Garden, Fuqiao Town, Taicang, Jiangsu Province (<i>Note 1</i>)	80	4 November 2019	Staff Quarter
20	Room 302, Building 37, Heping Garden, Fuqiao Town, Taicang, Jiangsu Province (<i>Note 1</i>)	90	1 January 2020	Staff Quarter
21	Room 32-402, Hechi Garden, Taicang, Jiangsu Province (<i>Note 1</i>)	90	30 October 2019	Staff Quarter
22	Room 108, Building 3, No. 166 Loumen Road, Jiangsu Province	20	2 December 2017	Staff Quarter
23	Room 1804, No. 560-6 Baoxiang Road, Jiading District, Shanghai	80	8 August 2018	Staff Quarter

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No	Location of property	Approximate gross floor area (sq.m.)	Date of expiry of lease	Usage
24	No. 266 Huancheng North Road, Qiancang Town, Pingyang county, Wenzhou, Zhejiang Province (<i>Note 1</i>)	200	31 December 2017	Staff Quarter
25	Room 501, No. 115 Chengzinei Lane, Wutu Community, Xinmin Town, Tongan District, Xiamen, Fujian Province (<i>Note 1</i>)	100	31 October 2017	Staff Quarter

Notes:

- Property ownership certificates of the premises have not been provided by the relevant lessors to us. As advised by our PRC Legal Advisers, in the event that any party claims its right upon such properties or actions raised by relevant governmental authorities against the lessors for improper use of such properties, we may not be able to continue such leases and as such we may need to relocate and seek for an alternative location for our offices. In addition, we are exposed to the possibility of being required by the relevant PRC authorities to register the relevant lease agreements within a prescribed time limit. If we fail to do so, we may be subject to fines ranging from RMB1,000 to RMB10,000 for each non-registered lease. However, as at the Latest Practicable Date, we have not been fined by the relevant PRC authorities with respect to such leases.
- The warehouse is situated at a collective construction land (the “**Land**”) owned by two landlords, which are economic cooperatives (the “**Economic Cooperatives**”). They initially leased the right to use the Land to certain individual, and after a chain of sub-leases, the Land was sub-leased to the landlord which in turn sub-leased it to Guangzhou World-Link.

Pursuant to a confirmation executed by the Economic Cooperatives (the “**Confirmation**”), they did not obtain any approval from over two-third of the representatives of members of the Economic Cooperatives (the “**Representatives**”) in relation to the lease and the chain of sub-leases of the Land until December 2016, when the Economic Cooperatives convened a meeting to rectify and confirm the foregoing matters by over two-third of the Representatives.

As advised by the PRC Legal Advisers, following the said meeting of the Economic Cooperatives, the lease and the chain of sublease of the Land complied with the relevant laws and regulations of the PRC and the articles of associations of the Economic Cooperatives, and were valid and legally binding on the parties. Accordingly, it is unlikely that the Economic Cooperatives would revoke the relevant lease and sub-leases or evict Guangzhou World-Link from the warehouse.

Up to the Latest Practicable Date, we had maintained stable business relationships with our landlords. We believe that our stable relationships with our landlords was mainly due to our reputation in the industry and our good payment record since we commenced our business relationships with them.

Based on our Directors’ experience, the renewal negotiation with our landlords usually commences one to three months prior to the expiry of the tenancy agreements. Our Group intends to renew all the leases upon expiry. The rentals under our current tenancy agreements with landlords of our warehouses would generally increase on an annual or biennial basis according to the terms in the tenancy agreements. We did not have significant difficulties in renewing our tenancy agreements in a timely manner during the Track Record Period. In the event that our landlords do not renew the tenancy agreements with us, our Directors are of the view that it would not have any material and adverse impact

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on our business and operations because (i) we can find comparable properties to relocate the relevant logistics facilities, if necessary; and (ii) we do not anticipate any material practical difficulties in relocating these facilities and the estimated time and cost for relocation are not substantial.

Our Directors consider that our five warehouses are essential to our business. Our Directors estimate that, in case of expiry or early termination of the tenancy agreements with landlords of our warehouses, our Group would be able to relocate our warehouses and logistics facilities with minimal disruption to our operations. The relocation covers the following aspects: (i) details of the property identified; (ii) time for relocation; and (iii) estimated costs of the relocation.

- Property identified* — To the best knowledge of our Directors and after due enquiries with property agencies, there are other alternative premises in Guangdong Province for lease of comparable size and rent for similar usage.
- Time for relocation* — Our Directors estimate that the time to relocate our warehouses and logistics facilities are estimated to be within three to six months including the time for locating the substitute property.
- Cost for relocation* — Our Directors estimate the total costs for relocation will be approximately RMB6.1 million, comprising approximately (i) RMB3.2 million for the installation of air-conditioner; and (ii) RMB2.9 million for the general renovation and setting up costs. All costs of relocation will be borne by us.

As at 31 March 2017, we did not own any property and all of our places of operations are leased properties. We had no single property with a carrying amount of 15% or more of our combined total assets. Accordingly, this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous) Ordinance which require a valuation report with respect to all of our Group’s interests in land or buildings.

The following table sets forth the information relating to the breakdown of the total operating lease rentals in respect of rented premises during the Track Record Period:

	Three months ended		
	Year ended 31 December		31 March
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total operating lease rentals	14,492	14,856	3,785
Average monthly operating lease rentals	1,208	1,238	1,262

Our total operating lease rentals in respect of rented premises for the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017 amounted to approximately RMB14.5 million, RMB14.9 million and RMB3.8 million, respectively, which accounted for approximately 26.0%, 27.4% and 26.2% of our total direct costs for the corresponding period. Our Directors are of the view that the fluctuation in the operating lease rentals in respect of rented premises was in line with the overall property market in the PRC.

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INSURANCE

Our Group maintains insurance policies against loss or damage to its properties, trucks, employees and business interruption. It also maintains insurance coverage of the goods stored in the warehouses of our Group. Apart from those specifically provided in the contract with our customers, and in the absence of any negligence or willful act on the part of our Group, our Group will not be liable for the loss or damage to the customers’ goods which are delivered by our Group or stored in our Group’s warehouse arising from fire or accidents. Nevertheless, our Group has maintained insurance policies against such loss or damage. Our Directors believe that the insurance coverage taken out by us is in line with industry norms in the PRC and is adequate and sufficient for our operations. Our Directors have confirmed that we were not subject to any material insurance claims or liabilities arising from our operation during the Track Record Period.

AWARDS

In recognition of our commitment to quality services and we have met the KPIs set by Customer A and Customer B, Customer A and Customer B (being our two largest customers) gave us a number of awards and appreciation letters. Apart from Customer A and Customer B, we have received various awards and recognitions from various industry associations and public entities over the past years. The major of which are set out below:

Year of grant	Name of awards/certificate	Conferred by	Recipient
2008	Outstanding Logistics Supplier Award (優秀物流供應商獎)	Customer A	Guangzhou World-Link
2011	10/11 Best Service Supplier Award (10/11年度最佳服務供應商)	Customer B	Dafenghang ^(note)
2012	2012–2013 Key Modern Logistics Enterprises in Guangzhou (廣州市重點現代物流企業 (2012–2013年度))	Guangzhou Transportation Committee (廣州市交通委員會)	Guangzhou World-Link
2012	2012–2013 Key Modern Logistics Projects in Guangzhou (廣州市重點現代物流項目 (2012–2013年度))	Guangzhou Transportation Committee (廣州市交通委員會)	Guangzhou World-Link
2013	2012 Demonstration Enterprises for Supply Chain Management in Guangzhou (2012年度廣州供應鏈管理示範企業)	Guangzhou Logistics & Supply Chain Association (廣州物流與供應鏈協會)	Guangzhou World-Link
2013	2012 Top 10 Logistics Enterprises in Guangzhou (2012年度廣州十佳物流企業)	Guangzhou Logistics & Supply Chain Association (廣州物流與供應鏈協會)	Guangzhou World-Link
2013	Integrity and Quality Service Units in Guangzhou Logistics Industry (2013年度廣州物流行業誠信優質服務單位)	Guangzhou Logistics & Supply Chain Association (廣州物流與供應鏈協會)	Guangzhou World-Link
2013	Qualified Supplier (合格供應商)	Customer A	Guangzhou World-Link

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Year of grant	Name of awards/certificate	Conferred by	Recipient
2014	Qualified Supplier (合格供應商)	Customer A	Guangzhou World-Link
2015	2014 Top 10 Logistics Enterprises in Guangzhou (2014年度廣州十佳物流企業)	Guangzhou Logistics & Supply Chain Association (廣州物流與供應鏈協會)	Guangzhou World-Link
	2014 Demonstration Enterprises for Supply Chain Management in Guangzhou (2014年度廣州供應鏈管理示範企業)	Guangzhou Logistics & Supply Chain Association (廣州物流與供應鏈協會)	Guangzhou World-Link
	AAAA Logistics Enterprises (AAAA物流企業)	China Federation of Logistics and Purchasing (中國物流與採購聯合會)	Guangzhou World-Link
	Qualified Supplier (合格供應商)	Customer A	Guangzhou World-Link
2016	2015 Top 10 Logistics Enterprises in Guangzhou (2015 年度廣州十佳物流企業)	Guangzhou Logistics & Supply Chain Association (廣州物流與供應鏈協會)	Guangzhou World-Link
	2015 Safety Management Pioneer (2015年度安全管理先鋒)	Customer B	Guangzhou World-Link
2017	2016 Top 10 Logistics Enterprises in Guangzhou (2016年度廣州十佳物流企業)	Guangzhou Logistics & Supply Chain Association (廣州物流與供應鏈協會)	Guangzhou World-Link
	2016 Demonstration Enterprises for Supply Chain Management in Guangzhou (2016年度廣州供應鏈管理示範企業)	Guangzhou Logistics & Supply Chain Association (廣州物流與供應鏈協會)	Guangzhou World-Link

Note: The then existing logistics business was transferred from Dafenghang to Guangzhou World-Link in July 2015 under the Business Transfer. For details, please refer to the section headed “History, Reorganisation and Corporate Structure — Dafenghang” in this document.

LICENCES AND PERMITS

Taking into accounts the views of our PRC Legal Advisers, our Directors confirmed that our Group have obtained all necessary licences, approvals and permits that are material to our business, all of which are valid and current save as disclosed in this document, and we have been in compliance in all material respects with the applicable laws and regulations in the PRC during the Track Record Period and up to the Latest Practicable Date. The details of the approval obtained by our Group for our business are as follows:

Approval	Issuing body	Date of grant	Date of expiry
Road Freight Forwarding Operation Permit (道路運輸經營許可證)	Guangzhou Transportation Committee (廣州市交通委員會)	17 April 2017	30 June 2021

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Approval	Issuing body	Date of grant	Date of expiry
PRC Customs Clearance Entity Registration Certificate (中華人民共和國海關報關單位註冊登記證書)	Guangzhou Customs District PRC (中華人民共和國廣州海關)	16 January 2017	Until cancellation
Record Form of Entry-Exit Inspection and Quarantine Enterprises (出入境檢驗檢疫報檢企業備案表)	PRC Guangdong Province Entry-Exit Inspection and Quarantine Bureau (中華人民共和國廣東出入境檢驗檢疫局)	11 January 2017	Until cancellation
Record Form of International Freight Forwarding Agencies (國際貨運代理企業備案表)	Guangzhou Municipal Commission of Commerce (廣州市商務委員會)	12 January 2017	Until cancellation

As advised by our PRC Legal Advisers, the PRC Customs Clearance Entity Registration Certificate granted to our Group on 16 January 2017 fulfilled all the relevant requirements regarding registration for declaration activities as consignors and consignees under the Customs Law.

RISK MANAGEMENT

In the course of conducting our business, we are exposed to various types of risks, including credit risks, operational risks, market risks, liquidity risks and regulatory risks, the details of which have been disclosed under the section headed “Risk Factors” in this document. In addition, we also face various financial risks. Please refer to the section headed “Financial Information — Quantitative and qualitative disclosure of market risks” of this document for further details.

We have established a set of risk management policies and measures to identify, evaluate and manage risks arising from our operations. The following table sets out some of the primary operational risks our business faces and our risk management measures and procedures:

(a) Risk of reliance on Customer A and Customer B

In order to reduce our reliance on Customer A and Customer B, we made considerable effort to diversify our customer base and attract new customers. For further details, please refer to the paragraph headed “Our relationship with on Customer A and Customer B” in this section.

(b) Risk of reliance on landlords of warehouses

The Directors consider that our five warehouses are essential to our business. Our Directors believe that we can find comparable properties to relocate the relevant logistics facilities, if necessary; and we do not anticipate any material practical difficulties in relocating these facilities and the estimated time and cost for relocation are minimal. For further details, please refer to the paragraph headed “Properties” in this section.

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(c) Risk of reliance on subcontractors

We would be liable for the loss and damages caused by our subcontractors. To minimise the risk of reliance on our subcontractors for the provision of services, we have established a selection and control system as follows:

- to closely monitor our subcontractors’ performance to ensure they meet our standards at all times;
- to evaluate our subcontractors’ performance in terms of their efficiency, service quality, responsiveness to our requests and fee levels from time to time; and
- to continuously explore potential new subcontractors.

In addition, we also intend to expand our vehicle fleet to enhance our transportation services and reduce the risk of reliance on our subcontractors. For further details, please refer to the paragraph headed “Business strategies” in this section.

(d) Risk of increase in transportation cost

Our Group prices its services on a cost-plus basis. It is expected that this risk is mitigated by passing on the cost to the customers whenever possible.

On-going measures to implement the risk management policies

In order to continuously improve our Group’s internal control and risk management system upon [REDACTED], our Group has established an on-going process for identifying, evaluating and managing the significant risks faced by our Group. The key procedures that our Group has established and implemented are summarised as follows:

- segregating the duties and functions of the respective operational departments of our Group;
- reviewing systems and procedures to identify, measure, manage and control risks; and
- updating the staff handbook, internal control manual and compliance manual where there are changes to the business environment or regulatory guidelines.

We will continuously monitor and improve our risk management measures to ensure that effective operation of those measures is in line with the growth of our business.

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CONNECTED TRANSACTIONS

During the Track Record Period, we entered into a lease agreement with Mr. Li JM, Mr. Li JX and their three brothers for the leasing of the office located at Units 1301 and 1302, 13/F, Citic Plaza, No. 233 Tianhe Road North, Guangzhou, Guangdong Province, the PRC. The agreement will continue to be effective after the Shares are [REDACTED] on the Stock Exchange and constitute exempt continuing connected transactions for our Company under the GEM Listing Rules following the [REDACTED] of the Shares. Our Directors are of the opinion that (i) these exempt continuing connected transactions have been concluded, and will be carried out, in the ordinary and usual course of business on normal commercial terms which are fair and reasonable, and are in the interests of our shareholders as a whole; and (ii) the annual caps for these continuing connected transactions are fair and reasonable as far as the shareholders of our Company as a whole are concerned. For further details, please refer to the section headed “Connected Transaction” in this document.

EMPLOYEES AND DISPATCHED WORKERS

Our Group had a total of 912, 872 and 862 full-time employees as at 31 December 2015 and 2016 and 31 March 2017, respectively. A breakdown of our full-time employees by function and geographic location as at 31 March 2017 is set forth below.

Function	As at 31 March 2017
Management	9
Transportation	65
Warehouse	116
In-plant logistics	634
Quality assurance	3
Quality control	8
Finance and accounting	6
Customer services	6
Human resources and administration	<u>15</u>
	<u><u>862</u></u>
Geographic Location	As at 31 March 2017
Guangdong Province	542
Jiangsu Province	102
Tianjin	<u>218</u>
	<u><u>862</u></u>

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Dispatched Workers

During the year 2015, we entered into agreements with certain third-party employment agencies regarding the services of the dispatched workers. Such relevant agreements typically last around one to two years and stipulate the service fees, scope of services, service location and service duration with respect to the dispatched workers. Since July 2015, our Group had gradually ceased to engage dispatched workers due to the enhancement in the level of utilisation of our staff by better planning the work schedule to handle the additional services and orders requested by our customers. As at 31 December 2015 and 2016 and 31 March 2017, no dispatched workers were engaged by us through such employment agencies.

The dispatched workers were deployed in our in-plant logistics business, which is highly labour intensive. We deployed such dispatched workers together with our full-time employees to serve our customers for in-plant logistics business, which provided us with a more flexible way to manage our workforce.

In accordance with the relevant agreements, during the course of engaging dispatched workers, we reserved the rights to request for replacement of any dispatched workers who did not meet our required standards. Dispatched workers entered into labour contracts with the relevant employment agencies instead of us. The relevant employment agents were responsible for the dispatched workers’ social insurance or employee benefits.

Relationship with staff

We maintain good working relationships with our staff and dispatched workers. Our Directors believe that our working environment and benefits offered to our employees and dispatched workers have contributed to building good staff relations and retention. During the Track Record Period, we did not experience any strike or labour dispute with our staff and dispatched workers which had a material effect on our business or results of operations.

Recruitment policies and training

Our Group intends to use our best effort to attract and retain appropriate and suitable personnel to serve our Group. Our Group assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with our business development. With the aim to encourage our employees to continuously develop themselves by further education, we provide our employees with on-the-job training relevant to their current roles in our Group. We also provide training regarding the safety awareness and also the computer and information security. We value our employees as our assets in which we invest our resources in order for them to make a greater contribution to our success. We have not experienced any material difficulties in recruiting new staff.

Remuneration

For the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, the employee benefits expenses included wages and salaries, social security fund and insurance contribution and other benefits was approximately RMB54.5 million, RMB56.8 million and RMB13.6 million, respectively. We determine the employee’s remuneration based on factors such as qualification, duty,

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contribution and years of experience. The key principles of the remuneration policy are to remunerate employees in a manner that is market competitive. We regularly carry out staff evaluation to assess their performance.

As required by applicable PRC laws and regulations, we participate in various employee benefit plans, including social insurance for retirement, unemployment, sickness and industrial injuries suffered by our employees and housing provident funds. We are required under PRC laws to make contributions to the employee benefit plans at specified percentages of the employees' monthly income. During the Track Record Period, we had not paid the social security insurance and housing provident fund for certain employees and/or we paid the social security insurance and housing provident fund based on the rate agreed with employees instead of their actual salaries. To prevent the recurrence of such non-compliance, we have implemented a series of internal control measures. For further details, please refer to the paragraph headed "Compliance" in this section.

Share Option Scheme

Our Company has conditionally adopted the Share Option Scheme in which certain eligible participants may be granted options to acquire Shares. Our Directors believe that the Share Option Scheme will assist our recruitment and retention of quality executives and employees. A summary of the principal terms of the Share Option Scheme is set out in the paragraph headed "Share Option Scheme" in Appendix IV to this document.

LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any litigation, claim, administrative action or arbitration which had a material adverse effect on the operations or financial condition of our Group.

COMPLIANCE

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, save as disclosed below, we were in compliance in all material respects with all applicable laws and regulations in the jurisdiction where we conduct our business. We set out below details of material non-compliance incidents that occurred during the Track Record Period. Our Controlling Shareholders have entered into the Deed of Indemnity with us to indemnify us among other things, all losses, costs, liabilities, damages, charges, fees, fines or expenses which any of the members of our Group may incur or suffer, arising from or in connection with any non-compliance of any members of our Group on or before the [REDACTED].

Based on (i) the nature and reasons of the historical non-compliance incidents; (ii) the confirmation letters issued by the relevant competent PRC government authorities; (iii) our PRC Legal Advisers' views set forth below in respect of such non-compliance; and (iv) rectification measures and enhanced internal control measures that have been implemented, our Directors believe that the non-compliance matters mentioned below will not have any material adverse effect on our business, financial conditions and results of operations.

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During the Track Record Period and up to the Latest Practicable Date, save as disclosed in this document, our PRC Legal Advisers has advised us that we were in compliance in all material respects with PRC legal regulations and requirements applicable to us. In addition, as of the Latest Practicable Date, save as disclosed in this document, no material penalty for non-compliance with any laws or regulations had been imposed on us.

(i) Reason(s) identified; and (ii) responsible person(s) involved	Legal consequences, potential maximum penalties and provision made	Rectification actions (if any) taken, current status	Enhanced internal control measures to prevent recurrence of the non-compliance
Non-compliance incident			
<p>Failure of our Group to make adequate social security insurance and housing provident funds contributions</p> <p>Since the establishment of Guangzhou World-Link, we did not (i) pay the social insurance contributions and housing provident fund contributions; and/or (ii) pay sufficient social insurance contribution and housing provident fund, whereby payments were made based on the basic salaries of our employees instead of their actual salaries.</p> <p>For the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, (i) the amount of unpaid social security insurance and housing provident fund contributions for the employees was approximately RMB3.9 million, RMB6.2 million and RMB1.5 million, respectively; and (ii) the relevant maximum penalty exposure of our Group was in aggregate approximately RMB2.1 million as of the Latest Practicable Date.</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 social insurance authority is entitled to order the employer to pay the outstanding social insurance contributions within a given period and impose a late charge of 0.2% before 1 July 2011) and 0.05% (on or after 1 July 2011) per day of the unpaid social insurance contributions. If the employer fails to pay the unpaid social insurance contributions within the given period, a fine ranging from one to three times of the amount due may be imposed.</p> <p>According to the Housing Provident Fund Management Regulations in the PRC (《住房公積金管理條例》), (i) if an employer fails to register the housing provident fund account within 30 days after its establishment, the relevant housing provident fund authority may order the employer to register housing provident fund account within a given period. If it fails to do so, the relevant housing provident fund authority may impose a fine ranging from RMB10,000 to RMB50,000 on the employer; and (ii) if an employer does not pay or underpays housing provident fund contributions the relevant housing provident fund authority may order the employer to pay the outstanding housing provident fund within a given period, and if the employer fails to do so, the housing provident fund authority may apply for a court order from the relevant court to enforce such repayment.</p>	<p>Since April 2017, Shenzhen Branch and Taicang Branch have fully paid social insurance contributions and housing provident fund contributions in accordance with their employees' actual salaries.</p> <p>As confirmed by our Directors, Guangzhou World-Link is responsible for the payment of social insurance contributions and housing provident fund contributions of its and Huangpu Branch's employees. Since April 2017, Guangzhou World-Link has fully paid social insurance contributions in accordance with such employees' actual salaries. With respect to the payment of housing provident fund contributions, as confirmed with the relevant authority in Guangzhou, it will only process remedial actions, i.e. adjusting payment of housing provident fund contributions by companies, like our Group, based on the employees' actual salaries in July each year. Accordingly, Guangzhou World-Link has paid the housing provident fund contributions based on the relevant employees' actual salaries, instead of the rate currently agreed with such employees, since July 2017.</p> <p>Since April 2017, the Tianjin Branch has fully paid housing provident fund contributions in accordance with its employees' actual salaries. With respect to the payment of social insurance contributions, as confirmed with the relevant authority in Tianjin, they will only process remedial actions, i.e. adjusting actual salaries in January each year. Accordingly, the Tianjin Branch has undertaken to pay the social insurance contributions based on its employees' actual salaries, instead of the rate currently agreed with such employees, commencing from and as early as January 2018.</p>	<p>Since March 2017, we have adopted the following measures to prevent recurrence of the non-compliance:</p> <p>(i) adopting internal policies to ensure compliance with all regulatory requirements in the PRC, including the procedures to require our human resources department to review periodically the total number of employees who are required to make social security insurance and housing provident fund contributions, and our administration department to review and check against the total number of employees before making payment for the contribution;</p> <p>(ii) enhancing the awareness of our employees with respect to the importance of participation in social security insurance and housing provident fund schemes by regularly reminding them to make their part of contributions;</p> <p>(iii) conducting internal checking from time to time to ensure that we have paid social security insurance and housing provident fund contributions in accordance with the relevant PRC laws and regulations; and</p> <p>(iv) seeking advice from external legal advisers on the latest requirements of applicable laws and regulations of the PRC.</p>

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(i) Reason(s) identified; and (ii) responsible person(s) involved	Legal consequences, potential maximum penalties and provision made	Rectification actions (if any) taken, current status	Enhanced internal control measures to prevent recurrence of the non-compliance
Non-compliance incident	<p>As of the Latest Practicable Date, we had not been ordered by any government authorities to make contributions, previously unpaid or to pay any fines or penalties, nor are we aware of any employee complaints or demands for payment of previously unpaid contributions.</p>	<p>We had liaised with the relevant social security insurance and housing provident fund authorities in Guangzhou, Shenzhen, Taicang and Tianjin, respectively. Pursuant to (i) the confirmation letters issued by the relevant competent social security insurance authorities and housing provident fund authorities in Guangzhou (dated 3 and 14 March 2017), Shenzhen (both dated 24 March 2017), Taicang (dated 13 March 2017) and Tianjin (dated 13 March 2017); and (ii) the interviews conducted by our PRC Legal Advisers with the relevant competent and responsible social security insurance authorities and housing provident fund authorities in Guangzhou, Taicang and Tianjin in March and April 2017:</p> <ul style="list-style-type: none"> (a) we have duly arranged for social insurance registrations and set up housing provident fund accounts; (b) since the commencement of the Track Record Period (or with respect to Taicang Branch, since March 2017), we had never been subject to any penalty or punishment imposed by the relevant social security insurance authorities for any violation of social insurance contributions. In respect of Taicang Branch, the Directors confirmed that it had never been subject to any penalty or punishment imposed by the relevant social security insurance authorities for any violation of social insurance contributions; and (c) since the setting up of the housing provident funds accounts, we had never been subject to any penalty or punishment imposed by the relevant housing provident fund authorities for any violation of housing provident fund regulations. <p>As confirmed by the relevant social security insurance authorities and housing provident fund authorities in Guangzhou, Shenzhen, Taicang and Tianjin. In the absence of any complaint from our employees, the authorities will not impose any penalty against us, or order us to pay the relevant contributions in arrears, for failing to make the social insurance and housing provident fund contributions in accordance with the relevant PRC laws and regulations.</p> <p>As advised by the PRC Legal Advisers, as Guangzhou World-Link is responsible for the payment of social insurance contributions and housing provident fund contributions of its and Huangpu Branch's employees, the social security insurance authority and housing provident fund authority in Guangzhou, rather than those in Huangpu, are the appropriate authorities to provide the confirmations in relation to the social insurance contributions and housing provident fund contributions for our Huangpu Branch's employees. As a result, we did not obtain the said confirmations from the relevant authorities in Huangpu.</p> <p>As confirmed by Guangzhou World-Link, with respect to (i) the historical non-payment of social insurance contributions and housing provident fund contributions; and (ii) the payment of such contributions based on basic salary of our employees instead of their actual salaries:</p> <ul style="list-style-type: none"> (a) such arrangements were made after negotiating and reaching consensus with our employees, of whom certain of them were reluctant to make payments for such contributions in the past; and (b) no objection or complaint has ever been raised by our employees with respect to the said arrangements as at the Latest Practicable Date. <p>As advised by our PRC Legal Advisers, in light of the confirmation letters issued by the relevant and competent PRC government authorities and the interviews conducted, the likelihood that we will be fined or will be required by the relevant social security insurance and housing provident fund authority to pay the unpaid social security insurance and housing provident fund contributions is very low.</p> <p>Our group of Controlling Shareholders has also undertaken to indemnify our Group when we are ordered by the relevant authorities to make retroactive contributions to the social insurance and/or housing provident fund or being punished due to such non-compliance incidents.</p> <p>In light of the above, we have not made provisions for the underpaid social security insurance and housing fund contributions.</p>	

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Non-compliance incident	(i) Reason(s) identified; and (ii) responsible person(s) involved	Legal consequences, potential maximum penalties and provision made	Rectification actions (if any) taken, current status	Enhanced internal control measures to prevent recurrence of the non-compliance
<p>Failure of our Group to register two lease agreements with the relevant government authorities</p>	<p>As of the Latest Practicable Date, there were two lease agreements with respect to an office and a staff quarter leased by Guangzhou World-Link which had yet to be registered with the relevant government authorities.</p>	<p>Despite our repeated requests, the relevant landlords did not cooperate with us and file the lease agreements and other relevant documents for registration. As the registration of the lease agreements requires the submission of certain documents of the landlords, such as their identification documents, to the relevant authorities, the registration therefore has to be relied on the cooperation from the landlords which is outside of our control.</p>	<p>We have been taking proactive steps to liaise with the landlords regarding the registration of the lease agreements. As of the Latest Practicable Date, the landlords had not yet registered the relevant lease agreements with the relevant government authorities.</p> <p>As advised by the PRC Legal Advisers, the non-registration of the relevant lease agreements does not affect their validity.</p>	<p>In March 2017, to ensure ongoing compliance with the applicable PRC laws and regulations relating to registration of lease agreements, we have adopted internal control policy requiring that a register which shall include basic information regarding each lease agreement and its registration to be maintained at our headquarters. The manager of our commercial department shall review the register on a regular basis and follow up with the relevant landlord if a lease agreement has not been timely registered.</p>
<p>Failure of our Group to register two lease agreements with the relevant government authorities</p>	<p>According to the Administration Measures for Commodity House Leasing (《商品房屋租賃管理辦法》), lease agreements of commodity houses on state-owned land in urban planning areas have to be registered with the relevant authorities within 30 days of signing. The PRC Legal Adviser advised that, subject to relevant local provincial regulations under relevant PRC laws and regulations, the relevant government authority may require the parties to a lease to have it registered within the prescribed period, and failing which, a fine ranging from RMB1,000 to RMB10,000 for each unregistered lease may be imposed on the parties to the lease. Based on the above, the PRC Legal Advisers estimated that the maximum penalty that may be imposed on our Group is RMB20,000.</p>	<p>During the Track Record Period and up to the Latest Practicable Date, we had not received any rectification order or been subject to any fine or penalty in respect of non-registration of the relevant lease agreements.</p>	<p>As advised by the PRC Legal Advisers, the non-registration of the relevant lease agreements does not affect their validity.</p>	<p>In March 2017, to ensure ongoing compliance with the applicable PRC laws and regulations relating to registration of lease agreements, we have adopted internal control policy requiring that a register which shall include basic information regarding each lease agreement and its registration to be maintained at our headquarters. The manager of our commercial department shall review the register on a regular basis and follow up with the relevant landlord if a lease agreement has not been timely registered.</p>

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(i) Reason(s) identified; and (ii) responsible person(s) involved	Legal consequences, potential maximum penalties and provision made	Rectification actions (if any) taken, current status	Enhanced internal control measures to prevent recurrence of the non-compliance
<p>Non-compliance incident</p> <p>Failure of Dafenghang to comply with the Interim Provisions on Labour Dispatch of the PRC prior to the Business Transfer</p> <p>Pursuant to the Interim Provisions on Labour Dispatch of the PRC (《劳务派遣暂行规定》) (the "Interim Provisions") which came into effect on 1 March 2014:</p> <ul style="list-style-type: none"> if the number of dispatched workers utilised by an employer exceeds 10% of the total number of its total workers prior to the effective date of these Provisions, such employer shall develop a scheme for employment adjustments to reduce the proportion to the specified level within 2 years from the effective date of these Provisions (the "Interim Period"); and such employer is not allowed to employ new dispatched workers during the said two-year period as long as the proportion of dispatched workers to the employer's total workers exceeds the 10% threshold. 	<p>Such non-compliance incident was due to (i) the then managers of the human resource department of Dafenghang being unfamiliar with the relevant laws and regulations at the material time; and (ii) the absence of timely professional legal advice.</p>	<p>As advised by the PRC Legal Advisers, there is no express provisions in the Interim Provisions setting out the penalty against employers who engaged new additional dispatched workers even though the number of dispatched workers engaged has exceeded the regulatory limit.</p>	<p>As at the Latest Practicable Date, we had ceased to engage dispatched workers through employment agencies. Notwithstanding the above, we have adopted internal policies which require our human resources department to calculate and ensure the number of dispatched workers engaged by us (should such need arises in the future) will not exceed the statutory limit.</p>
<p>As confirmed by our Directors, given the then in-plant logistics business engaged by Dafenghang was highly labour intensive, Dafenghang entered into two agreements with certain third party employment agencies for the services of dispatched workers during the Interim Period. Under such agreements, Dafenghang could have the flexibility to adjust the number of dispatched workers deployed considering the requirements of the in-plant logistics projects undertaken, which enabled it to manage its work force flexibly. Hence, the number of dispatched workers engaged by Dafenghang through these agencies exceeded the 10% regulatory limit during the Interim Period from time to time.</p>	<p>As confirmed by our Directors, as Dafenghang ceased to engage in any logistics related business after the Business Transfer in July 2015, the agreements entered into between Dafenghang and the third party employment agencies were terminated in the same month. Following the Business Transfer, Dafenghang has not engaged any dispatched workers thereafter.</p>	<p>As advised by the PRC Legal Advisers, taking into account that (i) there is no express provision in the Interim Provisions stipulating the penalties against employers for engaging new additional workers after exceeding the regulatory limit; and (ii) Dafenghang had ceased engaging dispatched workers in July 2015, i.e. before the expiry of the two years period from the effective date of the Interim Provisions, the risk of Dafenghang being penalised by the relevant labour administrative departments for the non-compliance incident is remote.</p>	<p>As confirmed by our Directors, as Dafenghang ceased to engage in any logistics related business after the Business Transfer in July 2015, the agreements entered into between Dafenghang and the third party employment agencies were terminated in the same month. Following the Business Transfer, Dafenghang has not engaged any dispatched workers thereafter.</p>

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Deed of Indemnity

Our Controlling Shareholders have entered into the Deed of Indemnity in favour of our Group to provide indemnities on a joint and several basis in respect of, among other matters, all claims, payments, suits, damages, settlements, payments, fines, actions, liabilities and any associated costs and expenses which may be incurred or suffered by our Group directly or indirectly, from or on the basis of or in connection with any litigation, arbitration and/or legal proceedings against any member of our Group which was issued and/or accrued and/or arising from any act, non-performance incidents as disclosed above in this section, omission or otherwise of any member of our Group occurred at any time on or before the [REDACTED]. This further protects our Group from any material adverse consequence due to any claims incurred on or before the [REDACTED]. Further details of the Deed of Indemnity are set out in the Appendix IV to this document.

Our Directors are satisfied that our Controlling Shareholders have sufficient financial resources to honour their obligations to provide indemnities in respect of the aforesaid outstanding claim against our Group under as stated in the Deed of Indemnity. Our Directors, after carrying out enquiries on the facts and circumstances leading to the non-compliances, considered that the non-compliances have no material financial and operational impact on our Group.

Corporate governance measures to ensure on-going compliance with applicable laws and regulations

To prevent the recurrence of the abovementioned non-compliance incidents and to ensure ongoing compliance with the relevant laws and regulations by our Group, we have implemented the following internal control measures:

- (a) we will continue to pay social security insurance and housing provident fund contributions for our employees pursuant to the applicable requirements in the PRC and the existing requirements of the local government in the PRC;
- (b) we will retain external legal advisers, to review and advise on the regulatory compliance in respect of all relevant PRC laws and regulations, and to provide legal advice and training to our Directors and members of our senior management in respect of all relevant PRC laws and regulations;
- (c) We engaged an internal control consultant to review our Group's internal control system and procedures in January 2017. The internal control consultant conducted the first round of review on our internal control system in January 2017 and provided several findings and recommendations on matters such as our corporate governance policies, financial control and reporting and our business operations. We have subsequently taken remedial actions in response to such findings and recommendations. Between March and April 2017, the internal control consultant performed follow-up review on our remedial actions and reported further recommendations. It was noted in the follow-up internal control review report that, save for the remedial actions for certain corporate governance matters, such as the incorporation of the board committees and adoption of the relevant terms of reference, which are expected to be completed prior to the [REDACTED], we had incorporated all material recommendations of the internal control consultant to address the weakness and deficiencies of our internal control system.

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Set out below is a summary of the key recommendations from the internal control consultant and the remedial actions taken by us to prevent reoccurrence of the non-compliance incidents:

Non-compliance incident

Key recommendations and remedial actions:

Non-compliance with the relevant PRC laws and regulations in relation to social insurance contributions and housing provident fund contributions

- (1) Arranged for social insurance registrations and setting up of housing provident fund accounts;
- (2) Set up internal control policies and procedures to (i) update the staff list of our Group monthly; (ii) mandate our administrative department to calculate the social insurance contribution and housing provident fund contribution payable in accordance with the relevant PRC laws and regulations; and (iii) mandate our finance department to handle the payment of the said contributions;
- (3) Set out the rights and obligations of our Group and our employees in relation to social insurance contribution and housing provident fund contribution in the employment contracts going forward; and
- (4) Provided training to our employees to keep them abreast of the relevant PRC laws and regulations in relation to the said contributions.

Non-compliance with the requirements to register the lease agreements of our Group with the relevant PRC laws and regulations

- (1) Liaised with the landlords proactively in relation to the registration of the relevant lease agreements;
- (2) Set up a register to record the basic information regarding each lease agreement and its status of registration;
- (3) Continue to follow up with those non-registered lease agreements.

Our Directors have confirmed that we will adopt all the measures and policies to improve our internal control system based on the review and recommendations of the internal control consultant; and

- (d) A detailed memorandum prepared by the HK Legal Advisers, setting out the ongoing regulatory requirements of our Directors after the [REDACTED] had been distributed to and reviewed by our Directors.

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- (e) Our Directors and senior management of our Group had attended training sessions conducted by the HK Legal Advisers in March 2017 on the on-going obligations and duties of directors of a publicly listed company, including among others, sessions on connected transactions, codes of corporate governance, dealing in securities, disclosure of inside information and notifiable transactions.
- (f) Our Company has appointed Ms. Fan Wing Ki as our company secretary, who is responsible for the day-to-day compliance matters of our Group.
- (g) An audit committee has been established to review the internal control systems and procedures for compliance with the requirements of the GEM Listing Rules.
- (h) Our Company has appointed CLC International as our compliance adviser to advise on compliance matters in accordance with the GEM Listing Rules.

Based on the above, our Directors are of the view that our Group has taken reasonable steps to establish an internal control system and procedures to enhance our control on both working and management levels and that the above remedial measures and on-going compliance measures are sufficient and effective in preventing similar non-compliance incidents from re-occurring in the future. In light of the above preventive measures and its effectiveness, our Directors and the Sole Sponsor are of the view that our Group has adequate and effective internal control procedures in place and the non-compliance incidents do not have any material impact on the suitability of our Directors to act as directors of a listed issuer under Rules 5.01, 5.02 and 11.07 of the GEM Listing Rules, and the suitability for [REDACTED] of our Company under Rule 11.06 of the GEM Listing Rules.