Yik Wo International Holdings Limited
易和國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code: 8659

SHARE OFFER

Sole Sponsor

中毅資本有限公司
Grand Moore Capital Limited

Joint Bookrunners and Joint Lead Managers

瑞邦證券 RUIBANG

Mouette 海盈證券

川文證券 CHUENMAN

中毅資本有限公司
Grand Moore Capital Limited

IMPORTANT

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

Yik Wo International Holdings Limited
易和國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

LISTING ON GEM
OF THE STOCK EXCHANGE OF HONG KONG LIMITED
BY WAY OF SHARE OFFER

Number of Offer Shares	**:**	**150,000,000 Shares (subject to the Offer Size Adjustment Option)**
Number of Public Offer Shares	**:**	**15,000,000 Shares (subject to reallocation)**
Number of Placing Shares	**:**	**135,000,000 Shares (subject to reallocation and Offer Size Adjustment Option)**
Offer Price	**:**	**Not more than HK$0.60 per Offer Share and expected to be no less than HK$0.40 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal Value	**:**	**HK$0.01 per Share**
Stock Code	**:**	**8659**

Sole Sponsor

中毅資本有限公司
Grand Moore Capital Limited

Joint Bookrunners and Joint Lead Managers

瑞邦證券 RUIBANG

Mouette 海盈證券

川文證券 CHUENMAN SECURITIES LIMITED

中毅資本有限公司 Grand Moore Capital Limited

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

The Offer Price is expected to be determined by the Price Determination Agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on or about Monday, 6 July 2020 or such later date as may be agreed between the parties but in any event not later than Tuesday, 7 July 2020. If, for any reason, the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by that date or such later date as agreed by our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Share Offer will not become unconditional and will lapse. The Offer Price will not be more than HK$0.60 per Offer Share and is expected to be not less than HK$0.40 per Offer Share, unless otherwise announced. The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, with the consent of our Company, reduce the above indicative Offer Price range at any time prior to the Price Determination Date. In such a case, notice of the reduction in the indicative Offer Price range will be available on the website of the Stock Exchange at **www.hkexnews.hk** and the website of our Company at **www.yikwo.cn**.

Prospective investors of the Offer Shares should note that the Joint Bookrunners (for themselves and on behalf of the Underwriters) may in their absolute discretion, upon giving notice in writing to our Company, terminate the Underwriting Agreements with immediate effect if any of the events set forth under the paragraph headed "Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination" of this prospectus occurs at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Joint Bookrunners (for themselves and on behalf of the Underwriters) terminate the Underwriting Agreements in accordance with the terms of the Underwriting Agreements, the Share Offer will not proceed and will lapse.

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

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws of the United States. There will be no public offer of securities in the United States.

30 June 2020

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the Stock Exchange's website at www.hkexnews.hk in order to obtain up-to-date information on companies listed on GEM.

If there is any change in the following expected timetable of the Share Offer, we will issue an announcement to be posted on the website of our Company at **www.yikwo.cn** and the website of the Stock Exchange at **www.hkexnews.hk**.

	(Note 1)
Public Offer commences and **WHITE** and **YELLOW** Application Forms available from	9:00 a.m. on Tuesday, 30 June 2020
Latest time for completing electronic applications under **White Form eIPO** service through the designated website **www.eipo.com.hk** *(Note 2)*	11:30 a.m. on Monday, 6 July 2020
Application lists open *(Note 3)*	11:45 a.m. on Monday, 6 July 2020
Latest time for lodging **WHITE** and **YELLOW** Application Forms and to give **electronic application instructions** to HKSCC *(Note 4)*	12:00 noon on Monday, 6 July 2020
Latest time for completing payment for **White Form eIPO** applications by effecting Internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Monday, 6 July 2020
Application lists close *(Note 3)*	12:00 noon on Monday, 6 July 2020
Expected Price Determination Date *(Note 5)*	Monday, 6 July 2020
Announcement of (i) the final Offer Price; (ii) the indication of level of interest in the Placing; (iii) the level of applications in the Public Offer; and (iv) the basis of allotment of the Public Offer Shares to be published on the website of our Company at **www.yikwo.cn** and the website of the Stock Exchange at **www.hkexnews.hk**	Friday, 10 July 2020
Results of allocation in the Public Offer to be available at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a “search by ID Number/Business Registration Number” function from	Friday, 10 July 2020

Announcement of results of allotment of the Public Offer (with successful applicants' identification document numbers, where applicable) to be available through a variety of channels as described in the paragraph headed "How to Apply for Public Offer Shares — 11. Publication of results" in this prospectus from	Friday, 10 July 2020
Despatch/collection of refund cheques in respect of wholly or partially unsuccessful applications and wholly or partially successful applications in case the final Offer Price is less than the maximum Offer Price paid for the applications pursuant to the Public Offer on or before *(Notes 7 to 10)*	Friday, 10 July 2020
Despatch/collection of Share certificates in respect of wholly or partially successful applications pursuant to the Public Offer on or before *(Notes 6 to 10)*	Friday, 10 July 2020
Dealings in the Shares on GEM to commence at	9:00 a.m. on Monday, 13 July 2020

Notes:

1. All dates and times refer to Hong Kong local dates and times, except as otherwise stated. Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus.

2. You will not be permitted to submit your application to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of the application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

3. If there is/are a "black" rainstorm warning, a tropical cyclone warning signal number 8 or above and /or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 6 July 2020, the application lists will not open or close on that day. Further information is set forth in the paragraph headed "How to Apply for Public Offer Shares — 10. Effect of bad weather on the opening of the application lists" in this prospectus.

4. Applicants who apply for the Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the paragraph headed "How to Apply for Public Offer Shares — 6. Applying by giving **electronic application instructions** to HKSCC via CCASS" in this prospectus.

5. The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Monday, 6 July 2020 and in any event no later than Tuesday, 7 July 2020. If the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by that date or such later date as agreed by our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Share Offer will not become unconditional and will lapse. Notwithstanding that the Offer Price may be less than the maximum Offer Price of HK$0.60 per Offer Share, applicants must pay the maximum Offer Price of HK$0.60 per Offer Share at the time of application, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, but will be refunded the surplus application monies, without interest, as provided in the section headed "How to Apply for Public Offer Shares" in this prospectus.

6. Share certificates for the Offer Shares are expected to be issued on Friday, 10 July 2020 but will only become valid certificates of title at 8:00 a.m. on Monday, 13 July 2020 provided that (i) the Share Offer has become unconditional in all respects; and (ii) the Underwriting Agreements have not been terminated. If the Share Offer does not become unconditional or the Underwriting Agreements are terminated, we will make an announcement as soon as possible.

7. Applicants for 1,000,000 Public Offer Shares or more on **WHITE** Application Form(s) may collect their refund cheques (where relevant) and/or Share certificates (where relevant) personally from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, 10 July 2020 or any other day as announced by us as the date of despatch of Share certificates/refund cheques.

8. Individuals who are eligible for personal collection must not authorise any other person(s) to make collection on their behalf. Corporate applicants which are eligible for personal collection must attend by their authorised representative(s) bearing a letter of authorisation from such corporation(s) stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar.

9. Applicants for 1,000,000 Public Offer Shares or more on **YELLOW** Application Forms may collect their refund cheques, if any, in person but may not collect their Share certificates personally which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participants' stock accounts, as appropriated. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

10. Uncollected Share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. For further information, applicants should refer to the paragraph headed "How to Apply for Public Offer Shares — 14. Despatch/collection of share certificates and refund monies" of this prospectus.

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Share Offer and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Share Offer. This prospectus may not be used for the purpose of and does not constitute an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances.

You should rely only on the information contained in this prospectus to make your investment decision. We, the Sole Sponsor, the Joint Bookrunners and the Joint Lead Managers have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Joint Bookrunners and the Joint Lead Managers, any of their respective directors, officers, employees, agents or representatives, or any other person or party involved in the Share Offer.

The contents on the website at www.yikwo.cn, which is the official website of our Company, do not form part of this prospectus.

	Page
Characteristics of GEM	i
Expected Timetable	ii
Contents	v
Summary	1
Definitions	15
Glossary of Technical Terms	25
Forward-looking Statements	26
Risk Factors	28
Information about this Prospectus and the Share Offer	54
Directors and Parties Involved in the Share Offer	58
Corporate Information	62
Industry Overview	64
Regulatory Overview	74
History, Reorganisation and Corporate Structure	85
Business	102
Environmental, Social and Governance Report	184

Relationship with Controlling Shareholders 200

Connected Transactions 210

Directors, Senior Management and Employees 216

Share Capital 229

Substantial Shareholders 232

Financial Information 234

Future Plans and Use of Proceeds 297

Underwriting 319

Structure and Conditions of the Share Offer 329

How to Apply for Public Offer Shares 336

Appendix I — Accountants' Report I-1

Appendix II — Unaudited Pro Forma Financial Information II-1

Appendix III — Summary of the Constitution of our Company and Cayman Islands Companies Law III-1

Appendix IV — Statutory and General Information IV-1

Appendix V — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection V-1

This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks of investing in the Offer Shares are set forth in the section headed "Risk Factors" of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this summary are defined in the sections headed "Definitions" and "Glossary of Technical Terms" in this prospectus, respectively.

OVERVIEW

Our Group engages in the design and development, manufacturing and sales of disposable plastic food storage containers. According to the F&S Report, we were the fourth largest disposable plastic food storage container company in the PRC with a market share of 2.2% in 2019 in terms of sales. Our disposable plastic food storage container is a kind of plastic container processed by high temperature hot-melt plastic injection moulding method with polypropylene resin or other thermoplastic materials. In terms of application, disposable plastic food storage containers can be divided into lunch boxes, fresh and preserved fruit containers, semi-food containers and others. Our products have various physical properties such as high heat thermal resistance, high strength and elasticity and are generally used in the downstream industries for food and beverage storage in the catering and food delivery markets. Our products are mainly sold under our "JAZZIT" brand with a small portion on a non-branded basis. The table below sets forth the breakdown of our revenue in respect of the sales of our "JAZZIT" branded products and non-branded products for the periods indicated:

	Year ended 31 December					
	2017		**2018**		**2019**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Products under "JAZZIT" brand	151,136	91.0	176,798	91.9	191,518	90.0
Non-branded products	14,981	9.0	15,660	8.1	21,277	10.0
Total	**166,117**	**100.0**	**192,458**	**100.0**	**212,795**	**100.0**

During the Track Record Period, we generated gross profit of approximately RMB47.8 million, RMB54.9 million and RMB60.4 million, respectively, representing gross profit margins of approximately 28.8%, 28.5% and 28.4%, respectively. The table below sets forth the gross profit and gross profit margin of our products under "JAZZIT" brand and non-branded products for the periods indicated:

	Year ended 31 December					
	2017		**2018**		**2019**	
	Gross profit	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Products under "JAZZIT" brand	44,188	29.2	51,140	28.9	55,066	28.8
Non-branded products	3,603	24.1	3,747	23.9	5,354	25.2
Total	**47,791**	**28.8**	**54,887**	**28.5**	**60,420**	**28.4**

The following table sets out the breakdown of our sales volume and average selling prices of our "JAZZIT" branded products and non-branded products for the periods indicated:

	Year ended 31 December					
	2017		2018		2019	
	Sales volume *(Note 1)*	**Average selling price**	**Sales volume** *(Note 1)*	**Average selling price**	**Sales volume** *(Note 1)*	**Average selling price**
	Tonnes	*RMB per tonne*	*Tonnes*	*RMB per tonne*	*Tonnes*	*RMB per tonne*
Products under "JAZZIT" brand	11,017	13,718	11,994	14,741	12,510	15,309
Non-branded products	1,189	12,600	1,143	13,701	1,469	14,484
Total	12,206		13,137		13,979	

The following table sets out the breakdown of our sales volume and average selling prices by products under our regular, customised and other products categories for the periods indicated:

	Year ended 31 December					
	2017		2018		2019	
	Sales volume *(Note 1)*	**Average selling price**	**Sales volume** *(Note 1)*	**Average selling price**	**Sales volume** *(Note 1)*	**Average selling price**
	Tonnes	*RMB per tonne*	*Tonnes*	*RMB per tonne*	*Tonnes*	*RMB per tonne*
Regular products	9,557	13,732	10,294	14,814	11,037	15,328
Customised products	2,431	13,218	2,735	14,086	2,838	14,836
Others	218	12,596	108	13,315	104	14,564
Total	12,206		13,137		13,979	

Note:

1. Our annual sales volume refers to the amount of products sold during the respective financial year. The sales volume of our products is different from our actual production volume because not all products are sold in the same year of production.

In terms of design, our products can be categorised into (i) regular products; (ii) customised products, and (iii) other products. Our regular products are of more simplistic design and features with only one compartment; and our customised products are of enhanced design features, which can store various kinds of food and beverage with our multi-compartment disposable plastic food storage containers. We also offer other products including drinkware and removable trays which can be placed within other plastic food storage containers as additional interior compartment trays.

The table below sets forth the breakdown of the revenue generated from sales of products under our regular, customised and other products categories for the periods indicated:

	Year ended 31 December					
	2017		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Regular products	131,238	79.0	152,494	79.2	168,681	79.3
Customised products	32,133	19.3	38,526	20.0	42,108	19.8
Others	2,746	1.7	1,438	0.8	2,006	0.9
Total	**166,117**	**100.0**	**192,458**	**100.0**	**212,795**	**100.0**

The table below sets forth the gross profit and gross profit margin of products under our regular, customised and other products categories for the periods indicated:

	Year ended 31 December					
	2017		2018		2019	
	Gross profit	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Regular products	38,131	29.1	44,053	28.9	48,651	28.8
Customised products	9,050	28.2	10,519	27.3	11,290	26.8
Others	610	22.2	315	21.9	479	23.9
Total	**47,791**	**28.8**	**54,887**	**28.5**	**60,420**	**28.4**

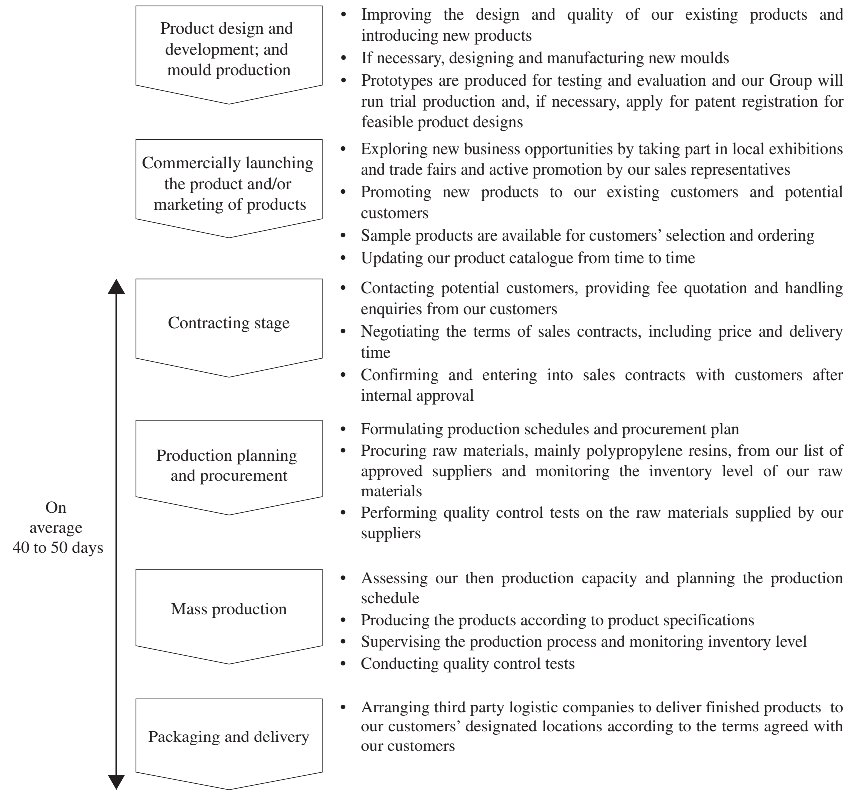
Without taking into account the slight change of fixed costs, such as depreciation of plant and machinery and rental expenses which are relatively immaterial to our total cost of sales, our Directors confirm that the gross profit margin for our Group's regular products was slightly higher than that of customised products notwithstanding that the latter are generally of enhanced design. During the Track Record Period, the average costs for the manufacture of our Group's regular products or customised products were almost the same, but the selling prices for regular products were, on average, slightly higher than that of the customised products as the regular products are generally popular plastic food containers in the market, as confirmed by our Directors. On the other hand, in order to satisfy the varying demands of our customers, our Group still offers a full range of products, including customised products at a selling price within a similar range or slightly lower than that of our regular products so as to maintain our competitiveness, resulting in a gross profit margin for regular products which was slightly higher than that of our customised products. As advised by Frost & Sullivan, the prices of regular containers with good brand image are usually higher than those of other brands. Even though the demand for customised containers has been from time to time much less than that for regular containers, some manufacturers are willing to sell customised containers at a relatively low price to capture new business, maintain customer loyalty and demonstrate their ability to offer a comprehensive product range for their customers. Thus, the prices of customised containers in some companies may be lower than that of regular containers. For more details of the revenue breakdown of regular and customised products, please refer to the paragraph headed "Financial Information — Description of selected items in consolidated statements of profit or loss and comprehensive income — Revenue — Revenue breakdown by product types" in this prospectus.

OUR BUSINESS

Our products. As at the Latest Practicable Date, we offered over 400 models of products with various sizes, designs and shapes, which were mainly sold to customers in the PRC with a small part to customers in overseas countries. As our products are used for storage of food and drinks, our products have passed the relevant tests of food safety, high heat thermal resistance, melting index, performance and colour migration pursuant to the standards and/or requirements of the relevant certifications in the PRC before we sell such products to our customers. As at 31 December 2019, in addition to meeting all requirements pursuant to Food Safety Law and the General Requirements in terms of food safety during the Track Record Period, a small portion of our products have passed the tests pursuant to the SGS certifications and/or standards; and some of our products meet international standards such as Regulation (EU) No. 10/2011. Our Directors confirm that there have been no product returns nor claims relating to the quality of our products in each year during the Track Record Period.

Our business model. Our vertically integrated business model include design, development, manufacture and sales of disposable plastic food storage containers by the moulds designed and created by us.

Our business model can generally be summarised as follows:



For further details, please refer to the paragraph headed "Business — Our business model" in this prospectus.

Our revenue. For each of the three years ended 31 December 2019, our revenue amounted to approximately RMB166.1 million, RMB192.5 million and RMB212.8 million, respectively. According to the F&S Report, the general change of eating habits of people in the PRC where online food delivery is preferable will generate a large demand for disposable plastic food storage containers. Also, along with the pace of urbanisation construction, the increase in the number and the expansion in geographic coverage of hotels and restaurants in cities will further expand, which will also increase the demand for disposable plastic food storage container products in the catering market in the PRC.

Our cost of sales. Our Group's cost of sales consists of material costs, direct labour, utilities expenses, rental expenses, depreciation on property, plant and equipment and other costs. The following table sets forth a breakdown of our cost of sales during the Track Record Period:

	Year ended 31 December					
	2017		**2018**		**2019**	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Material costs	105,210	88.9	121,957	88.7	134,387	88.2
Direct labour	3,844	3.3	5,112	3.7	5,968	3.9
Utilities expenses	3,645	3.1	4,184	3.0	4,810	3.2
Rental expenses	2,056	1.7	1,378	1.0	74	0.0
Depreciation on property, plant and equipment	1,104	0.9	2,034	1.5	3,602	2.4
Others	2,467	2.1	2,906	2.1	3,534	2.3
Total	**118,326**	**100.0**	**137,571**	**100.0**	**152,375**	**100.0**

For further details of our Group's cost of sales, please refer to the paragraph headed "Financial information — Description of selected items in consolidated statements of profit or loss and comprehensive income — Cost of sales" in this prospectus.

Our pricing policy. The price of our products is generally determined on a "cost-plus" basis, with reference to a number of factors including, but not limited to the price of the raw materials, labour costs and our profit margin and our envisaged gross profit amount with reference to the market demand, anticipated market trends, historical sales data and prices of our competitors' products.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and distinguish us from our competitors:

- We have strong product design, development and production capability attributable to our vertically integrated business model;
- We adopt stringent quality control measures for strict compliance with the relevant standards for food contact substances and other safety standards in production of our products;
- We have an extensive product profile;
- We maintain long-term business relationships with our major customers and suppliers; and
- We have a stable management team with extensive industry experience.

COMPETITIVE LANDSCAPE AND MARKET SHARE

According to the F&S Report, the PRC is the world's largest country in the production of disposable plastic food storage containers in terms of sales revenue in 2019, accounting for approximately 44.3% of global sales revenue. The sales revenue of disposable plastic food storage container industry in the PRC grew from approximately RMB3.5 billion in 2014 to approximately RMB9.6 billion in 2019 with a CAGR of approximately 22.0% from 2014 to 2019. In terms of sales revenue in 2019, top five companies in the disposable plastic food storage container industry in the PRC accounted for approximately 15.1% market share, and our Group is the fourth largest with market share of 2.2% in the PRC in 2019. According to the F&S Report, the market size of disposable plastic food storage container industry in the PRC will reach approximately RMB16.7 billion in 2024 with a CAGR of approximately 11.8% from 2019 to 2024 in terms of the sales revenue.

OUR PRODUCTION FACILITIES

Our Production Facilities for production of all our products and moulds are located in Wukeng Village and Xiushan Village, Longhu Town, Jinjiang City, Fujian Province, the PRC with a total gross floor area of approximately 11,124.3 sq.m. We lease the properties for our Production Facilities from both Hengsheng Toys and an Independent Third Party. The Production Facilities comprise of three factories, one product and mould design facility, and three warehouses under seven leases. Among the seven leases, five of which will expire in 2023, and the remaining two will expire in 2024 and 2028, respectively. For further details, please refer to the paragraph headed "Business — Properties — Leased properties" of this prospectus. As at the Latest Practicable Date, our Production Facilities were equipped with over 90 plastic injection moulding machines for the manufacturing of our products. For the creation, development and production of moulds, and our Production Facilities also house one plastic injection moulding machine, seven CNC processing machines, two precision moulding machines and ancillary equipment.

Before we submit quotation or enter into new sales contracts, it is a practice of our Group to consider factors such as (i) the amount of polypropylene resins required based on the complexity of the manufacturing process; and (ii) the availability of the production time of our machines and equipment. The calculation of our utilisation rate is based on all plastic injection moulding machines used for the production of our products. The following table sets forth the utilisation rate of our Production Facilities based on the actual weight of the polypropylene resins had been processed for production of our products:

	Year ended 31 December		
	2017	**2018**	**2019**
Effective designed capacity (tonnes) *(Note 1)*	14,417	14,453	14,585
Actual production volume (tonnes) *(Note 2)*	12,279	13,063	14,014
Effective utilisation rate *(Note 3, 4)*	85.2%	90.4%	96.1%

Notes:

1. The effective designed capacity is estimated based on the designed capacity of the plastic injection moulding machines per hour multiplied by 23 hours per day multiplied by 365 days for each of the three years ended 31 December 2019, minus the required maintenance days during the year and statutory public holidays of the PRC. Among the 95 plastic injection moulding machines, three of them came into operation in December 2019. If the 95 plastic injection moulding machines are operating in full capacity, the effective designed capacity is estimated to be 15,050 tonnes.
2. The actual production volume refers to the actual weight of the polypropylene resins processed by the plastic injection moulding machines in respect of the products we sold to customers of the relevant year.

3. Effective utilisation rate is calculated by dividing the actual production volume by the effective designed capacity.
4. The utilisation rate of the existing production facilities is calculated on the basis that the plastic injection moulding machines operate 23 hours per day. Our Group's production staff works 24 hours a day in shifts despite the 23 hours operation of the injection moulding machines because for each working day for our Group's production, around one hour each day is used by the production staff to conduct routine checking before the production process can start, and to the changing of moulds.

The operations of our Production Facilities are subject to the PRC national and local environmental laws, regulations and rules including, among others, provisions including Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), Prevention and Control of Atmospheric Pollution Law of the PRC (《中華人民共和國大氣污染防治法》), Prevention and Control of Environmental Noise Pollution Law of the PRC (《中華人民共和國環境噪聲污染防治法》), Prevention and Control of Solid Waste Pollution Law of the PRC (《中華人民共和國固體廢物污染環境防治法》), Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation) (《排污許可管理辦法(試行)》) and Law of the PRC on Environmental Impact Assessment (《中華人民共和國環境影響評價法》). For further details, please refer to the paragraph headed "Regulatory overview — Environmental protection" of this prospectus. In November 2017, we were granted a Fujian Pollutant Discharge Permit* (《福建省排污許可證》) by the Environmental Protection Bureau of Jinjiang City* (晉江市環境保護局), which had expired since 31 December 2019. According to the Statement on the Application for Pollutant Discharge Permit issued by the Quanzhou Municipal Jinjiang Bureau of Ecology and Environment* (泉州市晉江生態環境局) (formerly known as the Environmental Protection Bureau of Jinjiang City* (晉江市環境保護局)) (the "**Bureau of Ecology and Environment**") on 24 December 2019, owing to the implementation of "Classification Management List of Discharge Permits for Fixed Pollution Sources (2017 Version)*《固定污染源排污許可分類管理名錄(2017年版)》", the issue of the pollutant discharge permit of Fujian Province has been temporarily suspended until both the issue time and technical specifications of National Unified Coding Pollutant Discharge Permit*《全國統一編碼排污許可證》are confirmed and specified. Based on a confirmation letter issued by the Bureau of Ecology and Environment on 26 March 2020 (the "**Confirmation Letter**"), which, according to our PRC Legal Advisers, is a competent authority in charge of environmental protection in Jinjiang City, our Group had been in compliance with the relevant laws and regulations of the PRC in relation to environmental protection since the establishment of Hengsheng Animation till the issuance date of such Confirmation Letter and our Group was allowed to discharge pollutants generated from our operation according to the prevailing national and relevant regional standards until we have obtained the pollutant discharge permit; and during this period, the unavailability of a pollutant discharge permit would not affect our production and daily operation and relevant authority would not impose any administrative penalty, enquiry or investigation on our Group.

As at the Latest Practicable Date, the Bureau of Ecology and Environment has started processing applications for pollutant discharge permit and our application for the pollutant discharge permit is under preparation. Our Directors note that due to the implementation of the new law and regulation on the issue of pollutant discharge permit, it is hard for the relevant authority or the Directors to ascertain when our application for a pollutant discharge permit can be completed. Considering the content of the Confirmation Letter and our continued compliance with the relevant pollutant regulations, our PRC Legal Advisers take the view that there should not be any material legal impediment on our application.

OUR CUSTOMERS

During the Track Record Period, our customers are mainly PRC-based companies engaged in the trading of disposable plastic food storage containers, wholesaling or retailing of food and beverage and hotels, with some customers located in overseas countries. The following table shows the breakdown of our revenue by geographical regions and the revenue generated from each region as a percentage of our total revenue during the Track Record Period:

	Year ended 31 December					
	2017		2018		2019	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*
The PRC	164,712	99.2	190,423	98.9	209,991	98.7
Overseas *(Note)*	1,405	0.8	2,035	1.1	2,804	1.3
Total	**166,117**	**100.0**	**192,458**	**100.0**	**212,795**	**100.0**

Note: The overseas countries include United States, Australia, Saudi Arabia and the Republic of Trinidad and Tobago.

For the three years ended 31 December 2019, four, four and four of our top five customers had business relationship with us for five years or more. During the Track Record Period, our top five customers accounted for approximately 39.4%, 37.5% and 37.8% of our total revenue, respectively, while the percentage of our total revenue attributable to our largest customer amounted to approximately 13.1%, 12.4% and 12.0%, respectively.

OUR SUPPLIERS

In general, we purchase raw materials such as polypropylene resins and packaging materials such as carton boxes from suppliers located in the PRC. For the three years ended 31 December 2019, purchases from our five largest suppliers amounted to approximately RMB89.0 million, RMB98.5 million and RMB113.5 million, which accounted for approximately 82.5%, 83.4% and 82.9% of our total purchases, respectively. Purchases from our largest supplier amounted to approximately RMB28.7 million, RMB30.7 million and RMB33.9 million, which accounted for approximately 26.6%, 26.1% and 24.7% of our total purchases, respectively.

Despite such supplier concentration, our Directors consider that our Group's business model is sustainable due to the following factors:

- Industry landscape and business nature;
- Abundance of polypropylene resin suppliers in the market and expanding supplier base; and
- Flexibility in sourcing from other quality suppliers.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Our Group consists of (i) our Company; (ii) two intermediate holding companies incorporated in the BVI and Hong Kong, respectively; and (iii) one subsidiary incorporated in the PRC, which is our operating subsidiary, Hengsheng Animation. In preparation for the Listing, the companies comprising our Group underwent the Reorganisation whereby our Company became the ultimate holding company of our Group. For details of our Group's Reorganisation, please refer to the paragraph headed "History, Reorganisation and corporate structure — Reorganisation" in this prospectus.

PRE-IPO INVESTMENT

On 23 April 2019 and 7 May 2019, our Company entered into Pre-IPO investment agreements with each of Sun Kong and Quantum Star separately, pursuant to which our Company conditionally agreed to allot and issue, and Sun Kong and Quantum Star conditionally agreed to subscribe for 1,200 and 600 Shares at the consideration of RMB13,333,333 and HK$7,610,000, respectively. On 18 June 2019, Prize Investment and Merit Winner entered into a sale and purchase agreement pursuant to which Prize Investment agreed to sell, and Merit Winner agreed to purchase, 1,500 Shares at the consideration of RMB16,666,666.

Immediately following the completion of the Share Offer and the Capitalisation Issue, but without taking into account any Shares which may be allotted and issued upon the exercise of the Offer Size Adjustment Option, our Company will be owned as to 9.0% by Sun Kong, 4.5% by Quantum Star and 11.25% by Merit Winner, respectively.

The Sole Sponsor is of the view that, the Pre-IPO Investment is in compliance with Guidance Letters HKEx-GL29-12 (January 2012) (updated in March 2017) and HKEx-GL43-12 (October 2012) (updated in July 2013 and March 2017) in respect of guidance on Pre-IPO investments issued by the Stock Exchange to the extent applicable.

Background of the Pre-IPO Investors

Sun Kong is a BVI business company incorporated under the laws of the BVI on 28 January 2019 and is directly wholly-owned by Mr. Wong Hing Nam, who is a merchant and has extensive experience in the trading business of stationaries, toys and product packaging. As at the Latest Practicable Date, Mr. Wong Hing Nam held an investment portfolio of approximately HK$99.8 million in total where the investment in our Group accounted for approximately 15.2% of his total investments. Mr. Wong Hing Nam was introduced to Mr. Xu by a common acquaintance around five years ago. Mr. Wong Hing Nam decided to invest in our Group through Sun Kong after analysing the business operations and prospects of our Group as he was optimistic about the prospects of our Group and the disposable plastic food storage containers industry arising from the robust demand for disposable plastic food storage containers in the food and beverage industry in the PRC.

Quantum Star is a BVI business company incorporated under the laws of the BVI on 27 November 2018 and is directly wholly-owned by Mr. Hui Pan Pan, who obtained a diploma in customs management from the Chinese Academy of Customs Administration in July 1987 and was a customs supervisor of the Xiamen Customs from 1987 to 1996. Thereafter, Mr. Hui Pan Pan has been a merchant and has extensive investment experience in various industries, including the pharmaceutical and recycling industries. As at the Latest Practicable Date, Mr. Hui Pan Pan held an investment portfolio of approximately HK$29.5 million in total where the investment in our Group accounted for approximately 25.8% of his total investments. Apart from his investment in our Group, Mr. Hui Pan Pan did not have any investment in other companies conducting businesses similar or related to those of our Group as at the Latest Practicable Date. Mr. Hui Pan Pan was acquainted with Mr. Xu in a social gathering around 20 years ago and has then been good friends with each other. After analysing the business operations and prospects of our Group, Mr. Hui Pan Pan decided to invest in our Group as he saw good prospects of our Group and the disposable plastic food storage containers industry.

Merit Winner is a BVI business company incorporated under the laws of the BVI on 23 May 2019 and is directly wholly-owned by Mr. Hui. Mr. Hui completed the 21st Chief Executive Officer Program organised by the EDP Centre of the School of Management, Xiamen University in December 2013. Mr. Hui has over 20 years of experience in the manufacturing and trading of toys and is the chairman of Hengsheng Toys. He, together with his wife, owns the majority shareholding interest, and is also the chairman and director of Heng Sheng Holding Group Limited (1900270: KS) which holds the entire equity interest in Hengsheng Toys. As at the Latest Practicable Date, Mr. Hui held an investment portfolio of approximately HK$342.6 million in total where the investment in our Group accounted for approximately 5.7% of his total investments. Apart from his investment in our Group, Mr. Hui invests in Heng Sheng Holding Group Limited which engages in the manufacturing and trading of toys and a company in Hong Kong which engages in the trading of toys and electronic products, both of which engage in businesses similar or related to those of our Group as at the Latest Practicable Date. Mr. Hui is the brother of Mr. Xu. In order to recognise Mr. Hui's contribution to Hengsheng Animation being its founder and having considered his expertise in the manufacturing of toys and his sales network in the PRC which guided and led Hengsheng Animation in its business development at the beginning of its establishment, Mr. Xu agreed to sell 15% of his shares in our Company to Mr. Hui. At the same time, after analysing the business operations and prospects of our Group and having taken into consideration his extensive experience in the manufacturing of toys which uses substantially the same raw materials and production method as the manufacturing of disposable plastic food storage containers, Mr. Hui decided to invest in our Group as he saw good prospects and development potential of our Group coupled with the strategic inputs and advice that he would be able to provide our Group given his experience in the manufacturing and trading of toys.

Mr. Wong Hing Nam has extensive business experience in packaging industry, which is closely related to our business of design and development, manufacturing and sales of disposable plastic food storage containers. Mr. Hui Pan Pan, on the other hand, has been involved in the recycling industry which is highly relevant to our business, in particular when we are facing the changing environmental laws (the details of which, please refer to the sections headed "Regulatory overview — Environmental protection" and "Business — Environmental compliance" in this prospectus). Mr. Hui have extensive experiences in manufacturing and trading business as mentioned above. We believe that all our Pre-IPO Investors have experience of business associated with our business to a certain degree and therefore we would be benefited from their diverse but pertinent business backgrounds. For details of the Pre-IPO Investment, please refer to the paragraph headed "Pre-IPO Investment" in this section.

CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account of any Share which may be issued upon exercise of the Offer Size Adjustment Option), our Company's ultimate Controlling Shareholder, Mr. Xu, through Prize Investment (a company wholly-owned by him), will be interested in 50.25% of the issued share capital of our Company. As Prize Investment and Mr. Xu are directly and indirectly entitled to exercise or control the exercise of 30% or more of the voting power of general meetings of our Company immediately following the Listing, each of Prize Investment and Mr. Xu shall be regarded as a Controlling Shareholder under the GEM Listing Rules. For further details, please refer to the section headed "Relationship with Controlling Shareholders" in the prospectus.

KEY OPERATION AND FINANCIAL DATA

The following tables present a summary of key operational and financial data during the Track Record Period and should be read in conjunction with our financial information included in the Accountant's Report set forth in Appendix I to this prospectus, including the notes thereto.

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	166,117	192,458	212,795
Cost of sales	(118,326)	(137,571)	(152,375)
Gross profit	47,791	54,887	60,420
Other income	47	45	59
Selling expenses	(9,160)	(9,872)	(11,019)
Administrative and other operating expenses *(Note 1)*	(8,321)	(14,061)	(20,042)
Profits from operations	30,357	30,999	29,418
Finance costs	—	—	(226)
Profit before income tax	30,357	30,999	29,192
Income tax expense	(7,693)	(8,419)	(8,427)
Profit for the year *(Note 2)*	22,664	22,580	20,765
Other comprehensive income, net of tax: Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operation recognised	—	—	(96)
Total comprehensive income for the year	22,664	22,580	20,669
Profit for the year attributable to:			
Equity holders of the Company	22,664	22,414	20,501
Non-controlling interests	—	166	264
	22,664	22,580	20,765

Notes:

1) The increase in administrative and other operating expense for the year ended 31 December 2018 was mainly due to the (i) increase in research and development costs resulting from the increase in average number of staff in the department and the development of more moulds and patents in 2018; (ii) increase in amortisation expenses resulting from the acquisition of the trademark "JAZZIT"; and (iii) listing expenses incurred in relation to the Listing. The administrative and other operating expenses further increased for the year ended 31 December 2019 mainly due to, on top of the aforesaid reasons, the increasing number of staff in various departments and the employment of the chief financial officer in Hong Kong. For more details of the breakdown of the administrative and other operating expenses, please refer to the paragraph headed "Financial Information — Description of selected items in consolidated statements of profit or loss and comprehensive income — Administrative and other operating expenses" in this prospectus.

2) The decrease in our Group's profit and total comprehensive income for the year ended 31 December 2019 was mainly due to the Listing expenses incurred. If Listing expenses incurred for the two years ended 31 December 2018 and 2019 are excluded, there would be a slight increase in profit and total comprehensive income from approximately RMB25.4 million for the year ended 31 December 2018, to approximately RMB25.5 million for the year ended 31 December 2019.

Selected information extracted from consolidated statements of financial position

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	13,055	33,933	34,577
Current assets	70,319	71,479	76,950
Current liabilities	19,538	24,328	28,971
Net current assets	50,781	47,151	47,979
Total assets less current liabilities	63,836	81,084	82,556
Net assets *(Note)*	63,836	81,084	78,853

Note: The net assets decreased as at 31 December 2019 mainly due to dividends declared but partly offset by the net profit for the year.

Selected information extracted from consolidated statements of cash flows

	Year ended 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Operating cash flow before working capital changes	33,274	36,183	37,803
Change in working capital	(6,878)	8,860	(7,554)
Interest paid and/or tax paid	(4,238)	(6,338)	(8,375)
Net cash generated from operating activities	22,158	38,705	21,874
Net cash used in investing activities	(13,962)	(35,706)	(4,067)
Net cash used in financing activities	—	(5,333)	(584)
Net increase/(decrease) in cash and cash equivalents	8,196	(2,334)	17,223
Cash and cash equivalents at beginning of the year/period	3,182	11,378	9,044
Cash and cash equivalents at end of the year/period	11,378	9,044	26,171

KEY FINANCIAL RATIOS

	As at/For the year ended 31 December		
	2017	2018	2019
Current ratio (1)	3.6	2.9	2.7
Quick ratio (2)	3.1	2.7	2.4
Gearing ratio (3)	28.8%	27.6%	38.6%
Debt to equity ratio (4)	11.0%	16.4%	5.4%
Return on equity (5)	35.5%	27.8%	26.3%
Return on total assets (6)	27.2%	21.4%	18.6%

Notes:

(1) Current ratio is calculated based on the total current assets (including assets classified as held for sale/distribution) divided by the total current liabilities (including liabilities directly associated with assets classified as held for sale/distribution) as at the respective date.

(2) Quick ratio is calculated based on current assets (excluding inventories) divided by current liabilities as at the respective date.

(3) Gearing ratio is calculated based on debts divided by total equity as at the respective date and multiplied by 100%. Debt is defined as the sum of trade and other payables, lease liabilities and amount due to a related company for the Group to monitor its capital structure. The gearing ratio increased from approximately 27.6% as at 31 December 2018 to approximately 38.6% as at 31 December 2019 mainly due to (i) the increase in trade and other payable by approximately RMB3.8 million and (ii) the lease liabilities of approximately RMB4.3 million contributed by the adoption of HKFRS 16 "Leases". For details of the adoption, please refer to paragraph headed "2. Summary of significant accounting policies — 2.2 Adoption of HKFRS 16 "Leases"" under Appendix I and for more details of the analysis of gearing ratio, please refer to the paragraph headed "Financial Information — Discussion of key financial ratios — Gearing ratio and debt to equity ratio" in this prospectus.

(4) Debt to equity ratio is calculated based on net debts divided by total equity as at the respective date and multiplied by 100%. Debt is defined as the sum of trade and other payables, lease liabilities and amount due to a related company for the Group to monitor its capital structure. For details, please refer the paragraph headed "Capital Management" in the note 28 in Appendix I.

(5) Return on equity is calculated based on the profit of the year divided by the total equity at the end of the respective year and multiplied by 100%.

(6) Return on total assets is calculated based on the profit of the year divided by the total assets at the end of the respective year and multiplied by 100%.

DIVIDEND

For the three years ended 31 December 2019, we declared dividends of nil, RMB5.3 million and RMB22.9 million, respectively. Of the dividend declared and paid to Mr. Xu and Mr Xu Yubin according to their then equity interest in our Group, after netting off the withholding tax of approximately RMB4.7 million, the dividend payable to both Mr. Xu and Mr Xu Yubin in aggregate was approximately RMB18.2 million, which was settled by offsetting the amount due from Mr. Xu in January 2019 to our Group on a dollar-for-dollar basis pursuant to the payment instruction from Mr. Xu and Mr. Xu Yubin to our Group. Therefore, except for the payment of the withholding tax in April 2019, there was no cash involved for the settlement of the dividend declared. After the Listing, subject to our constitutional documents and the Companies Law, our Shareholders may declare, at a general meeting, dividends not exceeding the amount recommended by our Directors. Our Company does not have a fixed dividend policy. The amount of dividends recommended by our Directors is under the absolute discretion of our Directors, including the discretion not to recommend any dividends. Our Directors shall decide and recommend the amount of dividends (or decide not to recommend any dividend) based on our earnings, cash flows, financial condition, capital requirements, future plans of our Group and any other conditions that our Directors deem relevant at such time. The foregoing, including our dividend distribution record, should not be viewed as a reference or basis to determine the level of dividends that may be declared or paid by us in the future. There is no guarantee or representation or indication that our Directors must or will recommend and that our Group must or will pay dividends or declare and pay dividends at all.

LISTING EXPENSES

Our Listing expenses, representing professional fees, underwriting commissions and other fees incurred in connection with the Listing, are estimated to be approximately RMB31.7 million, of which approximately RMB15.8 million is directly attributable to the issue of new Shares to the public and will be accounted for as a deduction from equity, and approximately RMB15.9 million had been or is expected to be reflected in our consolidated statements of profit or loss and other comprehensive income. Our Listing expenses, which are estimated to be approximately HK$36.9 million (equivalent to approximately RMB31.7 million), without taking into account the discretionary incentive fee payable to the Public Offer Underwriters and Placing Underwriters, which will be up to a maximum of HK$3.75 million based on the Offer Price of HK$0.5 per Offer Share (being the mid-point of the indicative range of the Offer Price), would account for approximately 49.1% of the gross proceeds from the Share Offer, based on the Offer Price of HK$0.50 per Offer Share (being the mid-point of the indicative range of the Offer Price). Listing expenses of approximately RMB7.7 million had been reflected in the consolidated statements of profit or loss and other comprehensive income of our Group for the Track Record Period, and approximately RMB8.2 million is expected to be reflected in the consolidated statements of profit or loss and other comprehensive income of our Group after the Track Record Period. As a result, our Group's financial performance for the year ending 31 December 2020 will be materially adversely affected by the Listing expenses. The estimated listing expenses are the latest best estimate and are for reference only.

REASONS FOR THE LISTING

Our Directors believe the Listing will enhance our Group's profile and the net proceeds from the Share Offer will strengthen our financial position and enable our Group to implement our business strategies set out in the paragraphs headed "Business — Our business strategies" in this prospectus and to capture the anticipated growth of the disposable plastic food storage container industry in the PRC. Moreover, our Directors believe that the Listing will enable us to respond to the corresponding growth in the downstream industries such as the food delivery and catering markets where our customers are engaged. Our Directors also believe that there is a need for equity financing for our Group, and that the listing status will provide an equity fund-raising platform for our Group, and enhance our Group's brand awareness, market reputation and competitiveness.

FUTURE PLANS, STRATEGIES AND USE OF PROCEEDS

The net proceeds from the Share Offer to our Company (after deduction of underwriting commissions and other estimated expenses payable by our Group in relation to the Share Offer) are estimated to be approximately HK$38.1 million (equivalent to approximately RMB32.8 million and assuming an Offer Price of HK$0.50 per Share, being the mid-point of the indicative range of the Offer Price range of HK$0.40 per Offer Share to HK$0.60 per Offer Share). It is estimated that, without taking into account the discretionary incentive fee payable to the Public Offer Underwriters and Placing Underwriters which will be up to a maximum of HK$3.75 million based on the Offer Price of HK$0.5 per Offer Share (being the mid-point of the indicative range of the Offer Price), the total Listing expenses of approximately HK$36.9 million (equivalent to approximately RMB31.7 million) will be incurred. For details, please refer to the paragraph headed "Underwriting — Commission and Expenses" in this prospectus. Our Directors presently intend to apply such net proceeds as follows:

Approximate amount of net proceeds/utilised	**Strategies and intended applications**
Approximately HK$30.3 million (equivalent to approximately RMB26.1 million), or approximately 79.5%	Expanding our production capacity and enhance our production efficiency by purchasing new machinery
Approximately HK$3.1 million (equivalent to approximately RMB2.7 million), or approximately 8.1%	Setting up a second production facility to cope with our business expansion
Approximately HK$4.1 million (equivalent to approximately RMB3.5 million), or approximately 10.8%	Strengthening our research and development capabilities in our moulds and product design and production, and production techniques
Approximately HK$0.6 million (equivalent to approximately RMB0.5 million), or approximately 1.6%	Continuing to expand our Group's sales and marketing team

For the period from the Listing Date to 31 December 2022, our net proceeds from the Share Offer will be used as follows:

	From the Listing Date to 31 December 2020	**From 1 January 2021 to 30 June 2021**	**From 1 July 2021 to 31 December 2021**	**From 1 January 2022 to 30 June 2022**	**From 1 July 2022 to 31 December 2022**	**Total amount of proceeds to be expended**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Expanding our production capacity and enhance our production efficiency by purchasing new machinery	15,460	—	10,644	—	—	26,104
Setting up a second production facility to cope with our business expansion	1,180	180	1,180	180	—	2,720
Strengthening our research and development capabilities in our moulds and product design and production, and production techniques	1,730	180	1,430	180	—	3,520
Continuing to expand our Group's sales and marketing team	125	125	125	125	—	500
	18,495	485	13,379	485	—	32,844

For further details on our future plans and use of proceeds, please refer to the section headed "Future plans and use of proceeds" in this prospectus. Please also refer to the paragraph headed "Future plans and use of proceeds — Reasons for the Listing" in this prospectus for detailed reasons for the Listing.

LEGAL PROCEEDINGS AND NON-COMPLIANCE

During the Track Record Period and as at the Latest Practicable Date, our Directors have confirmed that we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition. Our Directors also confirmed that during the Track Record Period and up to the Latest Practicable Date, our Group had not had any material or systemic non-compliance incidents.

RISK FACTORS

There are a number of risks involved in our business and operations. They can be classified into (i) risks relating to our business; (ii) risks relating to the industry in which we operate; (iii) risks relating to our operations in the PRC; (iv) risks relating to the Share Offer; and (v) risks relating to statements in this prospectus, and we believe that our major risks include (1) The recent outbreak of COVID-19 in the PRC may significantly and adversely impact our business operation and financial performance; (2) we are subject to the pressure of increasingly stringent PRC environmental laws and regulations, and may be adversely affected by changes in the environmental laws, regulations and policies and in the worst scenario where the PRC Government prohibits the production of disposable plastic food storage containers with polypropylene resins, our contingency plan may not be effective as we have expected; (3) increases in the prices of key raw materials we use in our products may significantly impact our business; (4) we may not be able to meet the regulatory requirements imposed by the PRC Government and the export destinations, respectively; and (5) our Group had a concentration of major suppliers in the supply of polypropylene resins for our production during the Track Record Period.

OFFERING STATISTICS

	Based on minimum indicative Offer Price of HK$0.40	Based on maximum indicative Offer Price of HK$0.60
Market capitalisation of the Shares	HK$240,000,000	HK$360,000,000
Unaudited pro forma adjusted consolidated net tangible asset of the Group attributable to equity holders of the Company per Share	HK$0.20	HK$0.24

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Our Directors confirm that subsequent to the Track Record Period and up to the date of this prospectus, there had been no significant change to our principal business, business model, service offerings and pricing policy and there had been no material adverse change in our financial or trading position. Based on our unaudited management account for the four months ended 30 April 2020, we experienced an increase in revenue by approximately 6.6% as compared with the respective period in 2019 mainly due to the increase in demand for take-away of food by the general public whereby the demand for our products also increased correspondingly, although we were affected by the outbreak of COVID-19 in both January and February 2020, during which, there was temporary transportation restrictions imposed by several cities in PRC.

It is noticed that the number of new confirmed cases of COVID-19 in the PRC has become steady since late March 2020 in the PRC, which was attributable to the effectiveness of the prompt draconian measures taken by the PRC Government to combat further spread of COVID-19 in the community and thus, social and economic activities have been steadily resumed in an orderly way in the PRC although dozen of new confirmed cases have been reported in Beijing recently. To prevent a second wave of coronavirus, Beijing has reintroduced strict lockdown measures whereby the situation shall be under control. Considering that our production base is in Fujian and a majority of our customers and suppliers are located outside Beijing, our Directors consider that there is no material impact to our business operations.

Impact of recent outbreak of COVID-19 on our business and operation

Both our Group's head office and our Production Facilities are located in Longhu Town, Jinjiang City, Quanzhou District, Fujian Province, China. As at the Latest Practicable Date, according to the Fujian Provincial Health Committee* (福建省衛生健康委員會), there has been a total of 66 confirmed cases of COVID-19 in Quanzhou District which our Production Facilities are located. Since 25 February 2020 and up to the Latest Practicable Date, save for 19 imported cases from overseas, there is no new confirmed case of COVID-19 in Quanzhou District.

Our business operation had encountered adverse impact in January and February 2020 in the following aspects: (i) our business operation had been temporarily suspended; (ii) some of our employees had been unable to report to work due to the travel restrictions imposed across different regions in the PRC after the Chinese New Year holidays; and (iii) impact on our customers and suppliers.

Following the outbreak of COVID-19, the operation of our Production Facilities had temporarily suspended since the Chinese New Year holidays until 9 February 2020 inclusive in response to the local government's policies. Our Group has resumed business operation gradually since 10 February 2020. The actual production output of our Production Facilities reached 95% of its operation by the end of March 2020 and our Directors confirm that our production machines had resumed full operation in early April 2020. Our Directors confirm that as of the Latest Practicable Date, we had not dismissed any employees due to COVID-19 epidemic, and all the employees (including the eight employees who had been unable to return to work due to transportation restriction and/or quarantine measures after Chinese New Year holidays and the additional eight employees who were hired to replenish the resultant shortage of workforce) were working for us.

Our Directors are of the view that even in case that our Group has to completely suspend all our production activities when COVID-19 epidemic intensifies, based on our cash and cash equivalent balance and any banking facilities as at the Latest Practicable Date, we still have sufficient cash to sustain our business for around 30 months and remain solvent, assuming that due to full suspension of our operation and no revenue can be generated nor would we be able to obtain any borrowing from banks or other financial institutions, but we are still required to pay all fixed expenses, such as rental fee, wages, office expense, water and electricity, etc. to maintain minimum level of our operation. Considering that the number of reported new confirmed cases in the PRC has been reduced, particularly, locally transmitted case, the number of recovery cases is increasing and the increasing public awareness of epidemic precaution, our Directors are of the view that the chance of full suspension of our production activities due to outbreak of COVID-19 epidemic in the future is not high. Please refer to the section headed "Risk Factors — Risks relating to our Business" in this prospectus for further details of the risks relating to the continuing spread and prolonged occurrence of COVID-19.

According to Frost & Sullivan, as most people in the PRC resorted to dining at home in late January and early February 2020, the demand for disposable plastic food storage containers during this period had decreased substantially. However, with an increasing number of people returned to work and many restaurants re-opened in late February and early March 2020, and most restaurants only offer take-away food in response to the governments' propaganda to minimize communal meals and social contacts, the demand for disposable plastic food storage containers increased during this period as compared with the demand in late January and early February 2020 due to the increase in demand for take-away of food by the general public. The sales and confirmed orders for our products have shown an increase in March and April 2020 compared to the same months in 2019. Due to the increasing demand for our products along with the increasing demand for take-away food, we installed another three sets of production machine ("**New Machines**") in April 2020 to increase our production capacity to satisfy our customers' needs. After the installation of the New Machines, our production capacity for the New Machines will therefore increase by approximately 317 tonnes of polypropylene resins for the year ending 31 December 2020 and 475 tonnes for the year ending 31 December 2021 representing an increase of approximately 3.3% as compared to 14,585 tonnes for the year ended 31 December 2019.

For the four months ended 30 April 2020, the Group recorded a growth in revenue of approximately 6.6%, as compared with that for the four months ended 30 April 2019, despite the negative impacts caused by the COVID-19 on the Group's operation during January and February 2020, mainly due to the increase in demand for take-away of food by the general public whereby the demand for our products also increased correspondingly. On the other hand, the increase in the cost of sales by approximately 9.0% outweighed the increase in revenue for the four months ended 30 April 2020 mainly due to expenses, such as salary and depreciation, incurred during the temporary suspension of operation of our Production Facilities from 29 January 2020 to 9 February 2020 imposed by the Fujian Provincial People's Government (福建省人民政府) due to the outbreak of COVID-19, resulting in a lower gross profit margin by approximately 1.6% for the four months ended 30 April 2020, as compared with that for the four months ended 30 April 2019. The increase in salary expenses for the four months ended 30 April 2020 was mainly due to (i) the increase in the average monthly salary as a result of salary increment of some employees in December 2019; and (ii) the increase in the average number of production staff from 66 for the four months ended 30 April 2019 to 74 for the four months ended 30 April 2020. The increase in depreciation expenses for the four months ended 30 April 2020 was mainly due to the acquisition of three plastic injection moulding machines during the last quarter of 2019.

Our gross profit margin slightly decreased by approximately 1.6% for the four months ended 30 April 2020 as compared with that for the same period in 2019 because our Group did not generate any revenue during the temporary suspension due to the COVID-19 but we still needed to pay salary to our production staff during the same period.

The profit after tax however increased for the four months ended 30 April 2020, as compared with that for the four months ended 30 April 2019, mainly due to the decrease in the Listing expense, partially offset by the increase in taxation.

As at the Latest Practicable Date, all trade receivables as at 30 April 2020 were fully settled by our customers and no written off or bad debt was made against the trade receivables.

Impact of the outbreak of our Group's customers

Our Directors confirmed that, due to the temporary suspension of our Group's operation, some sales contracts amounted to approximately RMB4.1 million, which had been entered into between our Group and the relevant customers previously with original delivery scheduled in February 2020, were affected and the delivery of goods was delayed. Nevertheless, these customers had not cancelled the sales contracts nor requested any compensation from our Group. By the end of March 2020, except for sales order from the customers in Wuhan City, a city at the epicentre of COVID-19 epidemic and was subject to lockdown at the material time, amounting to approximately RMB1.2 million, all goods related to the sales contracts entered in December 2019 were subsequently delivered to our Group's customers by end of March 2020. While the lockdown of Wuhan City was lifted on 8 April 2020, our Group had successfully delivered the outstanding orders amounted to approximately RMB1.2 million (including VAT) to the two customers in Wuhan City by April 2020. As of the Latest Practicable Date, our two customers in Wuhan City have placed their sales orders with us, with an aggregate amount (including VAT) of RMB1.4 million and 1.2 million, respectively, and the products under the orders of these two customers were delivered by the end of April and May 2020, respectively. Our Directors confirm that the total purchase orders placed to us in April 2020 generated a similar revenue as to that generated by the purchase orders placed by these two customers in April 2019.

As of the Latest Practicable Date, we obtained confirmed orders (with VAT excluded) placed to us, the outstanding backlog amount of which was approximately RMB20.2 million, RMB20.3 million and RMB21.0 million for March, April and May 2020, respectively. On the other hand, we delivered all confirmed orders placed to us by our customers for March to May 2020; whereas our Group had confirmed orders (with VAT excluded), which had been fully delivered, amounted to approximately RMB16.1 million, RMB17.9 million and RMB19.2 million for March, April and May 2019, respectively. As of the Latest Practicable Date, we still have backlog orders (including the outstanding confirmed orders placed but yet to be delivered as of the Latest Practicable Date and confirmed orders for June 2020) of amount of approximately RMB9.7 million (which is equivalent to approximately 615 tonnes).

The revenue generated from our Group's customers in Wuhan city, Hubei provinces, accounted for approximately 6.5%, 6.9% and 6.7% of our Group's total revenue for the three years ended 31 December 2019, respectively. Our Directors confirmed that all of our customers had been in operation, though may not be in full capacity.

Based on the above, our Directors consider that, although the operation of our Group and the customers' business operation might temporarily be affected during the suspension period after Chinese New Year holiday until 9 February 2020, the business operation of our Group's customers are gradually resumed to be stable.

Impact of the outbreak of our Group's suppliers

Our Group's major suppliers, namely, Supplier A and Supplier B, have sales offices located in Fujian Province, which are therefore relatively less affected by the COVID-19 epidemic.

Since the resumption of operation of our major suppliers in early February 2020, the supply and price of raw materials for production of our Group's products has become stable. There is no major logistic ban or restriction within Fujian Province. In February and March 2020, our Group had made new purchase of raw materials amounting to approximately RMB8.3 million and RMB11.7 million, respectively, with comparable unit price before the outbreak of the COVID-19 and all purchase of these raw materials had been delivered to our Group on schedule. Our Directors are of the view that there is no urgent need for our Group to stock up inventory of raw materials for production to its products.

In view of the above factors, our Directors are of the view that the potential impact of the outbreak of COVID-19 on our Group's business operations and financial conditions is only temporary and short-term. Notwithstanding that, our Directors' assessment of the impact is based on information available up to the Latest Practicable Date and hence, our Directors' assessment may change over time along further spread of the COVID-19 infection, the measures implemented by the PRC Government to control its spread and the effectiveness of the treatment of COVID-19 infection in the PRC.

Please refer to the section headed "Business — Occupational health and safety" in this prospectus for the details of precautionary measures taken by our Group in response the outbreak of COVID-19.

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

"Accountants' Report"	the accountants' report of our Group prepared by the Reporting Accountants set out in Appendix I to this prospectus
"affiliate(s)"	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s) or where the context so requires, any of them to be used in connection with the Public Offer
"Articles of Association" or "Articles"	the amended and restated articles of association of our Company, conditionally adopted on 19 June 2020 and to take effect on the Listing Date, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix III to this prospectus
"associate(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"Audit Committee"	the audit committee of our Board
"Board"	the board of Directors
"Business Day" or "business day"	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which licensed banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"Capitalisation Issue"	the allotment and issue of 449,990,000 Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to in the paragraph headed "A. Further information about our Group — 4. Written resolutions of our Shareholders passed on 19 June 2020" in Appendix IV to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant

"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
"China", "Mainland China" or "PRC"	the People's Republic of China and, except where the context otherwise requires and only for the purpose of this prospectus, references in this prospectus to China, Mainland China or the PRC exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan region
"Circular No.13"	the Notice on the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知)
"Circular No.37"	the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Overseas Investment and Financing and Round-trip Investment via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知)
"close associate(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Companies Law" or "Cayman Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	Yik Wo International Holdings Limited (易和國際控股有限公司) (formerly known as Yihe International Holdings Limited (易和國際控股有限公司)), an exempted company incorporated in the Cayman Islands under the Companies Law with limited liability on 13 December 2018

"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the GEM Listing Rules, and in the context of our Company, comprises Mr. Xu and Prize Investment as at the date of this prospectus
"core connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"COVID-19"	Novel Coronavirus Pneumonia or Novel Coronavirus (COVID-19), a respiratory illness that was first reported from Wuhan, China in December 2019
"CSRC"	China Securities Regulatory Commission (中華人民共和國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
"Deed of Indemnity"	the deed of indemnity dated 26 June 2020 and executed by our Controlling Shareholders in favour of our Company, particulars of which are set out in the paragraph headed "D. Other information — 1. Estate duty, tax and other indemnities" in Appendix IV to this prospectus
"Deed of Non-Competition"	the deed of non-competition dated 26 June 2020 and executed by our Controlling Shareholders in favour of our Company, particulars of which are set out in the paragraph headed "Relationship with Controlling Shareholders — Deed of Non-Competition" in this prospectus
"Director(s)"	the director(s) of our Company
"EIT Law"	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法)
"EU"	the European Union
"Excluded Business"	the business of the provision of design services for animation and its ancillary products and the production and distribution of animation programmes
"Extreme Conditions"	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
"Frost & Sullivan"	Frost & Sullivan International Limited, an independent industry consultant engaged by our Company
"F&S Report"	an independent industry research report commissioned by our Company and prepared by Frost & Sullivan on the disposable plastic food storage containers industry in the PRC

"Fujian Renyue"	Fujian Renyue Culture Diffusion Co., Ltd.* (福建仁悦文化傳播有限公司), a limited liability company established in the PRC on 14 December 2018 and is directly wholly-owned by Mr. Xu Yubin, nephew of both Mr. Xu and Mr. Hui
"GEM"	the GEM of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
"General Rules of CCASS"	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
"**GREEN** Application Form(s)"	the application form(s) to be completed by the **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited
"Group", "our Group", "we", "us" or "our"	our Company and its subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries pursuant to the Reorganisation, such subsidiaries as if they were subsidiaries of our Company at the relevant time
"Hengsheng Animation"	Fujian Hengsheng Animation Culture Diffusion Co., Ltd.* (福建恒盛動漫文化傳播有限公司) (formerly known as Quanzhoushi Wanling Trading Co., Ltd* (泉州市萬陵貿易有限公司)), a wholly foreign-owned enterprise established in the PRC on 13 April 2011 and an indirect wholly-owned subsidiary of our Company
"Hengsheng Toys"	Jinjiang Hengsheng Toys Co., Ltd.* (晉江恒盛玩具有限公司), a limited liability company established in the PRC on 2 March 1992 and is directly wholly-owned by Heng Sheng Holding Group Limited (1900270:KS)
"Hengsheng Toys Listing"	the listing of the holding company of Hengsheng Toys on the Korea Stock Exchange
"HK$" or "Hong Kong dollars" or "HK dollars" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"HKFRS(s)"	Hong Kong Financial Reporting Standards, which include the Hong Kong Accounting Standards, amendments and interpretations issued by the HKICPA, as in effect from time to time

"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"Independent Third Party(ies)"	individual(s) or company(ies) who or which, as far as our Directors are aware after having made all reasonable enquiries, is/are independent and not connected person(s) of our Company within the meaning of the GEM Listing Rules
"Jazz Rabbit Apparels"	Quanzhou Jazz Rabbit Apparels Co., Ltd.* (泉州爵士兔服飾有限公司), a limited liability company established in the PRC on 12 July 2011 and is directly wholly-owned by Hengsheng Toys
"Joint Bookrunners" or "Joint Lead Managers"	Ruibang Securities Limited, Mouette Securities Company Limited, Chuenman Securities Limited and Grand Moore Capital Limited, being the joint bookrunners and joint lead managers for the Share Offer
"Latest Practicable Date"	21 June 2020, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus
"Listing"	the listing of the Shares on GEM
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Date"	the date on which dealings in the Shares on GEM first commence, which is expected to be on Monday, 13 July 2020
"Listing Division"	the listing division of the Stock Exchange
"M&A Rules"	the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定)
"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange

"Memorandum" or "Memorandum of Association"	the amended and restated memorandum of association of our Company, conditionally adopted on 19 June 2020 and to take effect on the Listing Date, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix III to this prospectus
"Merit Winner"	Merit Winner Limited, a BVI business company incorporated in the BVI with limited liability on 23 May 2019 and one of our Substantial Shareholders
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Hui"	Mr. Hui Man Kit (許文杰先生), one of our Substantial Shareholders and the brother of Mr. Xu
"Mr. Xu"	Mr. Xu Youjiang (許有獎先生), chairman of our Board, an executive Director and one of our Controlling Shareholders
"Nomination Committee"	the nomination committee of our Board
"Offer Price"	the final price per Offer Share (exclusive of any brokerage fee, SFC transaction levy and Stock Exchange trading fee) of not more than HK$0.60 per Offer Share and not less than HK$0.40 per Offer Share at which the Offer Shares are to be offered for subscription pursuant to the Share Offer, to be determined as further described in "Structure and Conditions of the Share Offer" in this prospectus
"Offer Share(s)"	collectively, the Public Offer Shares and the Placing Shares
"Offer Size Adjustment Option"	the option expected to be granted by our Company to the Joint Bookrunners (for themselves and on behalf of the Placing Underwriters), pursuant to which our Company may be required by the Joint Bookrunners to allot and issue up to 22,500,000 additional Offer Shares, representing up to 15% of the Offer Shares initially available under the Share Offer at the Offer Price to cover any over-allocation in the Placing as described in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"Placing"	the conditional placing of the Placing Shares by the Underwriters being for and on behalf of our Company at the Offer Price subject to the terms and conditions as, described in the section headed "Structure and Conditions of the Share Offer" in this prospectus

"Placing Shares"	the 135,000,000 Shares being initially offered by our Company for subscription at Offer Price under the Placing (subject to reallocation and the Offer Size Adjustment Option), as described under the section headed "Structure and Conditions of the Share Offer" of this prospectus
"Placing Underwriters"	the underwriters of the Placing that are expected to enter into the Placing Underwriting Agreement
"Placing Underwriting Agreement"	the underwriting agreement expected to be entered into on or around 6 July 2020 by, among others, our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriter(s) relating to the Placing
"PRC Government"	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
"PRC Legal Advisers"	Tian Yuan Law Firm (天元律師事務所), our legal advisers as to the laws of the PRC
"Pre-IPO Investment"	the investments made by the Pre-IPO Investors in our Company, details of which are set out in the paragraph headed "History, Reorganisation and corporate structure — Pre-IPO Investment" in this prospectus
"Pre-IPO Investors	Sun Kong, Quantum Star and Merit Winner
"Predecessor Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
"Price Determination Agreement"	the agreement to be entered into between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on or around the Price Determination Date to fix the Offer Price
"Price Determination Date"	the date, expected to be on or about 6 July 2020 but in any event no later than 7 July 2020, on which the Offer Price is fixed by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, on which the Offer Price is fixed for the purpose of the Public Offer
"Prize Investment"	Prize Investment Limited, a BVI business company incorporated in the BVI with limited liability on 12 December 2018 and one of our Controlling Shareholders

"Production Facilities"	refers to the leased factories, warehouses and product and mould design facility located in Wukeng Village and Xiushan Village, Longhu Town, Jinjiang City, Fujian Province, PRC and referred to in the paragraph headed "Business — Properties — Leased properties" of this prospectus
"Public Offer"	the offer of the Public Offer Shares for subscription by members of the public in Hong Kong for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), payable in full on application, on and subject to the terms and conditions described in this prospectus and the Application Forms relating thereto
"Public Offer Shares"	the 15,000,000 Shares (subject to reallocation) initially offered by our Company for subscription in the Public Offer, as described under the section headed "Structure and Conditions of the Share Offer" of this prospectus
"Public Offer Underwriter(s)"	the underwriters of the Public Offer, whose names are set out under the section "Underwriting" of this prospectus
"Public Offer Underwriting Agreement"	the public offer underwriting agreement dated 29 June 2020 entered into among our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters relating to the Public Offer
"Quantum Star"	Quantum Star Ventures Limited, a BVI business company incorporated in the BVI with limited liability on 27 November 2018, which is a Shareholder holding 4.5% of our issued share capital upon the Listing and is directly wholly-owned by Mr. Hui Pan Pan
"Regulation S"	Regulation S under the U.S. Securities Act
"Remuneration Committee"	the remuneration committee of our Board
"Reorganisation"	the reorganisation of our Group in preparation for the Listing, details of which are set out in the section headed "History, Reorganisation and Corporate Structure" in this prospectus
"Reporting Accountants"	Grant Thornton Hong Kong Limited, Certified Public Accountants, the reporting accountants of our Company
"Risk Management Committee"	the risk management committee of our Board
"RMB"	Renminbi, the official currency of the PRC
"SAFE"	the State Administration of Foreign Exchange of the PRC

"SFC" or "Securities and Futures Commission"	the Securities and Futures Commission of Hong Kong
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of a par value of HK$0.01 each in the share capital of our Company
"Share Offer"	the Public Offer and the Placing
"Shareholder(s)"	holder(s) of the Share(s)
"Silver Excel"	Silver Excel Investments Limited (銀卓投資有限公司), a company incorporated in Hong Kong with limited liability by shares on 4 May 2018 and an indirect wholly-owned subsidiary of our Company
"Sole Sponsor"	Grand Moore Capital Limited, a licensed corporation under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Sun Kong"	Sun Kong Investments (BVI) Limited, a BVI business company incorporated in the BVI with limited liability on 28 January 2019, which is a Shareholder holding 9% of our issued share capital upon the Listing and is directly wholly-owned by Mr. Wong Hing Nam
"subsidiary(ies)	has the meaning ascribed to it under the GEM Listing Rules
"Substantial Shareholder(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Takeovers Code"	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
"Track Record Period"	comprises the period for the three years ended 31 December 2019
"Underwriters"	the Public Offer Underwriter(s) and the Placing Underwriter(s)
"Underwriting Agreements"	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction

"US$"	United States dollars, the lawful currency of United States
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"VAT"	value-added tax of the PRC (中華人民共和國增值稅)
"**WHITE** Application Form(s)"	the application form(s) for use by the public who require(s) such Offer Shares to be issued in the applicant's or applicants' own name(s)
"**White Form eIPO**"	the application for Public Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of White Form eIPO **www.eipo.com.hk**
"**White Form eIPO** Service Provider"	Computershare Hong Kong Investor Services Limited
"**YELLOW** Application Form(s)"	the application form(s) for use by the public who require(s) such Offer Shares to be deposited directly into CCASS
"Yihe Investment"	Yihe Investment Holdings Limited, a BVI business company incorporated in the BVI with limited liability on 14 December 2018 and a direct wholly-owned subsidiary of our Company
"kg"	kilogram(s)
"sq.ft." or "ft^2"	square foot (feet)
"sq.m." or "m^2"	square meter(s)
"%"	per cent

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

If there is any inconsistency between the Chinese names of entities and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with "" and the Chinese translation of company names in English which are marked with "*" is for identification purpose only.*

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

"CAGR"	compound annual growth rate
"CNC processing machine(s)"	refers to a pre-programmed computerised control system that dictates the movement of machines and tools, and is used for the production of moulds
"colour agent(s)"	are chemical compounds to colour plastics
"disposable plastic food container(s)"	plastic-made disposable catering utensil commonly used as container for food and beverages
"GDP"	gross domestic product
"ISO"	International Organisation for Standardisation, a non-government organization based in Geneva, Switzerland, for assessing the quality systems of business organisations
"ISO 14001"	an internationally recognised standard for the environmental management of businesses. It aims at recognising the desirable behaviour of businesses concerning the environment. It prescribes controls for an encompassing range of corporate activities which include the use of natural resources, handling and treatment of waste and energy consumption
"ISO 9001"	an internationally recognised standard for a quality management system
"polymer"	a large molecule composed of repeating structural units that are connected to one another through chemical bonds
"polypropylene resins"	a thermoplastic polymer that is resistant to many chemical solvents, bases and acids
"VAT"	value-added tax

This prospectus contains certain forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management, as such they are by their nature subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies, plans, objectives and goals;
- the nature of, and potential for, future development of our business;
- various business opportunities that we may pursue;
- changes in competitive conditions and our ability to compete under these conditions;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- our expectations with respect to our ability to acquire and maintain regulatory qualifications required to operate our business;
- future developments, trends and conditions in the industry and markets in which we operate;
- our future debt levels and capital needs;
- our profit or loss estimate and other financial conditions and performance; and
- our dividend.

The words "aim", "anticipate", "believe", "can", "could", "expect", "going forward", "intend", "may", "might", "plan", "project", "seek", "should", "will", "would" and the negative forms of these words with similar expressions, as they relate to us, are intended to identify a number of these forward looking statements. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in the section headed "Risk Factors" in this prospectus. One or more of these risks or uncertainties may materialise.

Subject to the requirements of the GEM Listing Rules, our Company does not have any obligation and does not undertake to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or developments or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way our Company expects, or at all. Hence, should one or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. All forward- looking statements in this prospectus are qualified by reference to the cautionary statement set out in this section.

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

Prospective investors should consider carefully all of the information set forth in this prospectus and, in particular, should consider the following risks and special considerations in connection with an investment in our Company before making any investment decision in relation to the Offer Shares. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial conditions and future prospects of our Group.

This prospectus contains certain forward-looking statements regarding our plans, objectives, expectations, and intentions which involve risks and uncertainties. Our Group's actual results could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below as well as those discussed elsewhere in this prospectus. The trading price of the Offer Shares could decline due to any of these risks and you may lose all or part of your investment.

We believe that there are certain risks involved in our business and operations. These risks can be classified into: (i) risks relating to our business; (ii) risks relating to the industry in which we operate; (iii) risks relating to our operations in the PRC; (iv) risks relating to the Share Offer; and (v) risks relating to the statement in this prospectus.

RISKS RELATING TO OUR BUSINESS

The recent outbreak of COVID-19 in the PRC may significantly and adversely impact our business operation and financial performance.

An outbreak of an infectious respiratory disease, namely, COVID-19, first found in Wuhan City, Hubei Province, the PRC in late 2019 and later occurred globally, posing a serious public health threat. On 23 January 2020, the PRC Government announced the lockdown of Wuhan City in an attempt to quarantine the city, followed by a series of draconian measures in various regions such as travel restrictions, social distancing and closure or suspension of business operations. While the drastic mitigation measures aim at reducing the peak of the epidemic, it has inevitably caused certain degree of disruption to the business operations in various industries and increased the unemployment rate across the nation. According to the National Bureau of Statistics of the PRC, since the COVID-19 outbreak, the urban unemployment rate was 5.3%, 6.2% and 5.9% in January, February and March 2020, respectively while the urban unemployment rate was 5.2% as at the end of 2019. In compliance with the government's policy, our Production Facilities had suspended operations and production after the Chinese New Year holidays until 9 February 2020 inclusive and resumed operations and production gradually thereafter. If this happens again, we may not be able to fulfil our contractual obligations to manufacture and deliver products to our customers on time, which may result in loss of our contracts with them and/or we may be liable to pay damages or compensation to our customers.

Both our head office and production facilities are located in Quanzhou District, Fujian Province. Since the outbreak of COVID-19 and up to the Latest Practicable Date, according to the Fujian Provincial Health Committee* (福建省衞生健康委員會), there had been a total of 66 confirmed cases of COVID-19 in Quanzhou District. Since 25 February 2020 and up to the Latest Practicable Date, save for 19 imported cases of from overseas, there is no new confirmed case of COVID-19 in Quanzhou District.

Furthermore, our business is susceptible to the growth of food and beverage market and hotel industry in the PRC. The outbreak of COVID-19 in the PRC since January 2020 has resulted in a slow down of the growth of the food and beverage market in the PRC and thus the demand may reduce correspondingly. For more details of the market impact, please refer to "Industry overview — Analysis of disposable plastic food storage container industry in the PRC — Market size" in this prospectus. There is no assurance that our major customers would be able to (a) maintain their normal business operation without disruptions nor would their demands for our products persist; and/or (b) continue to engage us to manufacture disposable plastic food storage containers, and there is no guarantee that we would be able to secure purchase orders from these customers with volume similar

The situation will be worsen off if the spread of COVID-19 intensifies whereby the supply chain of our products will be adversely affected and our delivery of products to our customers will also be disrupted, particularly, when there are any transportation bans or restrictions following escalation of the spread of COVID-19. Furthermore, suppliers of polypropylene resins and other raw materials may have to temporarily suspend the operation of their production plants or factories. As a result, our cost for purchase of raw materials may increase. We cannot guarantee that we will be able to find similar supplies at similar prices within a reasonable time, which in turn may materially and adversely affect our business and results of operations.

On the other hand, the operation and financial performance of our customers will also be adversely affected as COVID-19 intensifies and the PRC Government has to implement more draconian measures to combat further spread of the virus; our customers' demands for our products and services may be reduced as a result. Furthermore, it may take longer time for our customers to settle the payments or they may even not be able to settle the payments due to us for our products supplied to them within the agreed schedule, and we may suffer from loss or reduction of purchase orders from our customers. Thus, our operations and financial performance would be adversely affected.

Health safety risks during the occurrence of the COVID-19 may also lead to labour shortage, increase in wages of the workers, and interruption of our business operation, affecting our profit margin as a result. Until a vaccine is developed or a majority of the population have acquired herd immunity, it is difficult to predict when the COVID-19 epidemic will end. If the number of confirmed cases in the PRC or other parts of the world increases or rebounds, tougher draconian measures will be implemented by the government in the PRC. If that happens, a large number of workers might be unable to go to work due to travel restrictions across cities in the PRC or imposition of the isolation measures by the central government. Insofar as our Group is concerned, eight employees had been unable to return to work mainly due to quarantine measures and the travel restrictions restricting them travelling from their home provinces to our production plant after the Chinese New Year. Although we had not dismissed any employees due to COVID-19 epidemic, we hired additional eight employees to maintain the same level of our workforce in order to resume full operation, which therefore incurred additional staff costs and training time. On the other hand, as at 31 December 2019, approximately 59.2% of our employees came from provinces outside Fujian Province including Jianxi Province, Sichuan Province, Guizhou Province, etc. For more details, please refer to "Environmental, Social and Governance Report — (B) Social aspects — B1 Employment diversity of workforce". We cannot assure you that if COVID-19 epidemic further intensifies in the future, particularly after long national holidays and the resultant tougher draconian measures are to be implemented by the relevant government again, our employees with their home towns outside Fujian province would not be subject to any travel restriction which restricts them from reporting to work nor would we have sufficient workforce when the suspension orders which affected our Production Facilities, if any, are uplifted or relaxed by that time in the future. Further, if any of our workers is suspected to be infected with COVID-19, our production facilities might need to be suspended and employees might need to be quarantined. If these adverse events eventuate and persist for a substantial period, our business operation and financial performance may be significantly and adversely affected.

In the worst case scenarios where our business is forced to be suspended due to COVID-19 epidemic, (i) we will not be able to generate any income as a result of the suspension; (ii) all or part of our employees, including operational and administrative staff, have to be encouraged to take unpaid leave under mutual consent or to be dismissed upon proper notice in accordance with their employment contracts with us and compensation resulted from the termination of their employment will inevitably incurred; (iii) we still have to incur rental and related payments payable on monthly basis; (iv) minimal operating and administrative expenses will be incurred for maintenance of our operations at a minimum level (including basic head office maintenance cost, utilities expenses, fees to be incurred as a listed company such as annual listing fee, annual audit fee, financial reports and compliance adviser fee); (v) our expansion plan might be delayed under such condition; (vi) there will be no further internal or external financing from banks or financial institutions and we would only use the immediate cash and deposits available to maintain our minimal operation; and (vii) no further dividend will be declared and paid under such situation.

We are subject to the pressure of increasingly stringent PRC environmental laws and regulations and may be adversely affected by changes in the environmental laws, regulations and policies and in the worst scenario where the PRC Government prohibits the production of disposable plastic food storage containers with polypropylene resins, our contingency plan may not be effective as we have expected.

Our business operation, which involves the use of polypropylene resins in production, is subject to pressure of environmental protection, in particular the PRC laws, regulations and policies in relation to the disposable plastic food storage container industry. According to the F&S Report, the PRC Government has implemented a series of policies and standards to consolidate the disposable tableware market, such as the "13th Five-Year Development Plan of National Environmental Protection Standards (《國家環境保護標準"十三五"發展規劃》)" issued by the Ministry of Environmental Protection in 2017 ("13th Five-Year Plan") which clarified the government's goal to vigorously promote the formulation, revision and implementation of environmental protection standards based on pollutant discharge permits and environmental management of water, atmosphere and soil and the "Environmental Protection Tax Law of the PRC (2018 Revision) (《中華人民共和國環境保護税法(2018修正)》)" promulgated in 2018 (details of which are set out in the paragraphs headed "Business — Environmental compliance — Our environmental, social and governance policies — Our pollutant discharge permit application" in this prospectus). The "Test Method for Determining the Degradability of Single Use and Degradable Lunch Container and Drinking Set"《一次性可降解餐飲具降解性能試驗方法》issued in 1999 also stipulates, among others, the test methods and steps, and technical points of photo biodegradability and biodegradability test applicable to disposable degradable tableware. Along the implementation of these policies and standards, manufacturers are faced with strict requirements for environmental protection and may have to shut down the factories which fail to meet the required standards. Furthermore, PRC and international environmental protection standards and regulations continually evolve, and we cannot assure you that our Group will continue to be successful in designing and manufacturing new products in a timely manner that conform to such new standards or regulations in the future. The introduction of new PRC or international laws, regulations and policies in this respect could increase our operating costs and adversely affect the profitability of our business. Given the stringent environmental protection and pollution mitigation policies in relation to disposable products provided in the 13th Five-Year Plan, we cannot assure you that the existing PRC environmental laws and regulations or policies will not be changed or further tightened. Since our disposable plastic food storage containers are non-biodegradable, should the PRC Government further tighten the laws and regulations in respect of the manufacturing and usage of disposable plastic food storage containers in the PRC, our Group may incur higher operation cost for compliance with the government's measures or higher standard regarding our products and their manufacturing process. As a result, our financial position and results of operations may be adversely affected.

If the environmental protection measures are becoming tougher in the PRC and in the worst scenario where the government in the PRC prohibits the production of disposable plastic food storage containers with polypropylene resins, we have devised a contingency plan whereby our Group will (i) apply biodegradable materials to manufacture our disposable plastic food storage containers; (ii) strengthen our research and development capabilities in degradability and recyclability of our products, which are the important features of environmentally friendly products; (iii) apply our skill and expertise in production of traditional plastic food storage containers; and (iv) explore the overseas market of our products. For further information relating to our contingency plan, please refer to "Business — Environmental compliance - Our contingency plan in the worst-case scenario where the government prohibits the production of disposable plastic food storage containers" in this prospectus. The successful implementation of our contingency plan may be influenced by various other factors, including the availability of sufficient resources such as funding, the availability of biodegradable materials, our ability and expertise to develop products that can meet market demands, etc. Some of the above factors are beyond our control. In particular, we cannot assure you that we can successfully develop products with biodegradable materials that can meet the then prevailing applicable standards in the PRC at reasonable cost or we can successfully implement the contingency plan smoothly within the targeted timeframe. Our Group may also incur additional costs in implementing the contingency plan. Ineffective implementation of the contingency plan and the additional costs which may be incurred in the implementation will likely have an adverse impact on our business operations and financial condition.

Furthermore, if the PRC Government restricts or prohibits the use of disposable plastic food storage containers and we are unable to implement our contingency plan as described above, our financial position and results of operations may also be adversely affected. If we fail to comply with the prevailing environmental laws and regulations, we may be compelled to shut down our Production Facilities until the non-compliance is duly rectified and be subject to payment of fine, etc. If this happens, our business, financial condition and results of operation may be adversely affected.

Increase in the price of key raw materials we use in our products may significantly impact our business.

We are subject to any price fluctuation in raw materials used in the manufacturing of our products. These include polypropylene resins, our key raw materials, as well as packaging materials, consumable materials and other ancillary materials. The success of our operation therefore depends on our ability to obtain from our suppliers' sufficient quantity of key raw materials with good quality at an acceptable price in a timely manner.

For the three years ended 31 December 2019, our cost of ras materials accounted for approximately 88.9%, 88.7% and 88.2% of our total cost of sales, respectively, and the cost of polypropylene resins accounted for approximately 77.9%, 78.0% and 78.1% of our total cost of sales, for the same period, respectively. There had been increase in the cost of polypropylene resins due to the rise in the prices of crude oil during the same period, which was in line with the market price. For more details of the reasons of the change of market price of polypropylene resins, please refer to the paragraphs headed "Industry overview — Analysis of disposable plastic food storage container industry in the PRC — Raw material price" in this prospectus. During the Track Record Period, our average purchase price of polypropylene resins increased from approximately RMB8.2 per kg in 2017 to approximately RMB9.1 per kg in 2019, due to the increase in the price of crude oil to about US$71.0 per barrel in 2018. Please refer to the paragraphs headed "Financial information — Sensitivity analysis — Cost of raw material" of this prospectus for the sensitivity analysis of the cost of raw materials on our profits.

Supplies of polypropylene resins and other raw materials may also be subject to a variety of factors that are beyond our control, including governmental control and policy, and overall economic conditions, all of which may have an impact on their market prices from time to time.

We will continue our efforts to pass our material cost increases on to our customers by determining the selling price of our products on a cost-plus basis, with reference to the costs of the raw materials, the expected margins etc. However, competition and market pressures may limit our ability to do so, and may prevent us from doing so in the future. Even when we are able to pass price increases on to our customers, in some cases, there is a time-lag before we are able to do so effectively due to the time gap between the time we obtain quotation or purchase the raw materials and the time we produce and deliver the products to our customers. Our inability to pass on or any delay in passing on price increases to our customers could adversely affect our operating margins and cash flow, resulting in a lower operating income and profitability. We cannot assure you that fluctuations in our material prices will not have a material adverse effect on our business, operating results and financial condition, or cause significant fluctuations in our operating results from period to period.

We may not be able to meet the regulatory requirements imposed by the PRC Government and the export destinations, respectively.

As our disposable plastic food storage containers mainly include food storage containers and drinkware and our products are primarily sold in the PRC, our compliance with the requirements imposed by the PRC Government on the safety standards applicable to our products and the PRC Government's polices from time to time is of paramount importance to our business and operation. On the other hand, we also export a small amount of our products to overseas customers whereby our products have to comply with their safety standards, and these standards may be different from or more stringent than the standards imposed by the PRC Government.

In light of the above, we need to comply with all laws and regulations applicable to us in the PRC and in the destination countries to which our products are delivered, if are necessary, completing all necessary procedures to obtain all relevant safety approvals, and any other required documentation. In this connection, we rely on our customers to comply with and complete the local requirements and procedures in respect of our overseas sales, and they are responsible for complying with the local requirements of the countries to which our product are exported. As such, we cannot assure you that all of our overseas customers can be in compliance with all the local requirements of these foreign countries. If we or our customers fail to satisfy the relevant standards adopted by the destination countries, our products will be returned and we may also face regulatory actions or claims for any contractual or tortious damages, and there may be a material adverse effect on our business, operating results and financial position.

Our Group had a concentration of major suppliers in the supply of polypropylene resins for our production during the Track Record Period.

Polypropylene resins is the major raw materials for production of our products. We rely on our suppliers to provide us with stable and adequate supply of polypropylene resins for our production operation. Purchases from our five largest suppliers amounted to approximately RMB89.0 million, RMB98.5 million and RMB113.5 million, representing approximately 82.5%, 83.4% and 82.9% of our total purchases for each of the three years ended 31 December 2019, respectively. Purchases from our largest supplier amounted to RMB28.7 million, RMB30.7 million and RMB33.9 million, representing approximately 26.6%, 26.1% and 24.7% of our total purchases for the same periods, respectively. As such, our reliance on our five largest suppliers in supplying quality raw materials to us during the Track Record Period was relatively high. We normally do not enter into any long-term agreements with our suppliers. If our suppliers are unable or unwilling to satisfy our order requirements in the future, we may experience an interruption in our operation, and have to seek alternative suppliers by that time. We cannot assure you that we will be able to find suitable suppliers that can provide raw materials to us at the same quality and price or at all. Should this situation occur, we may be exposed to an increase in raw material costs, which may not be passed on to our customers, and/or a shortage of raw materials supply; if this happens, our production schedule would be interrupted and/or the quality of our products be impaired. As such, our business, financial condition and results of our operations may be adversely impacted.

We may experience a decline in our overall gross profit margin in the future.

Different products have different gross profit margins, which are affected by reasons such as material costs, production costs, product prices and our marketing and branding strategy. Our profitability is dependent upon a number of factors and some of which are beyond our control, such as price of raw materials, labour and other production costs, market competition and the market demands for our customers' products, there is no assurance that we will be able to maintain our historical gross profit margins or net profit margins in the future as those in the Track Record Period. It is noted that our "JAZZIT" branded products generally have a higher gross profit margin than our non-branded products. For the three years ended 31 December 2019, the gross profit margin for our "JAZZIT" branded products was 29.2%, 28.9% and 28.8%, respectively, and the gross profit margin for our non-branded products was 24.1%, 23.9% and 25.2%, respectively. As such, if the purchase orders for our non-branded products increase while the purchase order for "JAZZIT" branded products decrease, our overall gross profit margin will decrease accordingly. On the other hand, our results during the Track Record Period were commensurate with the cyclical business cycle in the disposable plastic food storage container industry and any price fluctuation would have a material adverse impact on our profit margin. We cannot assure you that we will be able to widen our customer base and maintain similar or better overall gross profit margins. Any changes in the types of products we offered will affect our overall gross profit margin and operating results. If the proportion of lower-margin products in our Group's product sales mix increases either as a result of changes in the products ordered by our customers or changes in our customer base, we may experience a decline in our overall gross profit margin and such decline will adversely impact our financial condition and operating results.

We are exposed to credit risks of our customers and any mismatch in turnover days for trade receivables and trade payables will affect our cash inflow due to our business arrangements with our customers.

The financial position, profitability and cash flow of our Group depend on whether our customers will be able to settle the outstanding balance owed to our Group in a timely manner. If there is any delay or default in payment made by our customers, if we fail to receive long overdue trade receivables or if there is any event or change in circumstances that renders the long overdue trade receivables impaired or uncollectible, our profitability, liquidity, financial position, results of operations and prospects could be materially and adversely affected.

We are therefore subject to the credit risks of our customers and our profitability and cash flow are dependent on timely settlement of payments by our customers for the products we provide to them. For the three years ended 31 December 2019, our average trade receivables turnover days were approximately 57 days, 58 days and 57 days, respectively; whereas our trade payables turnover days (based on average trade payables divided by cost of sales times 365 days for full financial year, respectively) maintained at approximately 36 days, 42 days and 48 days. As such, our credit periods for payment to our suppliers is generally shorter than that we offered to our customers and thus, our cash inflow and outflow may be mismatched. When our operations expand, our Directors expect our cash outflow increases at a faster pace than cash inflow. The net cash generated from operating activities amounted to approximately RMB22.2 million, approximately RMB38.7 million and approximately RMB21.9 million for the three years ended 31 December 2019, respectively. Our liquidity will be materially and adversely affected if there is net cash outflow in our operating activities.

We cannot assure you that we will be able to collect all or any of these trade receivables within the credit period that we granted to our customers. If any of our customers face unexpected situations, including but not limited to, financial difficulties caused by general economic downturn or fiscal constraints, we may not be able to receive payment of uncollected debts in full, or at all, from such customers and we may need to make provisions for trade receivables, which could in turn materially and adversely affect our financial condition and results of operations.

Our Group had a concentration of customers during the Track Record Period and does not have any long-term purchase commitment from our customers; hence, any decrease in our sales to any of them could adversely and substantially affect our operations and financial conditions.

For each of the three years ended 31 December 2019, our five largest customers accounted for approximately 39.4%, 37.5% and 37.8% of our revenue, respectively. These major customers may continue to account for similar or an even higher proportion of our revenue in the future. Revenue generated from our largest customer accounted for approximately 13.1%, 12.4% and 12.0% of the revenue of our Group during the Track Record Period, respectively.

In light of the above, we face the risks of substantial losses if any of them stops engaging its business with us or significantly reduces its sales orders placed with us. Furthermore, we have not entered into any long-term agreement with our customers and our sales with them are concluded on an order-by-order basis. As such, our customers are free to change their suppliers of disposable plastic food storage containers or cease to place any purchase order with us at any time or at any volume. We cannot assure you that our customers will continue to place purchase orders with us in the future at the same level, or at all. If there is any deterioration in our major customers' businesses, the number of contracts placed by them with us may also decline correspondingly.

If any of our major customers significantly reduces the number of purchase orders placed with us or ceases to do business with us, we cannot assure you that we would be able to find new customers who purchase disposable plastic food storage containers from us on comparable terms, or at all, and in which case our business, operating results and financial condition may be materially and adversely affected. In the event of defaulting payments by any of our major customers, we may be unable to recover a significant amount of receivables and thus our cash flows, business and financial position could be adversely affected.

The expected downward industry growth of disposable plastic food storage container industry in the PRC may adversely affect our business and our financial performance.

During the Track Record Period, our revenue was derived from our sales of disposable plastic food storage containers, and our Group's revenue amounted to approximately RMB166.1 million, RMB192.5 million and RMB212.8 million for each of the three years ended 31 December 2019, respectively. Our revenue growth was mainly attributable to the positive industry trend from 2014 to 2019. For more details of the industry trend, please refer to "Industry overview — Analysis of disposable plastic food storage container industry in the PRC — Market size" in this prospectus.

Going forward, F&S anticipated in their report that, the food delivery market and catering market is expected to maintain stable growth, and the popularity of non-restaurant food, such as fresh-cut fruits, semi-finished food is anticipated to stimulate the demand for disposable plastic food storage containers. The stabilizing growth of the industry means there will be decrease of industry growth in the PRC market. For more details of the trend of forecasted decreasing growth rate, please refer to the paragraph headed "Industry Overview — Analysis of disposable plastic food storage container industry in the PRC — Market size" in this prospectus. In response to such expected decrease in industry growth in the sales of disposable plastic food storage containers from 2019 to 2024, our Group intends to carry out the business strategies upon Listing, which are set out in the paragraph headed "Business — Our business strategies" in this prospectus. Our Directors believe it would help improve the profitability of our Group and mitigate the impact of the decrease in industry growth. In the event that we fail to implement these business strategies upon Listing or any other measures in response to the expected decrease in industry growth of the disposable plastic food storage container industry in the PRC, the financial or trading position or prospects of our Group may be materially and adversely affected.

Competition from substitutes could render our disposable plastic food storage container business less competitive or even obsolete which may adversely affect our business operation and financial results.

According to the F&S Report, one of the challenges of operating in the disposable plastic food storage container industry in the PRC is that our Group may face competition from companies supplying disposable food storage containers made of other materials, which may become replacement or substitute for the products designed and produced by our Group. F&S Report also mentioned that the common disposable food storage containers at present include plastic containers, paper containers and wooden containers. Such alternatives will squeeze the market share of disposable plastic food storage containers, and meanwhile the increasing competition will affect the profitability of manufacturers of disposable plastic food storage containers, thereby affecting our Group's profitability. In addition, we may need to incur substantial capital expenditures to adapt to these market challenges and potential shift in demands. Such excessive capital expenditures may materially affect our operating results and our business operation. As a result, our product offering, financial conditions and results of operations may be materially and adversely affected.

Our production expansion plan may not be successful.

We plan to apply a large portion of the net proceeds from the Share Offer on expanding and enhancing our manufacturing capabilities. The overall utilisation rate of our production facilities for the three years ended 31 December 2019 was approximately 85.2%, 90.4% and 96.1%, respectively. It is our expansion plan to spend approximately HK$30.3 million (equivalent to approximately RMB26.1 million), representing approximately 79.5% of the net proceeds from the Share Offer for expanding our production capacity and enhancing our production efficiency, of which (i) approximately HK$26.3 million (equivalent to approximately RMB22.7 million), together with approximately HK$5.6 million (equivalent to RMB4.8 million) from our internal resources, will be allocated for acquisition of 40 plastic injection moulding machines, (ii) approximately HK$2.8 million (equivalent to approximately RMB2.4 million) of the net proceeds from the Share Offer will be allocated for acquisition of 40 automated arm machines and (iii) approximately HK$1.2 million (equivalent to approximately RMB1.0 million) of the net proceeds from the Share Offer for acquisition of two centralised conveying systems. It is expected that the estimated production capacity of our Production Facilities will be enhanced by approximately 5,154 tonnes of polypropylene resins for the year ending 31 December 2021, representing 35.3% of the current production capacity of our Production Facilities. For further details, please refer to the paragraph headed "Future plans and use of proceeds — Use of Proceeds — Expand our production capacity and enhance our production efficiency by purchasing new machinery" in this prospectus.

The success of expanding our production capacity and enhancing our production efficiency depends on our ability to capture and secure additional demand from our customers for our products. However, there is no assurance that we will be able to maintain or establish relationships with our customers or secure new purchase orders from them to utilise our increased production capacity. We may have problems of under utilisation of our new machinery if demand for our products does not increase at the same rate as we have expected. If the above events happen or we are unable to achieve the desired utilisation of our production capacity as planned, there could be a material adverse effect on our performance and results of operation.

Furthermore, our future capital expenditure for the purchase of production machinery and equipment may result in an increase in our depreciation expenses of approximately RMB0.4 million and RMB2.5 million for the year ending 31 December 2020 and 2021, respectively, and may therefore adversely affect our future results of operations and financial performance. We cannot guarantee that the expansion plan of our production capacity can be successfully implemented. There may be uncertainties and risks, such as cost overrun, delays, shortage of labour and shortage of key raw materials, which are beyond our control and would increase the implementation costs. Any failure to implement our production enhancement and expansion plan may make it difficult to further develop our business operations. Hence, if our production capacity expansion plan does not proceed as we have expected, our future plans, profitability and growth may be materially and adversely affected.

We rely on key management personnel.

Our success and growth is, to a large extent, attributable to the continued commitment of our executive Directors and our senior management team and our capability to identify, hire, retain suitable and qualified employees, including management personnel with the necessary industry expertise as described in the section headed "Directors, senior management and employees" in this prospectus. Our Directors and members of senior management, in particular, Mr. Xu and Ms. Xu, our executive Directors, are important to us as they have extensive experience and business connections in the disposable plastic food storage container industry as well as the business environment, regulatory regime and certification requirements of our operation in the PRC. Mr. Xu, the chairman of our Board and an executive Director, has over 28 years of experience in the production of plastic products. Mr. Xu developed the business of manufacturing of disposable plastic food storage containers through Hengsheng Animation in July 2013 and Mr. Xu has been responsible for our Group's overall management, strategic development and decision-making. Ms. Xu, the spouse of Mr. Xu and an executive Director, has over 29 years of experience in the production of plastic products and she has been responsible for our business development and overseeing our Group's daily administration and operations. Any unanticipated departure of our Directors and/or our senior management team without appropriate replacement may have a material adverse impact on our business operations and profitability.

We cannot assure you that we will be able to hire additional qualified employees to strengthen our management team or integrate new employment into our existing operations in order to keep pace with the proposed growth of our business. Furthermore, competitors may also seek to poach our personnel. In particular, competition for skilled personnel for product design and development is fierce in the industry we operate in, and we may not be able to attract or retain suitably qualified personnel. Our failure to attract and retain additional qualified personnel may hinder our ability to grow our business, which could materially and adversely affect our business, financial condition and operating results.

Our operational and financial performance may be affected by the shortage of labour.

Certain of our production processes are to be carried out manually and we may encounter difficulties in securing sufficient labour for certain parts of our production process. For each period of the Track Record Period, our direct labour costs under cost of sales, amounted to approximately RMB3.8 million, RMB5.1 million and RMB6.0 million respectively, representing approximately 3.3%, 3.7% and 3.9% of our cost of sales during the corresponding periods. According to the F&S Report, labour costs have generally increased in the PRC in recent years. When there is a significant increase in the costs of labour, we have to retain our labour by increasing their wages, our labour costs will increase and as a result, our profitability will be adversely affected.

There is no assurance that the supply of labour and average labour costs will be stable at all times. If we experience a shortage of labour or we are unable to recruit labour with appropriate experience in time, we may not be able to maintain our production volume. If labour costs continue to increase in the PRC, our production costs will increase and we may not be able to pass these increases to our customers due to competitive pricing pressures. Accordingly, if we experience a shortage of labour or our labour costs continue to increase, our business prospects, financial condition and operating results may be adversely affected.

According to the F&S Report, the average annual salary of workers engaging in the disposable plastic food storage container industry in the PRC increased from approximately RMB41,245 per worker in 2014 to approximately RMB56,043 per worker in 2019, representing a CAGR of approximately 6.3%. We cannot assure you that the labour supply and average labour costs will remain stable in the future. If we fail to retain existing labour and/or recruit sufficient labour in a timely manner to cope with our existing or future production volume required by our customers, we may not be able to complete our production on schedule and may be subject to liquidated damages claims from our customers and/or incur loss.

Our historical results may not be indicative of our future growth rate, revenue and profit margin.

Given that our disposable plastic food storage container transactions are completed on a transaction by transaction basis, and that our fees and profit margins in respect of the relevant transactions are dependent on a number of factors and inherent risks in the industry, there is no assurance that we will always be able to maintain similar levels of profitability as those during the Track Record Period. For each of the three years ended 31 December 2019, our revenue was approximately RMB166.1 million, RMB192.5 million and RMB212.8 million, respectively. For the same corresponding periods, our net profit was approximately RMB22.7 million, RMB22.6 million and RMB20.8 million respectively and our gross profit was approximately RMB47.8 million, RMB54.9 million and RMB60.4 million respectively, whereas our gross profit margin for the same corresponding periods was approximately 28.8%, 28.5% and 28.4% respectively. For discussion of our results of operation, please refer to the paragraph headed "Financial information — Key factors affecting our results of operations" in this prospectus. Such trends of the historical financial information of our Group are only analysis of our past performance. They do not have any positive implication, nor would they necessarily reflect our financial performance in the future, which will largely depend on our capability to secure new contracts and control our costs and expenditures and project implementation. Profit margins and income of our Group's products may fluctuate in different transactions, and the historical revenue derived from our products may not be indicative of our future revenue or profitability. Prospective investors should be aware of the risk of our Group's failure to secure future sales volume when considering our Group's financial results.

The inherent risk of using our historical financial information to project or estimate our financial performance in the future, is that it only reflects our past performance under particular conditions. We may not be able to sustain our historical growth rate, revenue and profit margin in the future for various reasons, including but not limited to, our Group's ability to devise cost saving production processes which are acceptable by our customers. With respect to our gross profit, we recorded an increasing trend for each of the two years ended 31 December 2018. However, such increase in our gross profit was mainly attributed to the nature of individual transactions, and depends on the production scale, works nature and efficiency of labour our effectiveness in deployment of labour at the material time, and such effects may not occur in the future. For detailed analysis of our Group's gross profit and gross profit margin, please refer to the paragraph headed "Financial information — Description of selected items in consolidated statements of profit or loss and comprehensive income" in this prospectus.

We cannot assure you that we will be able to achieve the same performance as we did during the Track Record Period. Investors should not solely rely on our historical financial information as an indication of our future financial or operating performance.

We may not be successful in maintaining our current market position or implementing our market expansion plan and such failure may affect our business and financial performance.

Our maintenance of our current market position and market expansion may be hindered by risks including instability or changes in the political, regulatory or economic environment, lack of understanding of the local business environment, financial and management system or legal system, differences in legal burdens when complying with local laws and regulations, changes in the safety standards and certification requirements, stringent product liability and warranty requirements, potentially adverse tax consequences, competition within the local market and volatility in currency exchange rates.

Maintaining our current market position and implementing our market expansion plan has resulted in, and will continue to result in, substantial demands for our resources. Managing our expansion will require, among other things:

- continued enhancement of our product design and development capabilities;

- successful hiring and training of personnel;
- increased marketing and service activities;
- management of our sales network;
- sufficient liquidity and capital investment;
- effective and efficient financial and management control;
- effective policy in environmental protection; and
- effective cost and quality control.

There is no assurance that we will be able to successfully maintain or expand our market coverage, broaden our customer base or grow our business after deploying our management and financial resources, particularly in the overseas markets. Any failure in maintaining our current market position or implementing our market expansion plan could materially and adversely affect our business, financial condition and operating results.

Our profitability may be affected by the potential increase in depreciation expenses upon the implementation of our future plan of acquiring New Machines.

We expect to incur capital expenditure of approximately RMB30.9 million for our future plan of acquiring New Machines to expand our production capacity and enhance our production efficiency. The capital expenditure of purchase of plants and equipment necessary for the operation of the motor vehicle workshop. We will finance such capital expenditure fully by utilising a portion of the net proceeds from the Share Offer. For further details, please refer to the paragraphs headed "Business — Our business strategies" and the section headed "Future plans and use of proceeds" in this prospectus. As a result of such capital expenditure to be incurred for our future plans, it is expected that additional depreciation will be charged to our profit and loss and may therefore affect our financial performance and operating results. It is estimated that the relevant fixed assets to be capitalised would have useful lives of 10 years and our Directors estimate that the depreciation charge for these additional production machinery and equipment will be approximately RMB0.4 million and RMB2.5 million for the year ending 31 December 2020 and 2021, respectively.

We may be exposed to claims, litigation and disputes in respect of product quality and safety standards made by the end-consumers of our products.

Owing to the nature of our business, we face an inherent risk of exposure to product liability claims in the event that the use of our products results in health or safety issues or damages. The end-consumers of our products may have the right to bring an action under tort and we may also be subject to tortious liabilities for any damages caused by defects of our products. Please refer to the paragraph headed "Business — Legal proceedings and non-compliance" in this prospectus for further information. There is no assurance that we would not be sued in any proceedings brought by end-consumers in respect of our products in the future. A successful claim against us in respect of our products or a material recall of our products may result in (i) legal costs incurred in connection with such claim or other adverse allegations or rectifying such defects; (ii) deterioration of our brand and corporate image; and (iii) material adverse effect on our sales, operating results and financial condition.

Our management's attention and internal resources may be significantly diverted for the handling of such disputes, litigations and other legal proceedings, which can be both costly and time consuming. Regardless of the merits of the case, these disputes may damage our relationship with the relevant customers, suppliers or workers, which may affect our reputation in the disposable plastic food storage container industry, thus adversely affect our business operations, financial results and profitability.

There is no assurance that we may be able to resolve every occasion of disputes amicably by way of negotiation and/or mediation with the relevant parties. If we fail to do so, it may lead to legal and other proceedings against us, and consequently we may have to incur extensive expenditure in defending ourselves in such actions. If we fail to obtain favourable outcome in such proceedings, we may be liable to pay significant sums of damages which may adversely affect our operations and financial results.

We may fail to adequately protect our intellectual property rights.

Our principal intellectual property rights cover our proprietary technique, product designs, technical know-how and our patents and trademarks. We are susceptible to infringement by third parties of our intellectual property rights and there is no assurance that our competitors would not copy or otherwise obtain and use our intellectual property rights without authorisation. We have obtained patents for some of our proprietary technique and registered several of our trademarks. However, it is not possible for us to comply with, and seek every clearance under, the relevant laws of all possible jurisdictions for the protection and enforceability of our intellectual property rights and there is no assurance that such registrations can completely protect us against any infringements or challenges by our competitors or other third parties. When necessary, we may have to expend a significant amount of financial resources to assert, safeguard and/or maintain our intellectual property rights. In the event that our intellectual property rights cannot be enforced against an infringement by our competitors or other third parties, our business, financial condition and operating results could be adversely affected.

Third parties may claim that we are infringing their intellectual property rights, and we could suffer significant litigation expenses or licensing expenses or be prevented from selling certain of our products if these claims are successful.

During the Track Record Period, we produced all our products in accordance with our product specifications and design and we are unable to assure that all such specifications or design would not infringe any third parties' intellectual property rights.

In addition, we cannot rule out the possibility of third parties claiming that we are infringing or contributing to the infringement of their intellectual property rights. We may be required to obtain licences for such patents. If we need to do so, we could be required to pay royalties on certain of our products. There is no assurance that if we are required to obtain patent licences to develop and sell our products, we will be able to obtain such patent licences on commercially reasonable terms. Our inability to obtain these patent licences on commercially reasonable terms could have a material adverse impact on our business, operating results, financial condition or prospects.

Any litigation regarding patents or other intellectual property rights could be costly and time consuming and could divert our management and key personnel from our business operations. In addition, any intellectual property litigation involves significant risks. If there is a successful claim of intellectual property rights infringement against us, we might be required to pay substantial damages to the party claiming infringement, refrain from further sale of our products, develop non-infringing technology or enter into costly licensing agreements on an on-going basis. However, we may not be able to obtain royalties or licensing agreements on terms acceptable to us or at all. Any intellectual property litigation or successful claim could have a material adverse effect on our business, operating results or financial condition.

Any failure to maintain an effective quality control system and any breakdown at our Production Facilities could have a material and adverse effect on our business, financial condition and operating results.

We focus on the consistency of the quality of our products and accessories as the product quality and safety are essential to the success of our business. The quality of our products is dependent on the effectiveness of our quality control system, which in turn depends on a number of factors, including the design of the system, the quality control training programme, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any failure of our quality control system could result in the production of substandard products, which in turn may impair our reputation, result in delays in the delivery of our products and the need to recall substandard products, which could have a material and adverse impact on our business, financial condition and operating results.

Furthermore, smooth and consistent daily operations of our Production Facilities are highly crucial to our business. Regular repair and maintenance programmes for our Production Facility are scheduled by our production departments to ensure that our Production Facilities are in good conditions. Although we have implemented regular repair and maintenance programmes, there is no assurance that we are able to discover all the faults and defects whenever they exist or occur so as to execute repair works or take appropriate measures before any harm is caused to our plant, staff or production. Furthermore, we cannot assure you that there will be no sudden malfunctions or halts of our Production Facilities during our daily operations due to any natural disasters, power shortage or malicious human acts and if any breakdown or malfunctions of machinery happens, our business, financial condition and operating results could be adversely impacted.

Our operations are exposed to risks customary to the disposable plastic food storage container industry and our existing insurance coverage may not provide our Group with adequate protection against these risks.

We maintain various insurances covering our properties, including our fixed assets, machinery and equipment, raw materials and finished goods. Our insurance may not fully cover all the potential loss and claims arising from our operation. For further details, please refer to the paragraph headed "Business — Insurance" in this prospectus.

Nevertheless, we and/or our officers (as the case may be) may be exposed to claims in respect of matters that are not covered by the insurance policies we maintained. In addition, as to the insurance policies we maintained, there may be circumstances (such as fraud, gross negligence, natural disasters and acts of God) in which certain loss and claims would not be covered adequately, or at all.

In the event that we experience substantial loss, damages or claims arising from our operation at work sites which are not covered by the insurance policies, we may have to incur tremendous expenditure in making compensations, which would adversely affect our operating results and financial position.

With respect to loss and claims which are covered by our insurance policies, it may be a difficult and lengthy process to recover such losses from our insurers. In addition, we may not be able to recover the full amount of such loss from the insurer. We cannot assure you that our policies would be sufficient to cover all potential loss, regardless of the cause, or that we can recover such losses from our insurers.

Sales of our products are subject to seasonality and our results of operations are subject to fluctuations.

Our business is subject to risks associated with seasonality. Historically, we have experienced lowers sales of our disposable plastic food storage containers during the first quarter for the three years ended 31 December 2019. Due to these seasonal factors, sales of our products may fluctuate from period to period, and comparison of sales and operating results between different period within a single financial year may not be meaningful and should not be relied upon as indicators our future performance. In addition, these seasonal consumption patterns may cause our operating results and financial condition relating to sales of our products to fluctuate from period to period. The fluctuation of our Group's operating results should not be taken as an indication of our Group's performance for the entire financial year.

We outsource the delivery of our products to logistics providers and our customers may claim us for the loss or damage to our products during delivery.

During the Track Record Period, we outsourced the delivery of our products to independent logistics providers for transportation from our Production Facilities to the customers' warehouse or other destinations as agreed in the sales contract. Our delivery cost in engaging third party logistics providers accounted for approximately 72.2%, 71.9% and 70.1%, respectively, of our selling expenses for the three years ended 31 December 2019.

The logistics providers are responsible for any loss or damage to our products during delivery and are responsible for the insurance coverage in respect of our products delivered by them. The services provided by the logistics providers could be interrupted by various reasons beyond our control, including poor handling by the logistics providers, transportation bottlenecks, adverse weather conditions, natural disasters, social contests and labour strikes. There is no assurance that the logistics providers have sufficient insurance coverage for our products delivered by them, if at all. As such, our customers may have liability claims against us if there are any loss or damage to our products during delivery and the logistics providers do not have sufficient or any insurance coverage. Any such claims, regardless of whether they are ultimately successful, could cause us to incur litigation costs, harm our business reputation and disrupt our operations. If any such claims are ultimately successful, we could be liable for substantial damages, which could materially and adversely affect our business, financial condition and operating results.

Our employees or workers may engage in bribery, corrupt practices or other improper conduct, which may materially and adversely affect our reputation, results of operations and business prospects.

Our Company strictly abides by the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) and the Anti-Money Laundering Law of the PRC (《中華人民共和國反洗錢法》), and has made clear undertakings in respect of the responsibilities of various positions in respect of avoiding any conflict of interest with our Company, which require the employees to report conflicts of interest in a timely manner to our Company. In addition, the State Council and various PRC governmental authorities have, in recent years, intensified and stepped up their efforts to combat bribery, corrupt practices and other improper conduct in the PRC. We are therefore subject to risks in relation to any actions taken by our employees or workers if they engage in bribery, corrupt practices or other improper conduct. There is no assurance that our internal control measures and corporate governance system can prevent or detect any improper or illegal act by our employees or workers on a timely basis or at all. Our failure to effectively supervise and monitor our employees or workers, or to comply with the PRC anti-bribery, anti-corruption and other related laws and regulations, may subject us to financial losses and may materially and adversely affect our reputation, results of operations and business prospects. For more details of the anti-bribery and anti-money laundering policies, please refer to the paragraphs headed "Business — Employees — Corporate governance policies governing the employees' behavior" in this prospectus.

We face risks associated with the obsolescence of our inventory.

Our inventory consists of raw materials and finished goods. We believe maintaining an appropriate inventory level helps us to meet the changing market demands in a timely manner. Our balance of inventories as at 31 December 2017, 2018 and 2019 amounted to approximately RMB10.4 million, RMB5.9 million and RMB6.4 million, respectively. Our inventory faces obsolescence risks if there are unexpected material fluctuations or abnormalities in the supply and demand of raw materials and finished goods by suppliers and customers, respectively, or where there are changes in end customers' preferences, which may lead to decreased demand and overstocking of our inventory.

There is no assurance that we will pay dividends in the future.

For the three years ended 31 December 2019, we declared dividends of nil, RMB5.3 million and RMB22.9 million, respectively. There is no assurance that our Group will declare dividends. The declaration, payment and amount of any future dividends are subject to the discretion of our Board depending on, among other things, our Group's earnings, financial condition and cash requirements and the provisions governing the declaration and distribution as contained in the Articles of Association, applicable laws and other relevant factors. For details of our dividend, please refer to the paragraph headed "Financial information — Dividend" in this prospectus. We cannot assure investors when or whether we will pay dividends in the future.

Our landlords may terminate the tenancy agreements with us and we may have to relocate for alternatives.

We have entered into the tenancy agreements for certain pieces of land, including our office premise, factory, product and mould design facility, warehouse and our product showroom in the PRC.

In the event that we are unable to secure our office space, factory and storage facilities for our machinery, we may need to secure alternative and/or further storage space. As storage facilities and parking spaces have to be located on premises which can meet permitted land use requirements, such premises may not be immediately available when needed.

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

We operate in a highly competitive and fragmented market.

The disposable plastic food storage container industry is highly competitive and fragmented. There is a significant number of industry players who provide similar products to ours, which include a number of small to medium size enterprises. Some of these enterprises may have greater access to capital, longer operating histories, longer or more established relationships with their customers, better distribution network and greater marketing and other resources than we do. New participants who possess appropriate skills, local experiences, necessary machinery and equipment, capital and are eligible for the grant of the requisite licences by the relevant regulatory bodies may enter the industry and compete with our Group. Intense competition may result in lower operating margins and loss of market shares, which may adversely affect our profitability and operating results.

Our Group contributed to approximately 2.2% of the total revenue in the disposable plastic food storage container industry in the PRC in 2019. If the competition intensifies, we may be under pressure to reduce sale price, which would have an adverse impact on our profitability and operating results. We cannot guarantee that we can cope with the enhanced competition in the future or that we can maintain our current position in the industry.

We are subject to stringent environmental and workplace safety laws and regulations and we may incur substantial costs in complying with such laws and regulations and may be subject to potential liability.

We are subject to various national and local PRC environmental laws and regulations which impose standards on the emission and treatment of pollutants created during our production process, and are required to obtain environmental protection assessment approval and acceptance from the relevant PRC Government authorities or by ourselves for the operation of Production Facilities periodically. The standards and/or requirements in respect of our production processes, raw materials and personnel may change from time to time, and we may not be able to respond to such changes in a timely manner. Such changes may also increase our costs and burden for compliance, which may materially and adversely affect our business, financial condition and results of operations.

As the PRC is experiencing substantial issues with environmental pollution, environmental laws and regulations may become more stringent over time. As a result, we may need to incur more costs and devote more resources to comply with these laws and regulations. Furthermore, future changes in the scope, application and interpretation of these laws, regulations and approvals may limit or restrict the production capacity or increase the costs in connection with the installation of additional pollution control or safety improvement equipment or other related expenses substantially, and thus adversely affect our business. In addition, failure to comply with these laws and regulations could result in fines, penalties, clean-up costs or liabilities arising out of third-party civil or criminal claims.

RISKS RELATING TO OUR OPERATIONS IN THE PRC

Changes in political and economic policies of the PRC Government could have an adverse effect on the overall economic growth of the PRC, which could increase our manufacturing costs and adversely affect our competitive position.

Our production process and most of our business operations are conducted in the PRC. Accordingly, our business, financial condition, operating results and prospects are affected significantly by economic, political and legal developments in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including the degree of government involvement, the level of development, the growth rate, the control of foreign exchange, access to financing, and the allocation of resources.

While the PRC economy has grown significantly in the past 30 years, the growth has been uneven, both geographically and among various sectors of the economy. The PRC Government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and operating results may be adversely and materially affected by government control over capital investments or changes in tax regulations that may be applicable to us.

The PRC economy has been transitioning from a planned economy to a more market oriented economy. However, the PRC Government still exercises significant control over the economic growth of the PRC through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Furthermore, as the PRC economy has become increasingly linked with the global economy, the PRC is affected in various respects by downturns and recessions of major economies around the world. Any adverse change in the economic conditions in the PRC, in policies of the PRC Government or in laws and regulations in the PRC, could have an adverse effect on the overall economic growth of China and market demand for our products and our competitive position.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Share Offer to make loans or additional capital contributions to our PRC subsidiaries, which could adversely affect our liquidity and our ability to fund and expand our business.

Some funds we transfer to our PRC subsidiaries, such as a shareholder loan, is subject to approval by or registration with relevant PRC Government authorities. In addition, any foreign loan procured by our PRC subsidiaries is required to be registered of its foreign loan contract with SAFE or its local branches. We may not obtain these government approvals or complete such registrations on a timely basis, if at all, with respect to future foreign loans by us to our PRC subsidiaries.

In addition, on 30 March 2015, the SAFE promulgated the Circular on Reform of the Administrative Method of the Settlement of Foreign Currency Capital by Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the "**Circular 19**") which became effective on 1 June 2015. The Circular 19 provides greater flexibility to FIEs in converting foreign exchange in their capital account into RMB. Under the Circular 19, FIEs may choose to convert any amount of foreign exchange in their capital account into RMB according to their actual business needs. The converted RMB will be kept in a designated account and if an FIE needs to make further payment from such account, it still needs to provide supporting documents and go through the review process with the banks. FIEs are still required to use the converted RMB within their approved business scope. According to the Circular on Policies for Reforming and Regulating the Control over Foreign Exchange Settlement under the Capital Account promulgated on 9 June 2016, it expressly prohibits foreign-invested enterprises from using registered capital settled in RMB converted from foreign currencies for investment in securities or other investments other than banks' principal-secured products or the granting of loans to non-affiliated enterprises, with the exception that such granting is expressly permitted in the business license.

We cannot assure you that we will be able to obtain these government approvals or registrations on a timely basis, if at all, with respect to our future loans or capital contributions to our PRC subsidiaries. If we fail to receive such approvals or registrations, our ability to use the proceeds received from the Share Offer to fund our PRC operations may be materially and adversely affected, which may materially and adversely affect our liquidity and ability to expand our business.

Uncertainties with respect to the PRC legal system could have an adverse effect on our business.

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has significantly enhanced the protections afforded to various forms of foreign investments in the PRC. We conduct our business primarily through our subsidiaries established in the PRC. These subsidiaries are generally subject to laws and regulations applicable to foreign investment in the PRC. However, the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us.

In addition, some regulatory requirements issued by certain PRC Government authorities may not be consistently applied. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into with our business partners and customers.

Such uncertainties, including the inability to enforce our contracts, together with any development or interpretation of PRC law that is adverse to us, could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in the PRC may not be as effective as in the more developed countries. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of our resources and management attention.

It could be difficult to effect service of process or to enforce foreign judgments in the PRC.

Since most of our assets are located in the PRC, investors could encounter difficulties in effecting service of process from outside the PRC upon us or most of our Directors and officers. Moreover, it is understood that the enforcement of foreign judgments in the PRC is subject to uncertainties. A judgement of a court from a foreign jurisdiction could be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC or if the judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requisite requirements.

The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgements of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision could be difficult or impossible.

Companies having business in the PRC may have a chance to be classified as a "resident enterprise" for PRC enterprise income tax purposes, and such classification could result in unfavourable tax consequences to us and our non-PRC Shareholders.

Under the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) which was promulgated by the National People's Congress (全國人民代表大會) on 16 March 2007 and effective on 1 January 2008 and amended on 24 February 2017, and 29 December 2018, enterprises established under the laws of jurisdictions other than the PRC may nevertheless be considered as PRC tax resident enterprises for tax purposes if these enterprises have their "de facto management body" within the PRC. Under the supplementary rules for the EIT Law, the term "de facto management body" is defined as a body which substantially manages, or has control over the business, personnel, finance and assets, etc. of an enterprise. Since we are conducting business in the PRC through our PRC subsidiaries and some of the members of our management team continue to be located in the PRC after the effective date of the EIT Law and as we expect them to continue to be located in the PRC for the foreseeable future, we may be considered as a PRC resident enterprise by the PRC tax authorities and therefore be subject to the EIT at the rate of 25% on our worldwide income. If we are considered by the PRC tax authorities as a PRC tax resident enterprise under the PRC tax regime, our business, financial condition and operating results may be materially and adversely affected.

PRC tax laws on dividend distribution may adversely affect our operating results and dividends payable by us to our foreign investors and gains on the sale of our Shares may be subject to withholding taxes under PRC tax laws.

Dividends received by foreign investors from foreign-invested enterprises were exempt from withholding income tax prior to 1 January 2008. Therefore, we were exempt from withholding tax on dividends we received from our PRC subsidiaries prior to 1 January 2008. Under the EIT Law, a withholding income tax at the rate of 20.0% is applicable to dividends derived from sources within the PRC paid by foreign-invested enterprises to their non-PRC parent companies. However, the implementation rules of the EIT Law which reduced withholding income tax rate of 10.0% shall be applicable in such cases. In addition, due to the Arrangement between Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion With Respect to Taxes On Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), promulgated by the SAT on 21 August 2006 (the "**Hong Kong Tax Treaty**"), a company incorporated in Hong Kong will be subject to withholding income tax at a rate of 5.0% on dividends it receives from its PRC subsidiaries if it directly holds 25.0% or more interest in that particular PRC subsidiaries, or 10.0% if it holds less than 25.0% interest in that subsidiaries. With respect to dividends, the SAT promulgated the Notice on Certain Issues of "Beneficial Owners" under Tax Treaty (《國家稅務總局關於稅收協定中"受益所有人"有關問題的公告》) on 3 February 2018 (the "**Notice 9**"), which provides the situation and condition to decide whether a company shall be recognised as a beneficial owner. It is unclear at this early stage whether the Notice 9 applies to dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary. It is possible however, that under the Notice 9, the Hong Kong subsidiary would not be considered as the "beneficial owner" of any such dividends, and that such dividends would as a result be subject to income tax withholding at the rate of 10.0% rather than the favourable 5.0% rate applicable under the Hong Kong Tax Treaty.

In addition, due to ambiguities in the PRC EIT Law and its implementation rules, a withholding tax at the rate of 10.0% may also be applicable to dividends payable to investors (excluding individual natural persons) that are non-resident enterprises to the extent such dividends are sourced within the PRC. Similarly, any gain realised on the transfer of our Shares by such investors is also subject to a withholding tax at the rate of 10.0% if such gain is regarded as income derived from sources within the PRC. If we are considered a resident enterprise in the PRC, it is unclear whether the dividends we pay with respect to our Shares would be treated as income derived from sources within the PRC and be subject to PRC income tax. If we are required under the PRC EIT Law to withhold PRC income tax on our dividends payable to our foreign Shareholders, or if you are required to pay PRC income tax on the transfer of the Shares, the value of your investment in our Shares may be materially and adversely affected.

RISKS RELATING TO THE SHARE OFFER

Investors for our Shares will experience immediate dilution.

The Offer Price is higher than the net tangible asset value per Share. Hence, investors of our Offer Shares will experience an immediate dilution in the unaudited pro forma adjusted net tangible asset value to RMB0.17 or HK$0.20 and RMB0.21 or HK$0.24 per Share based on the Offer Price at HK$0.40 and HK$0.60 per Offer Share respectively.

Shareholders' interests in our Company may be diluted as a result of additional equity fund raising.

We may need to raise additional funds due to changes in business conditions, or to finance our future plans, whether in relation to our existing operations or any future acquisitions. If additional funds are raised by way of issuing Shares or equity-linked securities other than on a pro-rata basis to existing Shareholders, our existing Shareholders' shareholding may be reduced, the earnings per Share and the net tangible asset value per Shares would diminish and/or such newly issued securities may have rights, preferences and privileges superior to the Shares of our existing Shareholders.

There was no prior public market for our Shares. If an active trading market for our Shares does not develop, the prices of our Shares may be adversely affected and may decline below the Offer Price. Further, the Offer Price was the result of negotiations between us and the Joint Bookrunners (for themselves and on behalf of the Underwriters). Such Offer Price may differ significantly from the market price for the Shares following the Share Offer.

Further, we cannot assure you that an active trading market will develop or be maintained following completion of the Share Offer, or that the market price of our Shares will not decline below the Offer Price.

Following the Share Offer the liquidity and market price of our Shares may be volatile.

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including variations in the level of liquidity of our Shares; changes in securities analysts' (if any) estimates of our financial performance; investors' perceptions of our Group and the general investment environment; changes in laws, regulations and taxation systems which affect our operations; and the general market conditions of the securities markets in Hong Kong. In particular, the trading price performance of our competitors whose securities are listed on the Stock Exchange may affect the trading price of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume of our Shares may be highly volatile for specific business reasons. The market price of our Shares may change unexpectedly due to factors such as variations in our revenue, net income and cash flow; the success or failure of our efforts in implementing business and growth strategies; and our involvement in material litigation as well as recruitment or departure of key personnel. Any of these factors may result in large and sudden changes in the volume and trading price of our Shares.

There is a time lag between pricing and commencement of trading of the Shares, and the price of our Shares may fall before trading begins.

As there will be a gap of several days between the pricing and the trading of our Offer Shares, holders of our Offer Shares are subject to the risk that the price of our Offer Shares could fall during the period before trading of our Offer Shares begins. The Offer Price of our Shares is expected to be determined on the Price Determination Date, which is expected to be on 6 July 2020 and in any event not later than 7 July 2020. However, our Shares will not commence trading on the Stock Exchange until the Listing Date, which is expected to be on 13 July 2020. As a result, investors may not be able to sell or otherwise deal in our Shares during the period between the Price Determination Date and the Listing Date.

Accordingly, Shareholders are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

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

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

Future sales of a substantial number of Shares by our existing Shareholders in the public market may materially and adversely affect the prevailing market price of our Shares.

The Shares held by our existing Shareholders are subject to lock-up commencing on the date on which trading of our Shares commences on the Stock Exchange. While we are not aware of any intentions of our existing Shareholders to dispose of a significant amount of their Shares upon expiry of the relevant lock-up periods, there is no assurance that they would not dispose of the Shares held by them. We cannot predict the subsequent effect on the then prevailing market price of our Shares after any of such disposal.

Disposal of substantial amounts of our Shares in the public market after the completion of the Share Offer, or the perception of such disposal could adversely affect the market price of our Shares and materially impair our future ability to raise capital through offerings of new Shares. There is no assurance that our major Shareholders would not dispose of their shareholdings. Any significant disposal of our Shares by any of the major Shareholders could materially affect the prevailing market price of our Shares. In addition, these disposals may make it more difficult for us to issue new Shares in the future at a time and price we deem appropriate, thereby limiting our ability to raise further capital. We cannot predict the effect of any significant future disposal on the market price of our Shares.

Future issues, offers or sale of Shares may adversely affect the prevailing market price of the Shares.

After Listing, the prevailing market price of Shares may be negatively impacted by future issue of Shares by our Company or the disposal of Shares by any of its Shareholders or the perception that such issue or sale may occur. The Shares held by the Controlling Shareholders are subject to certain lock-up undertakings for periods up to 24 months after the Listing Date. We cannot give any assurance that they will not dispose of Shares they may own now or in the future.

RISKS RELATING TO THE STATEMENT IN THIS PROSPECTUS

Investors should read the entire prospectus and should not rely on any information contained in press articles or other media coverage regarding us and the Share Offer.

We strongly caution our investors not to rely on any information contained in press articles or other media regarding us and the Share Offer. Prior to the publication of this prospectus, there may be press and media coverage regarding the Share Offer and us. Such press and media coverage may include references to certain information that does not appear in this prospectus, including certain operating and financial information and projections, valuations and other information. We have not authorised the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it and our investors should not rely on such information.

Certain facts, forecast and other statistics in this prospectus obtained from publicly available sources have not been independently verified and may not be reliable.

Certain facts, forecast and other statistics in this prospectus are derived from various government and official resources. However, our Directors cannot guarantee the quality or reliability of such source materials. We believe that the sources of the said information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Nevertheless, such information has not been independently verified by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics. Further, we cannot assure our investors that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, our investors should consider carefully how much weight or importance should be attached to or placed on such facts or statistics.

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

This prospectus contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, growth opportunities for existing operations, plans and objectives of management, certain pro forma information and other matters. The words “aim”, “anticipate”, “believe”, “could”, “predict”, “potential”, “continue”, “expect”, “intend”, “may”, “might”, “plan”, “seek”, “will”, “would”, “should” and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward looking statements, including, amongst others, those relating to our future business prospects, capital expenditure, cash flows, working capital, liquidity and capital resources are necessarily estimates reflecting the best judgment of our Directors and management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a consequence, these forward-looking statements should be considered in light of various important factors, including those set out in this section. Accordingly, such statements are not a guarantee of future performance and investors should not place undue reliance.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purposes of giving information with regard to our Group.

Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all materials respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

PUBLIC OFFER, UNDERWRITING AND INFORMATION ON THE SHARE OFFER

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

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Share Offer or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Share Offer.

The Listing is sponsored by the Sole Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement and is subject to us and the Joint Bookrunners (for themselves and on behalf of the Underwriters) agreeing on the Offer Price. A Placing Underwriting Agreement relating to the Placing is expected to be entered into on or around 6 July 2020, subject to the Offer Price being agreed. The Share Offer is managed by the Joint Bookrunners.

If, for any reason, the Offer Price is not agreed among us and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Share Offer will not proceed and will lapse. For full information about the Underwriters and the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Offer Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES

The procedures for applying for Public Offer Shares are set out in the section headed "How to apply for Public Offer Shares" in this prospectus and in the relevant Application Forms.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure and conditions of the Share Offer" in this prospectus.

RESTRICTIONS ON SALE OF OFFER SHARES

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

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

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus pursuant to the Share Offer (including Shares to be issued pursuant to the Capitalisation Issue and Shares which may fall to be issued upon the exercise of Offer Size Adjustment Option).

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

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

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Monday, 13 July 2020. The Shares will be traded in board lots of 5,000 Shares each. The stock code of the Shares will be 8659.

ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal share register will be maintained by our principal share registrar, Maples Fund Services (Cayman) Limited, in the Cayman Islands and our Company's Hong Kong branch register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Hong Kong Share Registrar and may not be lodged in the Cayman Islands.

All Offer Shares will be registered on the Hong Kong branch register of members of our Company in Hong Kong. Dealings in the Shares registered on our Hong Kong branch register of members will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the Shares. In addition, a fixed duty of HK$5 is charged on each instrument of transfer (if required).

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of Shares will be paid to the Shareholders listed on the register of members of our Company, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder of our Company entitled, or in the case of joint Shareholders, to the registered address of that one whose name stands first in the register of members in respect of the joint holding, or to such person and to such address as the holder or joint holders may in writing direct, in accordance with the Articles.

PROFESSIONAL TAX ADVICE RECOMMENDED

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

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of individual items. Where information is presented in thousands or millions of units, amounts may have been rounded up or down. Any discrepancies in any table between totals and sums of individual amounts listed in any table are due to rounding.

Unless otherwise specified, all references to any shareholdings in our Company assume none of the Offer Size Adjustment Option is exercised.

LANGUAGE TRANSLATION

The English language version of this prospectus has been translated into the Chinese language and English and Chinese versions of this prospectus are being published separately. If there should be any inconsistency between the English and Chinese versions, the English version shall govern.

CURRENCY TRANSLATIONS

Unless otherwise specified, translation of US$ into HK$ and RMB into HK$ in this prospectus are based on the exchange rate set out below (for the purpose of illustration only):

US$1.00: HK$7.78
RMB0.86: HK$1.00

No representation is made that any amount in US$, RMB and HK$ can be or could have been converted at the relevant dates at the above exchange rate or at any other rate.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Xu Youjiang	No. 77, Xiu Mao East District Xiushan Village Longhu Town, Jinjiang City Fujian Province the PRC	Chinese
Ms. Xu Liping	Room 3#A901, Unit A, Building 3 Hao Jiang International First Stage 8 Bao Dao Mid Street Shi Shi City Fujian Province the PRC	Chinese
Mr. Zhang Yuansheng	No.206, Building G 301 Wukeng Industrial Zone Longhu Town, Jinjiang City Fujian Province, the PRC	Chinese
Independent non-executive Directors		
Mr. Li Danny Fui Lung	Flat A, 15/F Yee Ga Court 62-62A Bonham Road Hong Kong	Australian
Mr. Liu Dajin	Room 404, Building 11 1 Ji Cen Street Ji Mei District Xiamen City Fujian Province, the PRC	Chinese
Mr. Deng Zhihuang	Unit 105, Building 29 Gold Coast Jin Jue Yuan No. 336 Jin Ju Street Cang Shan District Fuzhou City Fujian Province, the PRC	Chinese

For further information on the profile and background of our Directors and senior management, please refer to the section headed "Directors, senior management and employees" of this prospectus.

PARTIES INVOLVED IN THE SHARE OFFERING

Sole Sponsor	**Grand Moore Capital Limited** *A licensed corporation under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities* Unit 1607, 16th Floor, Silvercord Tower 1 30 Canton Road, Tsim Sha Tsui Kowloon Hong Kong
Joint Bookrunners, Joint Lead Managers and Public Offer Underwriters	**Ruibang Securities Limited** *A licensed corporation under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) of the regulated activities* 9th Floor, Sang Woo Building 227-228 Gloucester Road Wanchai, Hong Kong
	Mouette Securities Company Limited *A licensed corporation under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) of the regulated activities* Room 1301, 13th Floor Tung Wai Commercial Building 109-111 Gloucester Road Wanchai, Hong Kong
	Chuenman Securities Limited *A licensed corporation under SFO and permitted to carry out Type 1 (dealing in securities) of the regulated activities* Office A, 10th Floor Sang Woo Building 227-228 Gloucester Road Wanchai, Hong Kong
	Grand Moore Capital Limited *A licensed corporation under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities* Unit 1607, 16th Floor Silvercord Tower 1 30 Canton Road, Tsim Sha Tsui Kowloon, Hong Kong

Legal advisers to our Company	*As to Hong Kong Law* **P. C. Woo & Co.** 12th Floor, Prince's Building No.10 Chater Road Central Hong Kong
	As to PRC Law **Tian Yuan Law Firm** 10th Floor, Pacific Insurance Plaza 28 Fengsheng Hutong Xicheng District Beijing PRC
	As to Cayman Islands Law **Maples and Calder (Hong Kong) LLP** 26th Floor Central Plaza 18 Harbour Road Wanchai Hong Kong
Legal advisers to the Sole Sponsor and the Underwriters	*As to Hong Kong Law* **TC & Co.** Units 2201-2203, 22/F Tai Tung Building 8 Fleming Road Wanchai Hong Kong
	As to PRC Law **Jingtian & Gongcheng** 34/F, Tower 3, China Central Place 77 Jianguo Road Chaoyang District Beijing 100025 PRC
Auditors and reporting accountants	**Grant Thornton Hong Kong Limited** Level 12, 28 Hennessy Road Wanchai Hong Kong

Receiving Bank	**Bank of China (Hong Kong) Limited** 1 Garden Road Hong Kong
Industry consultant	**Frost & Sullivan International Limited** 1706, One Exchange Square 8 Connaught Place Central, Hong Kong

Registered office	Maples Corporate Services Limited PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Head office and principal place of business and headquarters in the PRC	Wukeng Industrial Zone Longhu Town Jinjiang City Fujian Province China
Principal place of business in Hong Kong	Room 6, 3/F., Lladro Centre 72 Hoi Yuen Road Kwun Tong Kowloon Hong Kong
Company's website	www.yikwo.cn *(the information contained on this website does not form part of this prospectus)*
Company secretary	Mr. Yeung Tsz Kit Alban *(ACIS, ACS, CPFacct., FCPA(Aust.), FTIHK, ACMA, CGMA)* Flat A, 10th Floor, Block 7, City One Shatin 2 Hang Shing Street, Shatin New Territories Hong Kong
Authorised representatives (for the purpose of the GEM Listing Rules or the Companies Ordinance)	Mr. Xu Youjiang No.77, Xiu Mao East District, Xiushan Village Longhu Town, Jinjiang City Fujian Province China Mr. Yeung Tsz Kit Alban Flat A, 10th Floor, Block 7, City One Shatin 2 Hang Shing Street, Shatin New Territories Hong Kong
Compliance Officer	Mr. Xu Youjiang
Audit committee	Mr. Li Danny Fui Lung *(Chairman)* Mr. Liu Dajin Mr. Deng Zhihuang

Remuneration committee	Mr. Deng Zhihuang *(Chairman)* Mr. Li Danny Fui Lung Mr. Liu Dajin Mr. Zhang Yuansheng
Nomination committee	Mr. Liu Dajin *(Chairman)* Mr. Deng Zhihuang Mr. Li Danny Fui Lung Mr. Xu Youjiang
Risk Management Committee	Mr. Xu Youjiang *(Chairman)* Ms. Xu Liping Mr. Zhang Yuansheng Mr. Liu Dajin
Principal share registrar and transfer office	Maples Fund Services (Cayman) Limited PO Box 1093, Boundary Hall Cricket Square Grand Cayman, KY1-1102 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712—1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal banker	Agricultural Bank of China Jinjiang Longhu Branch Baikai Jingbianzhong Complex Fenglin Industrial Zone Longhu Town Jinjiang City Fujian Province China
Compliance adviser	Grand Moore Capital Limited Unit 1607, 16th Floor, Silvercord Tower 1 30 Canton Road, Tsim Sha Tsui Kowloon Hong Kong

Unless otherwise indicated, the information contained in this section is derived from various governmental and official publications, other publications and the market research report prepared by Frost & Sullivan, which was commissioned by us.

We believe that the sources of information are appropriate and we have taken reasonable and cautious care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. More of the Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of our or their respective directors, senior management, representatives or any other person involved in the excluding Frost & Sullivan has independently verified such information or statistics, on makes any representation as to the accuracy and completeness thereof. The relevant information and statistics may not be consistent with such other information and statistics compiled within or outside the PRC. As a result, you are advised not to place undue reliance on such information.

SOURCES OF INFORMATION

We have commissioned Frost & Sullivan, an independent market researcher and consultant, to analyse and report on the disposable plastic food storage container industry in China. Frost & Sullivan is an independent global consulting firm founded in 1961 in New York. Frost & Sullivan offers industry research and market strategies covering various industries. We have agreed to pay Frost & Sullivan a total fee of HKD660,000 for the preparation of the F&S Report.

F&S Report

Our Company has included certain information from the F&S Report in this prospectus as our Directors believe that such information can facilitate an understanding of the relevant market for potential investors. The F&S Report has undertaken market research process through detailed primary research which involves discussing the status of the disposable plastic food storage container industry with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on F&S's own research database.

Analysis and forecasts contained in the F&S Report are based on the following major assumptions at the time of compiling such reports:

- The PRC economy is likely to maintain steady growth in the next decade;
- The PRC social, economic, and political environment is likely to remain stable in the long run;
- Market drivers such as increasing urbanization, growth in catering and food delivery market will drive disposable plastic food storage container industry;
- The outbreak of COVID-19 is likely to be effectively controlled in mid-2020;
- The COVID-19 is expected to cause a short-term economic slowdown; and
- The consumer confidence index will remain stable in the forecast period.

OVERVIEW OF MACRO ECONOMY OF THE PRC

Nominal GDP

According to the National Bureau of Statistics of the PRC, the PRC Government has taken effective stimulus policies to prevent the economy from huge decline. Driven by a series of economic stimulus policies including the Revitalisation Plans of Ten Key Industries and "One Belt And One Road", the PRC's nominal Gross Domestic Products ("GDP") registered a relatively robust growth at a CAGR of 9.0%, expanding from RMB64.4 trillion in 2014 to RMB99.1 trillion in 2019.

Going forward, the PRC authorities are likely to maintain the consistency and stability of macroeconomic policies so as to maintain macroeconomic stability. According to the International Monetary Fund (IMF), the nominal GDP in the PRC is forecast to keep growing at a CAGR of 8.1% from 2014 to 2024 and would increase gently to RMB146.5 trillion in 2024.

Per Capita Nominal GDP

As total population of the PRC has remained and is expected to remain stable in the future, the growth of per capita GDP is in line with the growing economy in the PRC. Per capita nominal GDP in the PRC had kept growing at a fast pace over the past and is expected to maintain the solid growth. For 2019, the per capita nominal GDP in the PRC has reached RMB70,892.

In the future, with the sound growth of the Chinese macro economy, the per capita nominal GDP in the PRC is also likely to maintain a steady growth. According to International Monetary Fund (IMF), the per capita nominal GDP in the PRC is predicted to reach RMB103,811 in 2024, growing at a CAGR of 7.9% from 2019.

ANALYSIS OF DISPOSABLE PLASTIC FOOD STORAGE CONTAINER INDUSTRY IN THE PRC

Definition and Classification

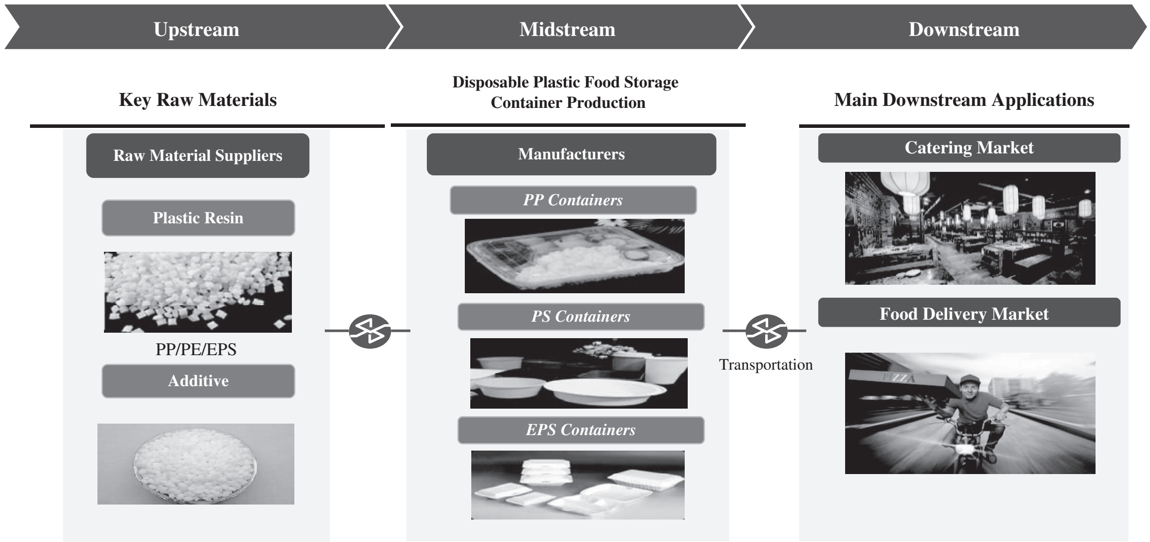
Disposable plastic food storage container is a kind of container processed by high temperature hot melt injection moulding with resin or other thermoplastic materials. In terms of applications, disposable plastic food storage containers can be divided into lunch boxes, fresh and preserved fruit containers, semi-food containers and others. In terms of raw materials, disposable plastic food storage container can be mainly classified into PP (polypropylene) containers, PS (polystyrene) and EPS (expandable polystyrene) containers. Compared with other two raw materials, PP plastic food storage container is the only container that can be heated in the microwave oven due to its high heat resistance. With high chemical stability and anticorrosion effect, PP plastic food storage containers can be suitable for almost all foods and beverages. The time takes to decompose PP, PS and EPS varies, depending on the condition of environment where the decomposition is to take place. If they are all buried in a landfill in the same environment, the decomposition of PP and PS plastic containers takes around 20-30 years and 40-50 years respectively, while EPS plastic containers takes hundreds of years to decompose. However, if those containers are exposed to some elements, such as sunlight, moisture and air, the decomposition will be accelerated. Meanwhile, as the PRC Government is actively increasing its effort and investment into environmental protection, PP plastic food storage containers, which are easy to recycle and the decomposition of which can be accelerated by adding some degradable materials during the production of containers (such as starch materials, photosensitizer and biological depressant), have dominated the disposable plastic food storage container industry in the PRC. Presently, the Group only produces PP plastic food storage containers.

Comparison of Disposable Plastic Food Storage Containers Made of Different Raw Materials

	PP Plastic Food Storage Container	PS Plastic Food Storage Container	EPS Plastic Food Storage Container
Main Ingredients	• Polypropylene (PP)	• Polystyrene (PS)	• Expanded Polystyrene (EPS) • Polystyrene Resin Adding Foaming Agent
Thermal Performance	• High heat resistance, can be heated in microwave oven • Usage temperature of PP: -30℃ - 140℃	• Low heat resistance • Usage temperature of PS: -30℃ - 90℃	• Low heat resistance • Usage temperature of EPS: <85℃
Physical Properties	• High strength, hardness and elasticity	• Low impact strength • Fragile and easy to crack	• Low toughness • Poor impermeability
Chemical Stability	• High chemical stability (except concentrated nitric acid and sulfuric acid) and anticorrosion effect	• Cannot contain strong acid and strong alkaline substances	• Low chemical stability, reacting with substances like strong acid, alkaline, essence, etc.
Environmental Impact	• Decomposition can be accelerated by adding degradable materials • Easy to recycle	• Difficult to degrade	• Difficult to degrade

Source: Frost & Sullivan

Value Chain Analysis

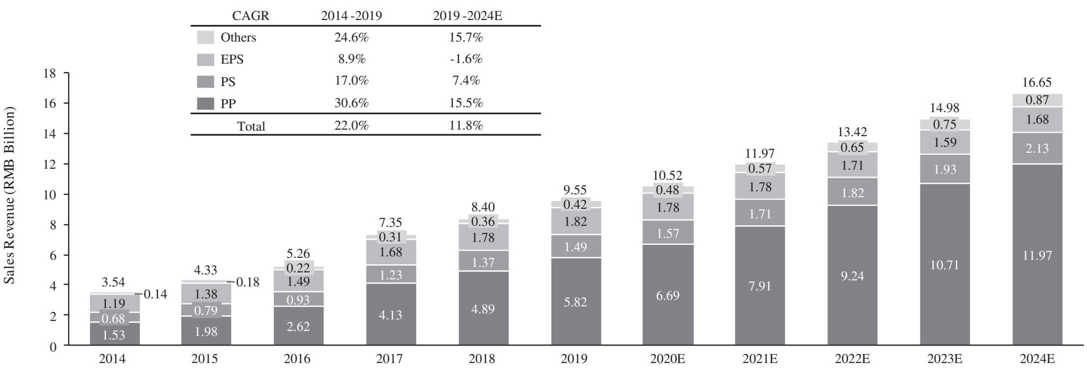


Source: Frost & Sullivan

The value chain of disposable plastic food storage container industry includes the upstream suppliers of PP, PE and EPS, which are main materials of disposable plastic food storage container. The midstream players refer to disposable plastic food storage container manufacturers who produce containers with various shapes and applications. The downstream applications mainly include catering market and food delivery market.

Market Size

Sales Revenue of Disposable Plastic Food Storage Container Industry (The PRC), 2014 - 2024E



China is the world's largest country in the production of disposable plastic food storage containers, accounting for approximately 44.3% of global disposable plastic food storage container industry in terms of sales revenue in 2019. In recent years, with the rapid development of food delivery market, which is the main application of disposable plastic food storage container industry, the sales revenue of disposable plastic food storage container industry in China has experienced a fast growth. In 2019, the sales revenue of disposable plastic food storage container reached RMB9.55 billion, with a CAGR of 22.0% from 2014 to 2019.

Disposable plastic food storage container can be mainly classified into PP containers, PS containers, EPS containers and others such as PLA (Polylactic Acid) and PHA (Polyhydroxyalkanoate) containers. In 2014, the containers made by PP and EPS dominated disposable plastic food storage container industry, accounting for approximately 43.2% and 33.6% respectively of total industry in terms of sales revenue. However, with the increasing awareness of environmental protection, the containers made by EPS began to eliminated from the market. In 2018, PP containers surpassed EPS containers and accounted for the largest proportion among different kinds disposable plastic food storage containers.

In the future, the food delivery market and catering market is expected to maintain stable growth, and the popularity of non-restaurant food, such as fresh-cut fruits, semi-finished food is anticipated to stimulate the demand for disposable plastic food storage containers. In 2024, the sales revenue of disposable plastic food storage container is anticipated to reach RMB16.65 billion, representing a CAGR of 11.8% from 2019 to 2024. In 2024, PP containers is likely to prevail in disposable plastic food storage container industry, its proportion is expected to reach 71.9%.

Frost & Sullivan has considered the impact of environmental protection requirements, trend and other relevant laws and regulations. Due to the booming food delivery market and catering market, the demand of disposable plastic containers is expected to be accelerated. So far, there is no law and regulation to restrict the overall production of PP disposable plastic containers. In the future, the PRC Government is likely to improve its recycling system and the production of PP disposable plastic containers will not be restricted as waste containers can be reproduced into other plastic products.

Market Drivers

Growth in Catering and Food Delivery Market: As one of main applications for disposable plastic food storage container industry, the continuous growth of catering and food delivery market is one of the key market drivers, generating large demand for disposable plastic food storage containers. Due to the change of eating habits, more people prefer takeaway food for their daily meals, afternoon tea and night snacks, which in turn facilitates online food delivery service. However, the coverage of online food delivery market in third and fourth-tier cities in the PRC is relatively small. Going forward, the food delivery market in those cities is expected to make further development, which is likely to stimulate the demand for disposable plastic food storage containers.

Population Growth and Increasing Urbanization Rate: With the steady growth of population in the PRC and the gradual implementation of new urbanization construction, the PRC's urban population will maintain a rapid growth, which will bring huge consumption potentials. Along with the pace of urbanization construction, the increase in the number of and the expansion in geographic coverage of hotels and restaurants in cities will further expand, increasing the demand of disposable plastic food storage container products in the catering market. Therefore, the population growth and increasing urbanization rate will promote the development of the disposable plastic food storage container industry.

Implementation of Policies and Standards: The PRC Government has released a series of policies and standards to consolidate the disposable tableware market. The "General Technical Requirements for Plastic Disposable Tableware"(《塑料一次性餐飲具通用技術要求》) issued by State Administration for Quality Supervision, Inspection and Quarantine and the National Standardisation Management Committee of PRC in 2009 stipulated the technical requirements, inspection methods and rules and requirements of product marking, packaging, transportation and storage for disposable plastic food storage containers. The 'Notice on Further Strengthening the Quality and Safety Supervision and Inspection of Daily Use Plastic Products, Children's Toys and Disposable Hygiene Products' (關於進一步加強日用塑料製品、兒童玩具、一次性使用衛生用品質量安全監督檢查的通知) issued by the state administration for market regulation in 2019 also emphasized on the supervision and inspection of the quality and safety of daily-use plastic products, children's toys and disposable sanitary products. With the implement of these policies and standards, the manufacturers have strict requirements for product safety and environmental protection. Disposable plastic food storage container industry has experienced the industrial integration by shutting down the factories which failed to meet the standards and maintained a healthy and sustainable development.

Popularity of PP Plastic Food Storage Containers: With high chemical stability, heat resistance and anticorrosion effect, PP plastic food storage container can be used for almost all foods and beverages. Meanwhile, as the PRC Government is trying actively to enhance people's awareness of environmental protection, general customers' preference of using disposable plastic food containers has therefore been shifting from EPS plastic food storage containers to PP plastic food storage containers, which is easy to recycle and the decomposition of which can be accelerated by adding some degradable materials during the production of containers.

Entry Barriers

Qualification & Market Access: The performance and quality of disposable plastic food storage containers have a direct impact on people's health and environmental protection. To enter the market, it is necessary to pass the strict examination and verification of the local state-recognized testing institutions such as China Quality Certification Centre to confirm that the performance and quality of disposable plastic food storage containers meet the requirements before companies can obtain the corresponding access qualifications. New entrants of disposable plastic food storage container industry need to invest a lot of manpower, material and financial resources to obtain access qualifications, thus it is a market entry barrier for new entrants.

Large-scale Operation: Large-scale enterprises in the industry have shorter production cycle of finished products so that they can establish long-term and stable cooperative relations with suppliers in order to increase bargaining power with suppliers and reduce purchasing costs. Companies with large-scale operation have relatively standardized management and relatively convenient and fast sales channels. Thus, they gain brand recognition to increase the attractiveness and loyalty of products to downstream customers which is relatively difficult to new entrants.

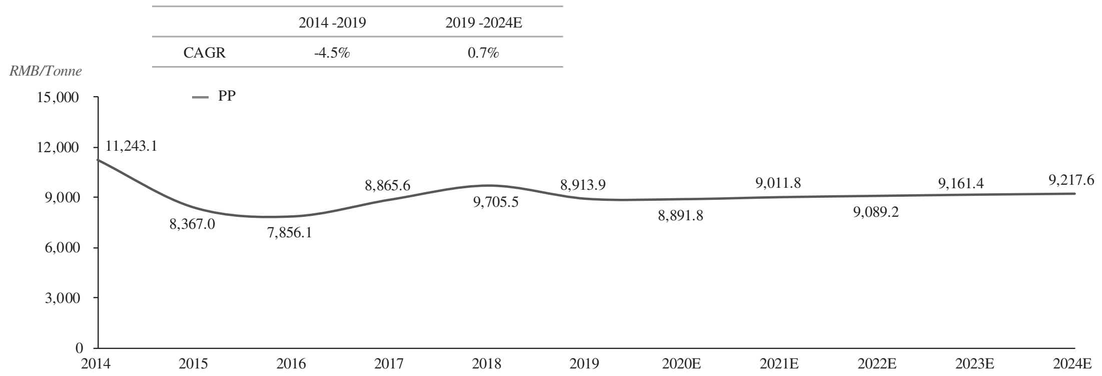
Technical Barrier: The formulation, variety and quality of raw materials, the automation degree of processing equipment and the control accuracy of the model, as well as the advancement of testing equipment, and technical specifications directly affect the performance and quality of disposable plastic food storage container products. The existing manufacturers usually have mature technologies, they can strictly control the process operation such as cooling water temperature, air pressure and raw material processing temperature.

Capital Investment: With the continuous expansion of the industry market scale, the well-known enterprises in the industry gradually produce economies of scale effect. Technological improvement and upgrading, R&D, market development and marketing network construction, talent matching and etc. need enough financial support. Therefore, sufficient capital investment is required in the disposable plastic food storage container industry and the new entrants may difficult to obtain sufficient capital.

Skilled Personnel: With the increasing demand for customization of disposable plastic food storage containers, skilled personnel are in demand to design and develop new products to satisfy diverse requirements of customers. Moreover, owing to strict safety and environmental protection requirements of disposable plastic food storage containers, skilled personnel have to make continuous improvements such as the ratio of raw materials and the addition of degradable materials should be made by skilled personnel. For new entrants, it is rather difficult to have sufficient skilled personnel for product customization and technical improvement.

Raw Material Price

Average Market Price of PP (The PRC), 2014 - 2024E



Source: Frost & Sullivan

PP is one of major raw materials of producing disposable plastic food storage container. From 2014 to 2016, due to the continuous decrease of crude oil prices and decreasing downstream demand, the average price of PP experienced a significant decline from RMB11,243.1 per tonne to RMB7,856.1 per tonne. However, influenced by the recovery of crude oil price and the pressure of environmental protection since 2016 with the renewal of production facilities, some enterprises producing PP have been forced to shut down which led to a shortage of market supply. Thus, the average market price of PP increased to RMB8,913.9 per tonne in 2019. In the future, the average market price of PP is expected to experience a steadily increase with a CAGR of 0.7% from 2019 to 2024, and to reach RMB9,217.6 per tonne in 2024.

Normally, the price of disposable plastic food storage containers made by PP is between RMB0.1 and RMB0.3 (range from 50ml to 750ml) in 2019.

Future Opportunities and Challenges

Popularity of Environmentally Friendly Disposable Plastic Food Storage Container: With the increasing focus on food safety and the implementation of production standards of disposable plastic food storage containers, environmentally friendly products will be the trend of disposable plastic food storage container market in the future. Degradability and recyclability are the important features of environmentally friendly products. Compared to other raw materials, PP (polypropylene), which is odourless, non-toxic, heat-resistant, corrosion-resistant and recyclable, has gained the popularity in the production of disposable plastic food storage containers and become a major raw material of environmentally friendly plastic products. Moreover, degradable additives such as starch will gradually be applied to disposable plastic food storage container products.

Advances in Production Technologies: In order to meet the product quality and safety standards of disposable plastic food storage containers and respond to the call of resource conservation and environmental protection, the technology which is constantly updated will be applied to the production process of disposable plastic food storage containers in the future. Besides, owing to the relatively low market price and the fierce competition in disposable plastic food storage container market, optimizing the formula of raw materials and the application of advanced manufacturing technology to reduce costs can increase the profit margin to face the competitive market. The investments in research and development of disposable plastic food storage container manufacturers will increase continuously, which will further promote the healthy and sustainable development of the industry.

Diverse Product Categories: Due to quickly updated products in the catering market and consumer preferences from different regions and different economic levels, the disposable plastic food storage container manufacturers are required to have diverse product categories to satisfy all kinds of customers. The production of disposable plastic food storage containers will not only concentrate on different types and sizes, but also the customized shapes and functions, which is beneficial to have a competitive advantage in disposable plastic food storage container industry in the future. The manufacturers will be dedicated to conduct mould design and development to meet the ever-changing product categories accordingly.

Competition from Substitutes: The common disposable food storage containers at present include plastic containers, paper containers, wooden containers, etc. The alternatives will squeeze the market share of disposable plastic food storage containers, and meanwhile the increasing competition will affect the profitability of manufacturers.

Key Success Factors

Product Safety and Environmental Protection: Product safety and environmental protection are significant criteria for disposable plastic food storage containers, including safety for users' health, saving resources and environmental friendliness. With the improvement of people's environmental awareness and the strict restrictions from the government, foaming plastic products have been gradually withdrawn from the disposable plastic food storage container market and degradable and recyclable disposable products have dominated the market. Nowadays, only the disposable plastic food storage container with safety and environmental performance which can be approved by testing institutions has the qualification to enter the market. Meanwhile, the manufacturers have to set up their own quality inspection and control departments to ensure product safety and environmental protection.

Sales Channels: Sales channels, through which the products are connected from the manufacturers to the end users, have direct and significant impacts on the operation and profitability of the disposable plastic food storage container manufactures. A mature sales network can provide stable support from sales force, considerate customer services and rapid response capacity to changes of market demands and product requirements, which is beneficial for enhancing brand image and seizing market shares. Reasonable layout of sales channels needs to locate target customers according to the characteristics of their disposable plastic food storage containers and afterwards establish corresponding sales channels based on the analysis of target hotels, restaurants and food customers and meanwhile choose competent distributors.

Brand Promotion: In the disposable plastic food storage container industry, a large number of small-to-medium participants provide products with less brand awareness. Regarding products related to food safety, consumers have strong loyalty to recognized brands, accordingly brand promotion is one of the key success factors for disposable plastic food storage containers. Brand is the embodiment of the comprehensive strength of the enterprise, requiring long-term and persistent efforts in product quality control, corporate culture, marketing network and professional services. A successful brand image is conducive to bargaining power with suppliers and increasing product appeal to consumers. Advertising, trade fairs, environmental forums, product promotion conferences and the development of peripheral products are the effective approaches of brand promotion in disposable plastic food storage container market.

Product Customization: Product customization, including colours, shapes, logos and labels, is one of the key success factors of disposable plastic food storage container market in the PRC. Providing customized products can improve company's reputation and popularity. Product customization is conducive to developing market segments and attracting new customers with special requirements. Moreover, product customized services are also beneficial to customer maintenance as customers prefer companies which can provide product customization when choosing manufacturers.

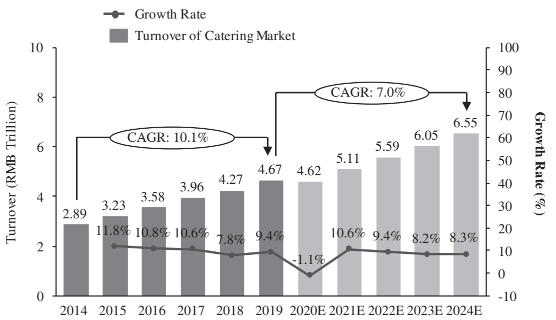
ANALYSIS OF CATERING AND FOOD DELIVERY MARKET IN THE PRC

Definition and Classification

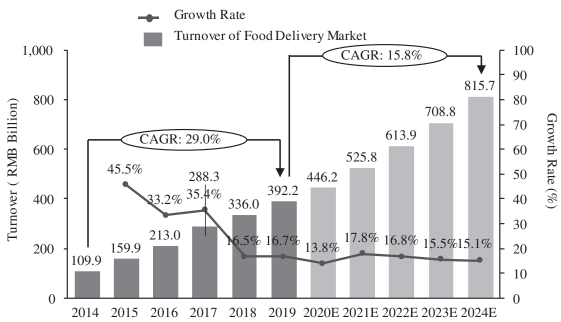
In China, according to the "National Economy Industry Classification Notes", the catering industry can be defined as the service activities of on-site cooking, seasoning, and selling to customers in a certain place, mainly for on-site consumption. The catering industry is commonly divided into fine dining, casual dining, quick service restaurants and others. Food delivery market is gaining popularity due to the characteristics of convenience and time-saving of the catering industry. The food delivery market can be categorised into online and offline delivery.

Market Size

Turnover of Catering Market (The PRC), 2014 - 2024E



Turnover of Food Delivery Market (The PRC), 2014 - 2024E



Notes: Turnover refers to the sales revenue of restaurants, excluding delivery fee, commission and other fees which is charged by third-party food delivery platforms.

Source: Frost & Sullivan

The catering market in the PRC has kept a high growth rate, rising from RMB2.89 trillion in 2014 to RMB4.67 trillion in 2019, representing a CAGR of 10.1%. Moreover, with the increasingly fast pace of people's life in cities, the food delivery market embraces the opportunities to develop. From 2014 to 2024, the turnover of food delivery market grew at a CAGR of 29.0%, reaching RMB392.2 billion in 2019.

In the following years, the catering market in the PRC is anticipated to keep sustainable growth along with the steady economy growth in the PRC. The total market is likely to reach RMB6.55 trillion in 2024, growing at a CAGR of 7.0% from 2019 to 2024. As for food delivery market, the turnover is expected to reach RMB815.7 billion in 2024, with a CAGR of 15.8% from 2019 to 2024.

Market Drivers

Increasing Per Capita Disposable Income and Acceleration of Urbanization: Per capita disposable income in the PRC has been rocketing up along with the rapid growth of the PRC's economy. The increasing income has promoted consumption upgrading and boosted the rapid development of catering market in the PRC. The rapid urbanization has led to the emergence of cities with a great number of consumers who require food delivery services. Moreover, acceleration of urbanization has made it more convenient for food delivery services, which is beneficial for the development of food delivery market.

Changing Lifestyle and Increasing Demand for Dining Out: With consumers' increasing purchasing power and gradually changing lifestyle, the purpose of out-dining for leisure and social interactions has been largely increasing in importance, which serves as a major incentive for increasing demand for dining out. Moreover, with people paying more attention to quality of food and experience, they tend to prefer more diversified dining options, driving the development of catering market in the PRC.

Sufficient Labour Supply: The movement of people from rural to urban areas and labour force converting from industries including agriculture and manufacturing sectors into service sectors further reinforce the labour supply and population density in cities across the PRC. The sufficient labour supply can guarantee the delivery efficiency to some extent and drive the development of food delivery market in the PRC.

Future Outlook

Expansion of Chain Store & Increasing Standardization: An increasing number of restaurants operators begin to expand their store network to enlarge their business coverage of target customers and increase brand exposure. Meanwhile, standardization of products and services is crucial to ensure the quality and safety of the dishes. Central kitchens help to produce large quantities of semi-finished dishes to ensure the standardization of the dishes and increase the turnover rate of the table.

Innovation of Taste to Differentiate: In such a highly competitive catering market in the PRC, innovation of taste is the key to improve customers' satisfactory and experience. It is of great importance for the PRC's casual dining providers to innovate and combine the PRC's or other Asian food with local taste in order to attract more customers and gain larger market size.

Increasing Consumers' Demand for Food Delivery: The high penetration of mobile internet and availability of online payment enabled the PRC's consumers to discover and enjoy more online services, which has boosted the development of food delivery market in the PRC. Besides, owing to faster-paced life for young people especially in mega cities, the demand for food delivery services will increase since it is regarded as a more convenient and time-saving way of life.

Competitive Landscape

Market Share of Disposable Plastic Food Storage Container Industry by Sales Revenue (The PRC), 2019

Ranking	Company	Location	Background	Market Share(%)
1	Company A	Fujian Province	Founded in 1992, the company mainly focuses on the production of disposable plastic food storage containers and other disposable tableware.	6.2%
2	Company B	Shandong Province	Founded in 1998, the company concentrated on the production of disposable plastic food storage containers.	3.2%
3	Company C	Tianjin	Founded in 2000, the company's business covers the production of disposable plastic food storage containers and the plastic vacuum forming machines.	2.4%
4	Our Group	Fujian Province	Founded in 2011, our Group engages in the design and development, manufacturing and sales of disposable plastic food storage containers.	2.2%
5	Company D	Tianjin	Founded in 2002, the company mainly produces disposable plastic food storage containers and other food packaging products, such as plastic fresh-keeping wraps and bags.	1.1%
Top5players				15.1%
Others				84.9%

Note: None of Company A, B, C and D is listed company.

Source: Frost & Sullivan

In 2019, there are more than 1,000 manufacturers in disposable plastic food storage container industry. Most participants in this industry did not have their own brands and only focus on the production of disposable plastic food storage containers.

The disposable plastic food storage container industry was relatively fragmented, with top 5 market players accounting for around 15.1% of total sales revenue in the PRC in 2019. In 2019, our group ranked 4th and took a market share of 2.2% in China in terms of sale revenue.

Incorporation, Operation and Management of Corporate Entities

The establishment, operation and management of corporate entities in China are governed by the PRC Company Law, which was promulgated by the Standing Committee of the NPC (全國人民代表大會常務委員會) on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018. Pursuant to the PRC Company Law, companies are classified into two categories, namely limited liability companies and limited companies by shares. The PRC Company Law shall also apply to foreign-invested limited liability companies and companies limited by shares. According to the PRC Company Law, the provisions otherwise prescribed by the laws on foreign investment shall prevail.

Before 2020, the establishment procedures, approval procedures, registered capital requirement, foreign exchange, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法), which was promulgated and became effective on 12 April 1986 and amended on 31 October 2000 and 3 September 2016, and the Implementation Regulations of the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法實施細則), which was promulgated on 12 December 1990 and amended on 12 April 2001 and 19 February 2014, and the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises (外商投資企業設立及變更備案管理暫行辦法), which became effective on 8 October 2016 and was amended on 30 July 2017 and 29 June 2018.

Since the Foreign Investment Law of the PRC (中華人民共和國外商投資法) was promulgated by the NPC on 15 March 2019 and came into force on 1 January 2020, the wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) has been repealed by the Foreign Investment Law simultaneously. The Foreign Investment Law sets out the definition of foreign investment and the framework for promotion, protection and administration of foreign investment activities.

Since the Implementing Regulations of the Foreign Investment Law of the PRC（中華人民共和國外商投資法實施條例）was promulgated on 26 December 2019 by the State Council and became effective on 1 January 2020, the Implementation Regulations of the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法實施細則) has been abolished simultaneously. Pursuant to the Implementing Regulations of the Foreign Investment Law of the PRC, the foreign-invested enterprises, established according to wholly Foreign-owned Enterprise Law of the PRC prior to the implementation of the Foreign Investment Law, may adjust their organization form, structure, etc. pursuant to the provisions of the PRC Company Law and other related laws, and complete change registration legally. Alternatively, they may choose to retain their current organization form, structure, etc. within five years after the implementation of the Foreign Investment Law.

Since the Measures on Reporting Foreign Investment Information（外商投資信息報告辦法）promulgated on 30 December 2019 by the MOFCOM and the State Administration for Market Regulation (the "**SAMR**") became effective on 1 January 2020, the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises (外商投資企業設立及變更備案管理暫行辦法) has been repealed by the Measures on Reporting Foreign Investment Information simultaneously. Pursuant to the Measures on Reporting Foreign Investment

Information, foreign investors or foreign investment enterprises shall report the investment information through submitting initial reports, change reports, deregistration reports, annual reports, etc. to the competent commerce departments via the enterprise registration system and the national enterprise credit information disclosure system.

The M&A Rules, which was promulgated by the MOFCOM, the State-owned Assets Supervision and Administration Commission* (國有資產監督管理委員會) ("**SASAC**"), the State Administration of Taxation* (國家稅務總局) ("**SAT**"), the State Administration of Industry and Commerce* (國家工商行政管理總局) ("**SAIC**"), the CSRC and the SAFE on 8 August 2006, and subsequently amended by the MOFCOM on 22 June 2009, provides the scenarios that qualify as an acquisition of a domestic enterprise by a foreign investor.

On 30 June 2019, the National Development and Reform Commission (the "**NDRC**") and the MOFCOM promulgated the "Catalogue for the Encouraged Foreign Invested Industries" (《鼓勵外商投資產業目錄（2019年版）》) (the "**Catalogue**") and the Special Management Measures for the Market Entry of Foreign Investment (Negative List) (2019 Version) (《外商投資准入特別管理措施（負面清單）（2019年版）》) (the "**Negative List**"), which both became effective since 30 July 2019. According to the Catalogue and the Negative List, foreign investment industries are classified into two categories, (1) industries in which foreign investments are encouraged; and (2) industries in which foreign investments are regulated by the Negative List. According to the Negative List, foreign investors shall not invest in the prohibited industries in the Negative List, and the foreign investment in the industries in the Negative List which are not prohibited, shall obtain permission for foreign investment. Any industry not listed in the Negative List is regarded as an industry in which foreign investment is permitted.

Product Quality

The Product Quality Law of the PRC (中華人民共和國產品質量法), which was promulgated by the Standing Committee of the NPC on 22 February 1993 and amended on 8 July 2000, 27 August 2009 and 29 December 2018 respectively, applies to all production and marketing activities within the territory of the PRC. Producers and sellers are responsible for the product quality according to the provisions of this law. Responsibilities and obligations of producers for the products include: (i) be responsible for the quality of the products they produce; (ii) marks on the products or on the packages thereof shall be true to the fact; (iii) not to produce products expressly phased out by state laws or decrees; (iv) not to forge the place of origin, or forge or illegally use the name and address of another producer; (v) not to forge or illegally use product quality marks, such as authentication marks; (vi) not to mix impurities or imitations into the products, or substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the production; and (vii) to ensure that, for products that are fragile, inflammable, explosive, toxic, corrosive or radioactive, products that should be kept upright during storage and transportation, or other products with special requirements, the packaging thereof must meet the corresponding requirements, and carry warning marks or warning notes in Chinese to highlight the way of handling that calls for attention.

A producer in breach of the above responsibilities and obligations shall be liable for civil compensation. The authorities shall order the suspension of production, confiscate the products illegally produced, impose a fine and confiscate the unlawful proceeds (if any) therefrom. Where the case is serious, business licences shall be revoked. Where a criminal offence is constituted, the offenders will be pursued for criminal liabilities.

According to the General Technical Requirements for Plastic Disposable Tableware (GB/T 18006.1-2009) (塑料一次性餐飲具通用技術要求) (the "**General Requirements**"), which was promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of PRC and the National Standardization Management Committee of PRC on 27 April 2009 and became effective on 1 December 2009, any entity which is producing disposable tableware made of various thermoplastic materials shall meet the requirements regarding the hygienic physicochemical indicators set forth in the article 5.8.

Production Safety

The PRC Work Safety Law (中華人民共和國安全生產法) (the "**Work Safety Law**"), was promulgated on 29 June 2002, came into effect on 1 November 2002 and was revised on 27 August 2009 and 31 August 2014 respectively. It governs the supervision and administration of production safety in the PRC. The Work Safety Law requires a production entity to meet the relevant requirements such as providing its staff with education and training, strengthening work safety control, setting up and improving the responsibility system and rules and regulations for work safety, improving the conditions for work safety, promoting the standardisation of work safety, raising the level of work safety and ensuring work safety. Any production entity that fails to meet the legal requirements shall not be allowed to engage in production activities in the PRC. Violation of the Work Safety Law may result in fines, penalties, suspension or cease of operations, or even criminal liabilities in severe cases.

Production Licensing of Industrial Products

According to the Regulations of the PRC on Administration of Production Licensing of Industrial Products (中華人民共和國工業產品生產許可證管理條例) (the "**Regulations on Production Licensing of Industrial Products**"), which was promulgated by State Council on 9 July 2005, became effective on 1 September 2005 and the Implementation Measures of Regulations on Production Licensing of Industrial Products (中華人民共和國工業產品生產許可證管理條例實施辦法) (the "**Implementation Measures**") effective on 1 August 2014, the State applies a production licensing system to enterprises producing important industrial products as required by laws and administrative regulations. The enterprise shall submit an application to the local quality and technical supervision authority for producing the products listed in the catalog implementing the administration system of production license. The production license of industrial products is valid for 5 years.

According to the Decision of the State Council on Further Reducing the Catalogue of Production Licenses for Industrial Products and Simplifying the Examination and Approval Procedures (國務院關於進一步壓減工業產品生產許可證管理目錄和簡化審批程序的決定) which was promulgated and became effective on 23 September 2018, the relevant quality technical supervision authorities at the provincial level shall be responsible for the examination and approval of the materials and other related products that have direct contact with food.

Food Safety

According to the Food Safety Law of the PRC (中華人民共和國食品安全法) (the "**Food Safety Law**") which was promulgated by the Standing Committee of the NPC on 28 February 2009 and became effective on 1 June 2009, and was amended on 24 April 2015 and 29 December 2018 respectively, production and operation relating to packaging materials, containers, detergents and disinfectants used for food (hereinafter referred to as the "**food-related products**") shall comply with the Food Safety Law. Production licensing shall apply to the packaging materials that are in direct contact with food and other high-risk food-related products in accordance with the State's provisions on licensing management over the production of industrial products. Producers of food-related products shall test the food-related products produced in accordance with food safety standards, and ship the food-related products out of the factories or sell only after they have passed the testing.

Environmental Protection

The Environmental Protection Law of the PRC (中華人民共和國環境保護法), which was promulgated by the Standing Committee of the NPC on 26 December 1989, and amended on 24 April 2014, and came into force on 1 January 2015, provides a regulatory framework to protect and develop the environment, prevent and reduce pollution and other public hazards, and safeguard human health. According to the Environmental Protection Law, enterprises and other manufacturers shall prevent and reduce environmental pollution and ecological damage as well as take the liabilities for the damages caused.

Law of the People's Republic of China on Environmental Impact Assessment (中華人民共和國環境影響評價法), was promulgated on 28 October 2002 by the Standing Committee of the NPC, and amended on 2 July 2016, and 29 December 2018 respectively. Environmental impact assessment refers to analyse, forecast and assess possible environmental impacts arising from performance of planning and construction projects, propose corresponding policies and measures to prevent or reduce such adverse environmental impacts and the methods and systems used for tracking monitoring. The State shall implement classified administration of environmental impact assessment for construction projects in accordance with the degree of environmental impacts of construction projects.

The construction unit shall produce environmental impact reports and environmental impact report form or complete environmental impact registration forms as the case may be. In the event of possible significant environmental impact, an environmental impact report shall be prepared for comprehensive assessment of the environmental impact. In the event of slight environmental impact, an environmental impact report form shall be prepared for analysis or assessment of specific items relating to the environmental impact. In the event of minimal environmental impact which does not warrant an environmental impact assessment, an environmental impact registration form shall be completed. After the environmental impact appraisal document of a construction project has been approved, if either the nature, scale, venue, the production techniques employed or the measures for preventing pollution and preventing ecological damage has undergone substantial changes, the construction entity shall submit new environmental impact appraisal documents of the construction project for examination and approval. Where a construction entity unlawfully commences the construction of a project without submitting for approval its environmental impact report or report form in accordance with the law, or without reporting for approval of construction project which undergone substantial changes or requesting the re-examination of the environmental impact report or report form in accordance with the law, the environmental protection administrative department at or above the county level shall order it to cease construction, and according to the circumstances of violation of law and damage, impose a fine of not less than 1% but not more than 5% of the total investment of the construction project on it, and order it to restore to the original state; and in accordance with the law, take disciplinary actions against the directly responsible person in charge and other directly liable persons of the construction entity.

Pursuant to the Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation) (排污許可管理辦法(試行)) (the "**Administrative Measures**") promulgated by the Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部) on 10 January 2018 and amended on 22 August 2019, polluters, who were listed in the Classification Management List of Discharge Permits for Fixed Pollution Sources (Version 2019)* (固定污染源排污許可分類管理名錄(2019年版)) (the "**Catalog**") on 20 December 2019, shall apply for the license of pollution discharge. According to relevant regulations and provisions, competent Environmental Protection authorities shall exercise comprehensive license administration on the discharge of water pollutant, air pollutant, and other various pollutant by the pollutant discharging unit. For the pollutant discharging units which obtained approval opinions on environmental impact assessment of construction projects on 1 January 2015 and thereafter, the main part related to pollutants discharge in the environmental impact assessments and approval opinions shall be included in the pollutant discharge licenses. For the pollutant discharging units which has been established and actually discharged pollutants before the time limit as provided in the Catalog, the pollutant discharge licenses shall be applied for and obtained within the time limit. The pollutant discharging units established after the time limit shall apply for and obtain the pollutant discharge licenses before starting production facilities or actual discharging pollutants.

PRC Taxation

Enterprise Income Tax

The Enterprise Income Tax Law of the PRC (中華人民共和國企業所得税法) ("**EIT Law**") was promulgated on 16 March 2007, became effective on 1 January 2008 and was amended on 24 February 2017, 29 December 2018 respectively and the Implementation Rules of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得税法實施條例) (the "**Implementation Rules**") was promulgated by the State Council on 6 December 2007 and came into effect on 1 January 2008 and was amended on 23 April 2019. According to the EIT Law and the Implementation Rules taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in the PRC in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control entity is within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but (i) have entities or premises in the PRC, or (ii) have no entities or premises but have income generated from China. According to the EIT Law and the implementation rules, foreign invested enterprises in the PRC are subject to enterprise income tax at a uniform rate of 25%. A non-resident enterprise that has an establishment or premises within the PRC shall pay enterprise income tax at a rate of 25% on its income that is derived from such establishment or premises inside the PRC and that is sourced outside the PRC but is actually connected with the said establishment or premises. A non-resident enterprise that has no establishment or premises within the PRC but has income from the PRC, and a non-resident enterprise that has establishment or premises in the PRC but its income has no actual connection to such establishment or premises in the PRC, shall be subject to PRC withholding tax at the rate of 10% on its income sourced from the PRC.

Value-added Tax

All entities and individuals engaged in the sales of goods, provision of processing, repairs and replacement services, the sale of service, intangible assets and real estate and the importation of goods within the territory of the PRC shall pay value-added tax (VAT) in accordance with the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) (the "**Provisional Regulations on VAT**") and its implementation rules. The Provisional Regulations on VAT was promulgated by the State Council on 13 December 1993 became effective on 1 January 1994 and was subsequently amended on 5 November 2008, 6 February 2016 and 19 November 2017 respectively. Pursuant to the Provisional Regulations on VAT and its implementation rules, VAT payable is calculated as "output VAT" minus "input VAT". The rate of VAT is 17%, 11% or 6% in certain limited circumstances depending on the product type.

Pursuant to the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知) issued by the MOF and the SAT of the PRC on 23 March 2016 and partially amended on 1 July 2017 and 1 January 2018 and 20 March 2019, starting from 1 May 2016 all taxpayers of business tax (BT) engaged in the construction industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to payment of value-added tax (VAT) instead of business tax (BT).

The MOF and SAT published a Circular on Adjusting Value-added Tax Rates (財政部、稅務總局關於調整增值稅稅率的通知) on 4 April 2018 to announce that for a taxpayer who engages in a taxable sales activity for the VAT purpose or imports goods, the previous applicable tax rates 17% and 11% will be adjusted to 16% and 10% respectively. This Circular became effective since 1 May 2018.

According to the Announcement of the MOF, the SAT and the General Administration of Customs on Relevant Policies for Deepening Value-added Tax Reform, which was promulgated on 20 March 2019 and became effective on 1 April 2019 (財政部、國家稅務總局、海關總署關於深化增值稅改革有關政策的公告) (the "**Announcement**"), for the VAT taxable sales or imports by a general taxpayer of VAT, the applicable tax rate shall be adjusted to 13% from the original 16% and to 9% from original 10%. The above adjustment shall take effect as of 1 April 2019.

Foreign Currency Exchange and Dividend Distribution

Foreign Exchange Registration

Pursuant to Circular No. 37, which was promulgated on 4 July 2014 and became effective on the same date, domestic residents establishing or taking control of a special purpose company abroad which makes round-trip investments in the PRC are required to effect foreign exchange registration with the local foreign exchange bureau prior to contributing domestic and overseas legitimate assets or interests to a special purpose company. Where a registered overseas special purpose company undergoes changes of its domestic resident individual shareholders, name, operating period or other basic information, or experiences substantial changes, including but not limited to, the increase or reduction of registered capital by domestic resident individuals, transfer or replacement of equity interest and merger or split, modification registration of foreign exchange for overseas investment shall be gone through with the foreign exchange bureau. If domestic legal or natural person residents fail to make the offshore investment-related foreign exchange registration as required, penalties under PRC foreign exchange administration regulations may be imposed.

Pursuant to Circular No. 13, which was promulgated by SAFE on 13 February 2015 and became effective on 1 June 2015, the power to accept foreign exchange registration was delegated from local foreign exchange bureau to local banks where the assets or interest in the domestic entity was located.

Foreign Exchange

The principal regulation governing foreign exchange in the PRC is the Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例) (the "**Foreign Exchange Administration Rules**"). It was promulgated by the State Council of the PRC on 29 January 1996, became effective on 1 April 1996 and was amended on 14 January 1997 and 5 August 2008. Pursuant to the Foreign Exchange Administration Rules, payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, can be made in foreign currencies without prior approval from the SAFE subject to certain procedures.

While convertible for capital account items, such as foreign loans are subject to registration with relevant foreign exchange bureaus.

Dividend Distribution

Pursuant to the EIT Law, non-resident enterprises, which have not set up institutions or establishments in the PRC, or institutions or establishments are set up but there is no actual relationship between the income and the institutions or establishments, shall pay enterprise income tax in relation to the income originating from the PRC at the tax rate of 20%. However, the Implementation Rules reduced the rate from 20% to 10%.

The PRC and the government of Hong Kong signed Arrangement between the Mainland China and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the "**Arrangement**") on 21 August 2006. According to the Arrangement, no more than 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that the recipient is a company that directly holds at least 25% of the capital of the PRC company. The Notice on Issues relating to the Administration of the Dividend Provision in Tax Treaties (關於執行稅收協定股息條款有關問題的通知) (the "**Notice 81**") was promulgated on 20 February 2009 by the SAT. The Notice 81 reaffirms the qualification for a dividend recipient to enjoy tax preferential levied at 5% rate as follows: (i) the recipient of the dividend must be a corporation; (ii) the equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; (iii) the recipient's ownership in the PRC company must meet the prescribed direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends; (iv) the deal or arrangement is not mainly for the purpose of obtaining the tax preferential. If the main purpose of a transaction or an arrangement is to obtain preferential tax treatment, the PRC tax authorities will have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible.

Labour and Safety

According to the PRC Labour Law (中華人民共和國勞動法), which was promulgated on 5 July 1994, became effective on 1 January 1995 and was amended on 27 August 2009 and 29 December 2018, workers are entitled to fair employment, choice of occupation, labour remuneration, leave, a safe workplace, a sanitation system, social insurance and welfare and certain other rights. The working time for workers may not exceed eight hours a day and no more than 44 hours a week on average. Employers shall establish and improve their work safety and sanitation system, educate employees on safety and sanitation and provide employees with a working environment that meets the national work safety and sanitation standards.

The PRC Labour Contract Law (中華人民共和國勞動合同法) (the "**Labour Contract Law**") was promulgated on 29 June 2007 and amended on 28 December 2012, and its implementation regulations were implemented on 18 September 2008. According to the Labour Contract Law, labour contracts must be executed in writing to establish labour relationships between employers and employees. Employees who fulfil certain criteria, including having continuously worked for the same employer for 10 years or more, may demand that the employer execute an unfixed-term labour contract. Wages paid by employers may not be lower than the local minimum wage standard. Both employers and employees must perform their respective obligations stipulated in the labour contracts. Where workers are despatched by a staffing company, the staffing company is the employer and performs the legal obligations of an employer toward the despatched workers, including, among others, entering into a labour contract with a fixed term of more than two years with the workers and paying remuneration for their labour. The staffing company must conclude a labour despatch agreement with the entities that receive labour services. In the event of a violation of any legal provisions of the Labour Contract Law, administrative penalties may be imposed on employers by the competent PRC Government authority in charge of labour administration, including warnings, rectification orders, fines, orders for payment of wages and compensation to employees, revocation of business licenses and other penalties. An entity receiving workers from a staffing company may be held jointly and severally liable together with the staffing company in case harm is done to workers due to the entity receiving workers.

The PRC Employment Promotion Law (中華人民共和國就業促進法), which became effective on 1 January 2008 and was amended on 24 April 2015, requires that individuals have equal employment opportunities, both in hiring and in employment terms, without discrimination on the basis of ethnicity, race, gender, religious belief, communicable disease or rural residence. Under this law, enterprises are also required to provide employees with vocational training. Administrative authorities at the county level or above are responsible for implementing policies to promote employment.

Pursuant to the PRC Social Insurance Law (中華人民共和國社會保險法), which was promulgated on 28 October 2010, became effective on 1 July 2011 and was amended on 29 December 2018, the Interim Regulations Concerning the Collection and Payment of Social Insurance Premiums (社會保險費征繳暫行條例) promulgated and implemented on 22 January 1999 and amended on 24 March 2019, the Interim Measures Concerning the Maternity Insurance of Employees of an Enterprise (企業職工生育保險試行辦法) promulgated on 14 December 1994 and implemented on 1 January 1995, the Regulations on Occupation Injury Insurance (工傷保險條例), which was promulgated by the State Council on 27 April 2003 and became effective on 1 January 2004, as amended on 20 December 2010, and the Unemployment Insurance Regulations (失業保險條例), which was promulgated by the State Council on 22 January 1999 and became effective on the same day, employers in the PRC must register with the relevant social insurance authority and make contributions to the pension insurance fund, basic medical insurance fund, unemployment insurance fund, maternity insurance fund and work-related injury insurance fund. Pursuant to the PRC Social Insurance Law, pension insurance, basic medical insurance and unemployment insurance contributions must be paid by both employers and employees, while work-related injury insurance and maternity insurance contributions must be paid solely by employers. An employer must declare and make social insurance contributions in full and on time. The social insurance contributions payable by employees must be withheld and paid by employers on behalf of the employees. Employers who fail to register with the social insurance authority may be ordered to rectify the failure within a specific time period. If the employer fails to rectify the failure to register within a specified time period, a fine of one to three times the payable premium may be imposed. If the employer fails to make social insurance contributions on time and in full, the social insurance collecting agency shall order the employer to make up the shortfall within the prescribed time period and impose a late payment fee amounting to 0.05% of the unpaid amount for each day overdue. If the non-compliance continues, the employer may be subject to a fine ranging from one to three times the unpaid amount owed to the relevant administrative agency.

According to the Opinions of the General Office of the State Council on Comprehensively Promoting the Combined Implementation of Maternity Insurance and Employees' Basic Medical Insurance (國務院辦公廳關於全面推進生育保險和職工基本醫療保險合併實施的意見) promulgated and became effective on 6 March 2019, maternity insurance fund shall be incorporated in employees' basic medical insurance fund for unification of collection and payment. The aggregate ratio of maternity insurance and basic medical insurance paid by enterprises shall be taken as basis to determine the new rate of employees' basic medical insurance paid by enterprises and no individuals shall pay maternity insurance premium.

On 20 July 2018, the General Office of the Communist Party of China and the General Office of the State Council of the PRC issued the Reform Plan of the State Tax and Local Tax Collection Administration System (國稅地稅徵管體制改革方案, the "**Reform Plan**"). Under the Reform Plan, beginning from 1 January 2019, tax authorities will be responsible for the collection of social insurance contributions in the PRC. Pursuant to the Urgent Notice of the General Office of the MOHRSS on Effectively Implementing the Spirit of the Standing Meeting of the State Council and Effectively Conducting the Collection of Social Insurance Premiums in a Stable Manner (人力資源社會保障部辦公廳關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知)(the "**Urgent Notice**"), which was issued by the General Office of the MOHRSS on September 21, 2018, before the reform of the social insurance collection authorities being in place, the relevant levying policies, including the base and rate of the social insurance premiums, shall remain unchanged. The Urgent Notice also clarified that it is strictly prohibited for the local authorities themselves to organize and conduct centralized collection of enterprises historical social insurance arrears.

Pursuant to the Regulations on the Administration of Housing Provident Fund (住房公積金管理條例), which became effective on 3 April 1999, as amended on 24 March 2002 and 24 March 2019, a unit (including a foreign investment enterprise) shall undertake the registration with the administrative centre of housing provident funds and pay the funds for their staff. If an employer, in violation of the aforesaid regulations, fails to undertake registration or to open the housing provident funds account for its employees, the administrative centre of housing provident funds will impose an order for completion within prescribed time limit, if such employer further fails to process within the aforesaid time limit, a fine ranging from RMB10,000 to RMB50,000 will be imposed. On the other hand, if a unit, in violation of the aforesaid regulations, fails to pay or to fully pay the housing provident funds, the administrative centre of housing provident funds will impose an order for payment within a prescribed time limit. If such unit further fails to make payment within the aforesaid time limit, the centre shall have the right to apply for compulsory enforcement in court.

Intellectual Property

Trademark

According to the Trademark Law of the PRC (中華人民共和國商標法) (the "**Trademark Law**"), which was promulgated by the Standing Committee of the NPC on 23 August 1982 and amended on 22 February 1993, 27 October 2001, 30 August 2013 and 23 April 2019, the following acts shall be regarded as an infringement upon the right to exclusive use of a registered trademark: (i) using a trademark that is identical with a registered trademark on the same goods without the licensing of the registrant of the registered trademark; (ii) using a trademark that is similar to a registered trademark on the same goods, or using a trademark that is identical with or similar to the registered trademark on similar goods without the licensing of the registrant of the registered trademark, which is likely to cause confusion; (iii) sale of any goods that have infringed the exclusive right to use any registered trademark; (iv) counterfeit or unauthorized production of the label of another's registered trademark, or sale of any such label that is counterfeited or produced without authorization; (v) change of any trademark of a registrant without the registrant's consent, and selling goods bearing such replaced trademark on the market; (vi) providing, intentionally, convenience for activities infringing upon others' exclusive right of trademark use, and facilitating others to commit infringement on the exclusive right of trademark use; or (vii) other acts that have caused any other damage to another's exclusive right to use a registered trademark.

Patent

According to the Patent Law of the PRC (中華人民共和國專利法) (the "**Patent Law**"), which was promulgated on 12 March 1984 and became effective on 1 April 1985 and was amended on 4 September 1992, 25 August 2000 and 27 December 2008 and which became effective on 1 October 2009, there are three types of patents, including invention patents, design patents and utility model patents. Invention patents are valid for 20 years, while design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products, or engage in activities that infringe upon patent rights are held liable to the patent owner for compensation and may be subject to fines and even criminal punishment.

The patent system in China uses the "first to file" principle, which means when more than one person files a patent application for the same invention, the patent will be granted to the person who files the application first. In addition, China requires absolute novelty for an invention to be patentable. Therefore, in general, a patent will be denied if it is publicly known in or outside of China.

HISTORY AND DEVELOPMENT

Our Group's history can be traced back to 2011 when Hengsheng Animation, our principal operating subsidiary, was established in the PRC. The establishment of Hengsheng Animation was funded by Hengsheng Toys which in turn was then indirectly owned as to 80% and 20% by Mr. Hui and his spouse, namely Ms. Hui Mei Nga, respectively. Mr. Hui and Ms. Hui Mei Nga are permanent residents of Hong Kong. They are also the brother and sister-in-law of Mr. Xu, the chairman of our Board, an executive Director and one of our Controlling Shareholders, respectively. Both Mr. Hui and Ms. Hui Mei Nga possess over 20 years of experience in the business of manufacturing and trading of toys. Leveraging on their industry experience and in view of the foreseeable prospects in the animation industry, Mr. Hui and Ms. Hui Mei Nga established Hengsheng Animation through Hengsheng Toys and began to engage in the wholesale and trading of ancillary products of animation characters including various kinds of toys upon its establishment.

In April 2012, in view of the development potential in the animation industry, Hengsheng Animation adopted its current name and shifted its business focus to the provision of design services for animation and its ancillary products. Having taken into account that the animation business, in particular, the production and distribution of animation programmes which Hengsheng Animation would like to expand into, falls under the category of Restricted Foreign Investment Industries*（限制外商投資產業）or Forbidden Foreign Investment Industries* (禁止外商投資產業) under the Catalogue of Industries for Guiding Foreign Investment (2011 Revision) (外商投資產業指導目錄 (2011年修訂)), the entire equity interest in Hengsheng Animation was transferred from Hengsheng Toys to Mr. Xu, at the consideration of RMB5.0 million in April 2013 so that Hengsheng Animation could continue to be held by a PRC citizen. Such consideration was fully settled by Mr. Xu using his own resources on 30 April 2013.

In view of (i) Hengsheng Toys which possessed the knowhow and experience in relation to the animation industry that might enable Hengsheng Animation to leverage from such expertise in developing its business; and (ii) that the inclusion of the animation business of Hengsheng Animation in Hengsheng Toys would enhance the valuation of the proposed listing group of Hengsheng Toys, there would be a synergy between Hengsheng Toys and Hengsheng Animation if these two companies belong to the same group of companies, accordingly, Hengsheng Toys and Hengsheng Amination entered into a series of structural contracts including, among others, (i) a voting rights proxy agreement; (ii) a purchase option and cooperation agreement; (iii) a strategic consultancy service agreement; (iv) a technical support service agreement; and (v) a trademark licensing agreement (collectively, the "**Structural Contracts**") at the request of Hengsheng Toys on 28 April 2013. Upon entering into the Structural Contracts, Hengsheng Animation had to contribute most of its revenue to Hengsheng Toys and the financial statements of Hengsheng Animation were to be consolidated to those of Hengsheng Toys. The purpose of entering into such arrangement was to facilitate the inclusion of Hengsheng Animation's animation business in Hengsheng Toys along with the Hengsheng Toys Listing, which subsequently took place in August 2016. The proposed inclusion of Hengsheng Animation's animation business into Hengsheng Toys along with the Hengsheng Toys Listing was a long-term business plan of Hengsheng Toys after considering the views of the then professional advisers to the Hengsheng Toys Listing who had made reference to the significant improvement on the financial performance of Hengsheng Toys' market comparable companies, which were also toy manufacturers after they had developed their own intellectual properties, such as proprietary animation characters. Hence, it was expected that as Hengsheng Animation had been developing its own animation TV programmes, once these animation TV programmes together with the animation characters had penetrated into the animation market and gained popularity, such intellectual properties of Hengsheng Animation would benefit Hengsheng Toys in its product development. Thus, there would be a synergistic effect between the toy manufacturing business of Hengsheng Toys and the animation business of Hengsheng Animation at the time despite the animation business of Hengsheng Animation was at its development stage at that time. In consideration of the entering into of such structural arrangement, Mr. Hui agreed to transfer certain percentage of his shares in the holding company of Hengsheng Toys equivalent to approximately RMB35 million which was determined based on approximately five times the profit of Hengsheng Animation for the year ended 31 December 2015 to Mr. Xu upon its successful listing on the Korea Stock Exchange. Nevertheless, as the Structural Contracts were subsequently terminated, no shares in the listing vehicle of Hengsheng Toys were issued and allotted to Mr. Xu.

In addition, since the entering into of the strategic consultancy service agreement, technical support service agreement and trademark licensing agreement, Hengsheng Toys had been providing consultancy services to the animation business operated by Hengsheng Animation, principally including the followings:

(a) providing consultancy service in respect of the development and operation of children's culture, animation and toys;

(b) collecting, following and analysing information, development trend and industry reports relating to children's culture, animation and toys for the purpose of forming the basis of development strategies to be provided to Hengsheng Animation;

(c) assisting in formulating the marketing strategy for the promotion of children's culture related products;

(d) providing trainings to the senior management of Hengsheng Animation; and

(e) providing assistance and consultancy service in relation to the human resources management including the recruitment, training, work allocation, salary scale and administrative matters.

As confirmed by Hengsheng Animation and Hengsheng Toys, the above services were provided in relation to the animation business operated by Hengsheng Animation only. Hengsheng Toys did not provide any of the above services for the disposable plastic food storage containers manufacturing business in Hengsheng Animation since the commencement of the operation of such business by Hengsheng Animation.

Save for the abovementioned arrangements, there was no other arrangement or understanding between Mr. Hui, Ms. Hui Mei Nga and Mr. Xu in relation to the management, business and operations of the Group when the entire equity interest in Hengsheng Animation was transferred to Mr. Xu.

In July 2013, Mr. Xu developed his own business in the manufacturing of disposable plastic food storage containers through Hengsheng Animation in view of (i) the then increasing demand of disposable plastic food storage containers in the PRC; (ii) Mr. Xu's extensive working experience in the manufacturing of toys and plastic products that use polypropylene resins as their key raw materials and plastic injection moulding machines for the creation, development and production of moulds, which constitute substantially the same raw materials and production method for the manufacturing of disposable plastic food storage containers; and (iii) the foreseeable potential and prospects of its growth in the disposable plastic food storage container industry. Since then, Hengsheng Animation has been operating its business under two segments in two different industries, namely the animation industry and the disposable plastic food storage containers industry, which were operated separately and independently of each other.

On 10 December 2015, at the request of Hengsheng Toys, Hengsheng Animation and Hengsheng Toys terminated most of the Structural Contracts save for the strategic consultancy service agreement and the technical support agreement which had been amended to the extent that Hengsheng Animation was no longer required to contribute most of its revenue to Hengsheng Toys but to pay Hengsheng Toys solely based on the services rendered by Hengsheng Toys to Hengsheng Animation's animation business. As confirmed by Hengsheng Animation and Hengsheng Toys, Hengsheng Toys only rendered strategic consultancy and technical support services to the animation business of Hengsheng Animation but not its business in the manufacturing of disposable plastic food storage containers, which was set up and managed separately and independently by Mr. Xu. Since then, Hengsheng Animation ceased to be a subsidiary of Hengsheng Toys and the financial statements of Hengsheng Animation ceased to be consolidated into those of Hengsheng Toys. Such termination arrangement was entered into following the commercial decisions made by the senior management of Hengsheng Toys that Hengsheng Animation would not form part of the group of Hengsheng Toys for its listing on the Korea Stock Exchange with due regard to the advice given by the then professional advisers to the Hengsheng Toys Listing that structural arrangements were not common or acceptable to the Korea Stock Exchange as a means to include a company as part of the listing group without direct ownership. Our Directors confirmed that no complaint, regulatory concern or enquiry relating to Hengsheng Animation had been received or raised by the Korea Stock Exchange or the relevant professional advisers at the time when such decision was made. Since then, Mr. Xu has been the sole legal and beneficial owner having the sole and absolute control of the voting rights in Hengsheng Animation.

Notwithstanding that the manufacturing of disposable plastic food storage containers have been managed and operated by Mr. Xu and the management of Hengsheng Animation independently without the control or influence from Hengsheng Toys and Mr. Hui, Hengsheng Toys continued to perform and provide consultancy services and technical support to Hengsheng Animation regarding its animation business pursuant to the strategic consultancy service agreement and technical support agreement where the service fees were calculated based on the actual services provided by Hengsheng Toys. Besides, Hengsheng Animation continued to have the right to use the trademarks under the trademark licensing agreement at the consideration of RMB2.0 million per year.

In April 2016, Hengsheng Toys and Hengsheng Animation agreed that the calculation of the service fees under the strategic consultancy service agreement and technical support service agreement shall be further revised so that the service fees payable to Hengsheng Toys by Hengsheng Animation for its animation business shall be calculated based on 5% of the sales of Hengsheng Animation. Such revision of the basis of calculation was determined with due regard to the advice given by the then professional advisers to the Hengsheng Toys Listing that (i) it would be difficult in calculating the services fees payable based on the actual services provided by Hengsheng Toys and that the Korea Stock Exchange may have concerns or enquiries on such basis of calculation; and (ii) the basis of calculation at 5% of the sales of Hengsheng Animation is considered as the industry norm after consulting the professional advisers to the Hengsheng Toys Listing. In addition, such revision of the basis of calculation was determined after having taken into account that while the animation business of Hengsheng Animation was at its development stage of its animation movie and animation TV programmes in 2016 which did not generate considerable revenue from its animation production but the manufacturing business of Hengsheng Animation has been growing rapidly and had the financial ability to pay the service fees charged by Hengsheng Toys. To the best knowledge, information and belief of our Directors after having made reasonable enquiries, our Directors were given to understand that the reasons Hengsheng Toys preferred to calculate the services fees based on 5% of the sales of Hengsheng Animation rather than 5% of the revenue attributable to the animation business of Hengsheng Animation was only because Hengsheng Toys (i), with revenue generated from both business segments, i.e. animation business and disposable plastic food storage container manufacturing business, could ensure that Hengsheng Animation had the financial resources to fairly and reasonably pay for the technical support and consultancy services it provided to the animation business of Hengsheng Animation; (ii) would not have to bear any risk in respect of the financial performance of Hengsheng Animation after having considered that the gross amount representing 5% of the revenue of Hengsheng Animation to be payable by Hengsheng Animation to Hengsheng Toys as the service fees would amount to its equivalent monetary value, which was in line with the rate of the then prevailing market rate as advised by the professional parties involved in the Hengsheng Toys Listing; and (iii) could preserve the interest of Hengsheng Toys in the long run as the revenue generated from the animation movies and TV programmes of Hengsheng Animation would be recognised and recorded in the books of Hengsheng Animation if such animation movie and TV programmes were to be launched to the market. Based on the aforesaid, both parties mutually agreed on the revision of the basis of calculation to 5% of the sales of Hengsheng Animation instead of 5% of the revenue attributable to the animation business of Hengsheng Animation.

As the animation business of Hengsheng Animation became on track, the strategic consultancy service agreement and the technical support service agreement were terminated in June 2018. In addition, Jazz Rabbit Apparels, being a wholly-owned subsidiary of Hengsheng Toys, transferred two trademarks under the trademark licensing agreement to Hengsheng Animation at the consideration of approximately RMB10.0 million for use in its disposable plastic food storage containers business. Such trademarks were previously licensed to Hengsheng Toys which were sub-licensed to Hengsheng Animation for use. As at the Latest Practicable Date, all of the Structural Contracts were terminated.

Throughout the years of business operations, Hengsheng Animation experienced significant increase in the sales volume, revenue and profit generated from the manufacturing of disposable plastic food storage containers since the beginning of its production in 2013. In view of our Directors' determination to further increase the exposure of Hengsheng Animation in the disposable plastic food storage containers industry, Hengsheng Animation underwent and completed its corporate division in December 2018 to clearly delineate the Excluded Business from its disposable plastic food storage containers manufacturing business in preparation for the Listing. Pursuant to such corporate division, our business and the Excluded Business and its relevant assets were separated, where the latter was owned by Fujian Renyue, a company which is wholly-owned by Mr. Xu Yubin, nephew of both Mr. Xu and Mr. Hui, and Hengsheng Animation has been focusing on the manufacturing of disposable plastic food storage containers since then. As at the Latest Practicable Date, the only licence that is material to the operations of the animation business which is held by Hengsheng Animation, namely the Radio and TV Program Production and Business Operation Licence* (廣播電視節目製作經營許可證), had expired and Hengsheng Animation did not proceed with the renewal of such licence. As confirmed by our Directors, Fujian Renyue is in the process of applying for the aforementioned licence for the carrying out of its animation business. To the best knowledge of our Directors after having made due enquiries, Fujian Renyue is controlled by Mr. Xu Yubin and managed and operated independently by Mr. Xu Yubin and Fujian Renyue's senior management and that there was no agreement, arrangement or understanding between Mr. Xu and Mr. Xu Yubin in relation to the control, management, business and operations of Fujian Renyue and Hengsheng Animation. Our Directors also confirmed that Mr. Xu Yubin has undertaken not to hold any share and/or equity interest in our Group upon completion of the aforementioned corporate division of Hengsheng Animation and the Reorganisation. For details of the delineation of the Excluded Business, please refer to the section headed "Relationship with Controlling Shareholders" in this prospectus. For the financial performance and position of the Excluded Business for the five years ended 31 December 2018, please refer to the paragraph headed "Financial information — The Excluded Business" in this prospectus.

Milestones of our Group

Year	Milestone Event
April 2011	Hengsheng Animation was incorporated in the PRC
August 2012	Hengsheng Animation was selected as one of the key reserve cultural enterprises for listing in Fujian Province, the PRC*(福建省重點上市後備文化企業名單) by the Fujian Development and Reform Commission
June 2013	Hengsheng Animation launched a series of disposable plastic food storage containers under the "JAZZIT" brand
August 2013	Hengsheng Animation started its business relationship with a reputable and branded hotel in the PRC for the direct supply of various types of disposable plastic food storage containers
May 2014	Hengsheng Animation was first accredited with GB/T 24001-2004/ISO 14001:2004 for the production and correlative management activities of disposable plastic tableware (food package and cup) and GB/T 19001-2008/ISO 9001:2008 for the production and service of disposable plastic tableware (food package and cup)
August 2016	Certain products of Hengsheng Animation first passed the tests pursuant to the SGS certifications and/or standards, which rendered such products meeting the Regulation (EU) No.10/2011 standards regarding plastic materials and articles that are intended to have contact with food
January 2017	Hengsheng Animation was awarded the Third Prize in Patent of the Scientific Technology Award of Jinjiang Municipality* (晉江市科學技術獎專利獎三等獎) by the Jinjiang Municipality
March 2017	Hengsheng Animation was awarded with the Fujian Science and Technology Enterprise Certificate* (福建省科技型企業證書) by the Fujian Provincial Department of Science and Technology
October 2018	Hengsheng Animation was awarded the 2016-2017 Quanzhoushi Trustworthy Enterprise Award* (2016-2017年度泉州市守合同重信用企業) by the Quanzhou Administration Bureau for Industry and Commerce

OUR GROUP STRUCTURE AND CORPORATE HISTORY

Our Group consists of (i) our Company; (ii) two intermediate holding companies incorporated in the BVI and Hong Kong; and (iii) one subsidiary incorporated in the PRC.

The following table sets forth certain details of our operating subsidiary:

Name	Place and date of incorporation	Equity ownership as at 1 January 2017 (i.e. the beginning of the Track Record Period)	Equity ownership after completion of the Reorganisation	Principal business activities
Hengsheng Animation	The PRC, 13 April 2011	100% by Mr. Xu	100% by Silver Excel	Manufacturing of disposable plastic food storage containers[Note 1]

Note:

1. During the Track Record Period, Hengsheng Animation also engaged in the Excluded Business. However, such business was separated to Fujian Renyue in anticipation of the Listing and as part of the Reorganisation.

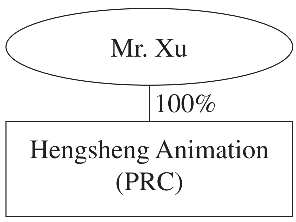
Shareholding change during the Track Record Period

Save for the transfer of 5% equity interest in Hengsheng Animation from Mr. Xu to Mr. Xu Yubin as part of the Reorganisation, where the details of which is disclosed in the paragraph headed “Onshore Reorganisation” in this section, there had been no change in equity interest in Hengsheng Animation during the Track Record Period.

REORGANISATION

Group Structure immediately prior to the Reorganisation

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



Major Reorganisation Steps

In preparation for the Listing, we have carried out the Reorganisation which involved the following steps:

Offshore Reorganisation

Step 1: Incorporation of Prize Investment

On 12 December 2018, Prize Investment was incorporated under the laws of the BVI as a BVI business company and it was authorised to issue a maximum of 50,000 ordinary shares of no par value. On 19 December 2018, one share, representing the then entire issued share capital of Prize Investment was allotted and issued to Mr. Xu.

Step 2: Incorporation of our Company

On 13 December 2018, our Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability with an initial authorised share capital of HK$380,000 divided into 38,000,000 shares of a par value of HK$0.01 each. Upon incorporation, one Share was allotted and issued to the initial subscriber, which was in turn transferred to Prize Investment on the same day. On 4 January 2019, 999 Shares were allotted and issued to Prize Investment. Immediately after the above transfer, allotment and issue of shares, our Company has an issued share capital of 1,000 Shares and was directly wholly-owned by Prize Investment.

Step 3: Incorporation of Yihe Investment

On 14 December 2018, Yihe Investment was incorporated under the laws of the BVI as a BVI business company and it was authorised to issue a maximum of 50,000 ordinary shares of no par value. On 19 December 2018, one share, representing the then entire issued share capital of Yihe Investment, was allotted and issued to our Company.

Step 4: Acquisition of Silver Excel by Yihe Investment

On 4 May 2018, Silver Excel was incorporated under the laws of Hong Kong as a limited company. Upon incorporation, one ordinary share, representing the then entire issued share capital of Silver Excel, was subscribed by the initial subscriber who is an Independent Third Party. On 29 January 2019, such one ordinary share held by the aforementioned initial subscriber was transferred to Yihe Investment. Immediately after the above transfer of share, Silver Excel became directly wholly-owned by Yihe Investment.

Step 5: Pre-IPO Investment by Sun Kong, Quantum Star and Merit Winner

In contemplation of the Pre-IPO Investment, 7,200 Shares were allotted and issued to Prize Investment on 30 April 2019 in order to ensure that the Shares to be held by the Shareholders can accurately reflect the agreed shareholding ratio among them.

On 23 April 2019 and 7 May 2019, our Company entered into pre-IPO investment agreements with each of Sun Kong and Quantum Star separately, pursuant to which our Company conditionally agreed to allot and issue, and Sun Kong and Quantum Star conditionally agreed to subscribe for 1,200 Shares and 600 Shares at the consideration of RMB13,333,333 and HK$7,610,000, respectively. Upon completion of the aforementioned allotment and issue of Shares, our Company became owned as to 82%, 12% and 6% by Prize Investment, Sun Kong and Quantum Star, respectively.

On 18 June 2019, Prize Investment and Merit Winner entered into a sale and purchase agreement pursuant to which Prize Investment agreed to sell, and Merit Winner agreed to purchase, 1,500 Shares at the consideration of RMB16,666,666. Upon completion of the aforementioned transfer of Shares, our Company became owned as to 67%, 15%, 12% and 6% by Prize Investment, Merit Winner, Sun Kong and Quantum Star, respectively.

For details of the Pre-IPO Investment, please refer to the paragraph headed "Pre-IPO Investment" in this section.

Onshore Reorganisation

Step 1: Corporate division of Hengsheng Animation

On 5 September 2018, Mr. Xu entered into an equity interest transfer agreement with Mr. Xu Yubin, nephew of both Mr. Xu and Mr. Hui, pursuant to which Mr. Xu agreed to sell and Mr. Xu Yubin agreed to purchase 5% equity interest of Mr. Xu in Hengsheng Animation at a consideration of RMB1,500,000, which was determined in correspondence to the then amount of registered capital in Hengsheng Animation that represents such 5% equity interest. Such consideration was fully settled by Mr. Xu Yubin using his own resources on 17 June 2019. Upon completion of the equity interest transfer, Hengsheng Animation became owned as to 95% and 5% by Mr. Xu and Mr. Xu Yubin, respectively. As advised by our PRC Legal Advisers, the aforementioned equity interest transfer is mandatory as required by the relevant government authority of the PRC for conducting corporate division of Hengsheng Animation.

Pursuant to a shareholders' resolution of Hengsheng Animation dated 28 September 2018, Hengsheng Animation underwent corporate division in the form of continuous-existence separate establishment where Hengsheng Animation remains to exist after the establishment of Fujian Renyue. Upon completion of the change of registration of Hengsheng Animation on 11 December 2018, the equity interest ratio among the Shareholders in Hengsheng Animation remained unchanged.

As advised by our PRC legal advisers, a company, after a corporate division, shall bear joint and several liabilities for any debts incurred prior to such corporate division unless otherwise agreed upon prior to the corporate division between such company and its creditor(s) by way of written agreement concerning the settlement of debts based on Article 176 of the Company Law of the PRC. In October 2018, Hengsheng Animation entered into debt agreements with three creditors regarding the liabilities payable or prepaid licensing fee by these creditors in relation to the animation business with an aggregate amount of approximately RMB1.36 million (the "**Debt Liabilities**"). All of the three aforementioned creditors and Hengsheng Animation mutually agreed that the relevant outstanding liabilities prior to its corporate division would be borne by Fujian Renyue after the corporate division of Hengsheng Animation, and Hengsheng Animation would not be responsible for such liabilities after its corporate division. In light of the foregoing, our PRC legal advisers is of the view that, according to the Announcement of Division (分立公告) published by Hengsheng Animation in Quanzhou Evening Paper on 12 October 2018 and the Statement of Debt Repayment or Debt Guarantee (公司債務清償或者債務擔保情況說明), except for the Debt Liabilities which shall be borne solely by Fujian Renyue, Hengsheng Animation, after its corporate division, shall be responsible for the repayment of other debts of Hengsheng Animation incurred prior to its corporate division where Fujian Renyue shall assume joint liabilities.

Regarding the allocation basis of the liabilities of Hengsheng Animation incurred prior to its corporate division between Fujian Renyue and Hengsheng Animation after its corporate division, it shall be categorised into (i) liabilities that were clearly incurred for the disposable plastic food storage containers manufacturing business or the Excluded Business; and (ii) common liabilities that cannot be clearly segregated. For liabilities that were clearly incurred for the disposable plastic food storage containers manufacturing business or the Excluded Business, such liabilities were allocated to Hengsheng Animation and Fujian Renyue after its corporate division, depending on the nature of the liability, respectively. For common liabilities which cannot be clearly segregated, such liabilities were fully allocated to Hengsheng Animation after its corporate division with the relevant portion attributable to Fujian Renyue being recharged to Fujian Renyue by way of current account with Hengsheng Animation.

In light of the above and as confirmed by our Directors, all liabilities (including contingent liabilities but excluding the common liabilities which cannot be segregated) associated with the Excluded Business prior to the corporate division were clearly allocated between the manufacturing business of disposable plastic food storage containers and the Excluded Business, both Hengsheng Animation and Fujian Renyue shall bear joint and several liabilities for any debts incurred prior to the corporate division of Hengsheng Animation other than the Debt Liabilities where Fujian Renyue shall bear the sole responsibility for such liabilities. Besides, as advised by our PRC legal advisers, based on the Company Law of the PRC, the corporate division of Hengsheng Animation do not require any consent from its creditors as to the assignment of liabilities relevant to the Excluded Business to Fujian Renyue, and our Group had complied with all relevant procedures regarding the corporate division of Hengsheng Animation.

Step 2: Conversion of Hengsheng Animation into a sino-foreign equity joint venture

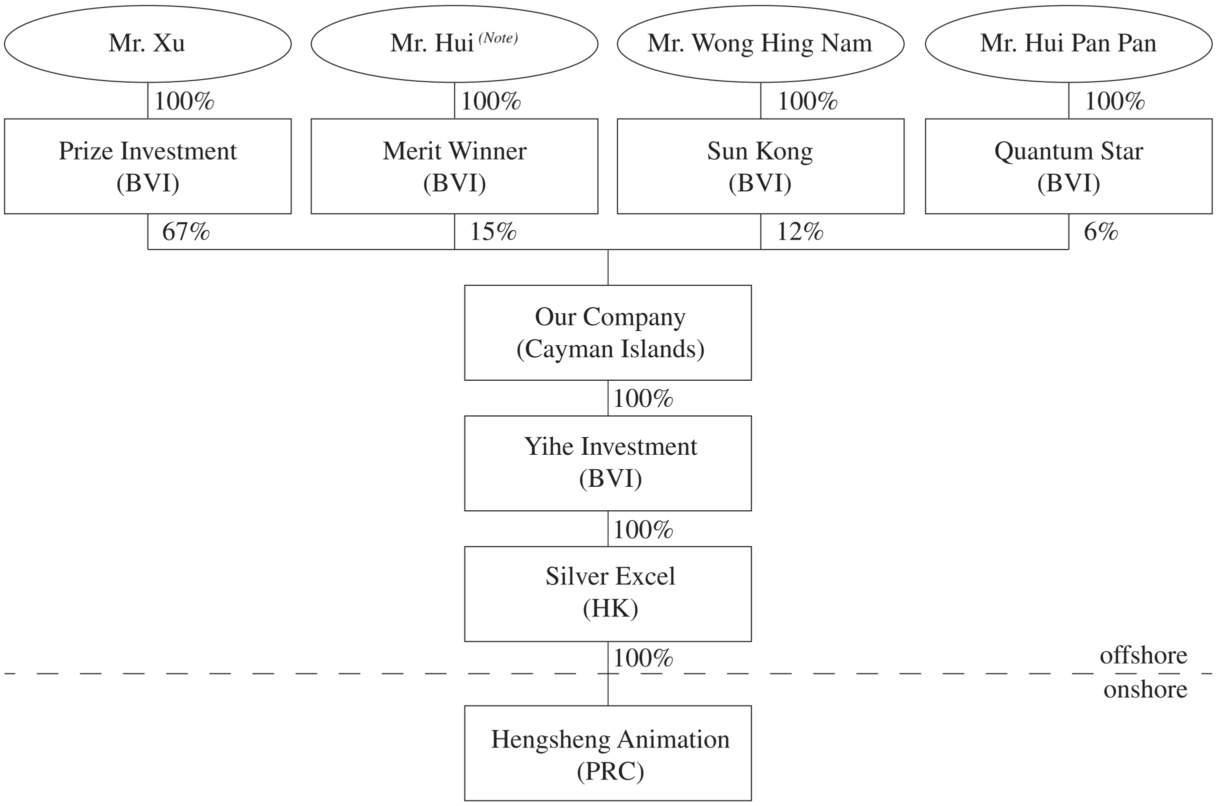
On 28 January 2019 and as part of the Reorganisation, Mr. Xu entered into an equity interest transfer agreement with Mr. Hui Pan Pan, pursuant to which Mr. Xu agreed to sell and Mr. Hui Pan Pan agreed to purchase 6% equity interest in Hengsheng Animation at a consideration of RMB1,200,000, which was determined in correspondence to the then amount of registered capital in Hengsheng Animation that represents such 6% equity interest. Upon completion of the equity interest transfer, Hengsheng Animation became owned as to 89%, 6% and 5% by Mr. Xu, Mr. Hui Pan Pan and Mr. Xu Yubin, respectively. Mr. Hui Pan Pan is the sole shareholder of Quantum Star, one of the Pre-IPO Investors. For details, please refer to the paragraph headed "Pre-IPO Investment" in this section.

Step 3: Conversion of Hengsheng Animation into a wholly foreign-owned enterprise

On 31 May 2019, Silver Excel acquired 89%, 6% and 5% equity interest in Hengsheng Animation from Mr. Xu, Mr. Hui Pan Pan and Mr. Xu Yubin at the consideration of RMB17,800,000, RMB1,200,000 and RMB1,000,000, respectively. Such consideration were determined with reference to the then amount of registered capital in Hengsheng Animation. Upon completion of the acquisition of Hengsheng Animation, Hengsheng Animation became a wholly foreign-owned enterprise which is directly wholly-owned by Silver Excel.

Group structure immediately upon completion of the Reorganisation

The following chart sets forth the shareholding and corporate structure of our Group immediately after the completion of the Reorganisation but before the Share Offer and the Capitalisation Issue:



Note: *Mr. Hui is the brother of Mr. Xu.*

PRE-IPO INVESTMENT

On 23 April 2019 and 7 May 2019, our Company entered into pre-IPO investment agreements with each of Sun Kong and Quantum Star separately, pursuant to which our Company conditionally agreed to allot and issue, and Sun Kong and Quantum Star conditionally agreed to subscribe for 1,200 Shares and 600 Shares at the consideration of RMB13,333,333 and HK$7,610,000, respectively.

On 18 June 2019, Prize Investment and Merit Winner entered into a sale and purchase agreement pursuant to which Prize Investment agreed to sell, and Merit Winner agreed to purchase, 1,500 Shares at the consideration of RMB16,666,666.

The Pre-IPO Investment Agreements

Name of the Pre-IPO investor:	Sun Kong	Quantum Star	Merit Winner
Date of agreement:	23 April 2019	7 May 2019	18 June 2019
Number of Shares subscribed for and the percentage of shareholding immediately after completion of the Reorganisation:	1,200 Shares (representing 12% of the issued share capital of our Company immediately after the Reorganisation)	600 Shares (representing 6% of the issued share capital of our Company immediately after the Reorganisation)	1,500 Shares (representing 15% of the issued share capital of our Company immediately after the Reorganisation)
Amount of consideration paid:	RMB13,333,333	HK$7,610,000	RMB16,666,666
Basis of determination of the consideration:	The consideration was arrived at after arm's length negotiations between our Company and Sun Kong and determined with reference to approximately six times of the net profit of our Group for the year ended 31 December 2018.	The consideration was arrived at after arm's length negotiations between our Company and Quantum Star and determined with reference to approximately six times of the net profit of our Group for the year ended 31 December 2018.	The consideration was arrived at after arm's length negotiations between Prize Investment and Merit Winner and determined with reference to approximately six times of the net profit of our Group for the year ended 31 December 2018.
Date of full payment of the consideration:	13 June 2019	14 May 2019	18 June 2019
Number of Shares and the approximate percentage of shareholding upon the Listing [Note 1]**:**	54,000,000 Shares (representing 9% shareholding of our Company upon the Listing)	27,000,000 Shares (representing 4.5% shareholding of our Company upon the Listing)	67,500,000 Shares (representing 11.25% shareholding of our Company upon the Listing)
Cost per Share paid [Note 2]**:**	RMB0.25	RMB0.25	RMB0.25
Discount to the Offer Price[Note 3]**:**	50%	50%	50%
Use of proceeds from the Pre-IPO Investment:	The consideration was fully utilised in the settlement of consideration for the acquisition of Hengsheng Animation by Silver Excel as part of our Reorganisation. Please refer to the paragraph headed "Onshore reorganisation — Step 3: Conversion of Hengsheng Animation into a wholly foreign-owned enterprise" in this section for further details.		N/A[Note 4]
Strategic benefits of the Pre-IPO Investment:	As Mr. Wong Hing Nam, the sole shareholder of Sun Kong, has extensive experience in the trading business of stationaries, toys and product packaging with broad business network established in the Greater Bay Area, our Directors are of the view that our Group will be able to benefit from the strategic inputs and advice, in particular, on the possible sales network and business development opportunities that could help strengthen our sales network in the Southern China region, from Sun Kong	As Mr. Hui Pan Pan, the sole shareholder of Quantum Star, has investment experience in various industries, including the pharmaceutical and recycling industries, our Directors are of the view that our Group will be able to benefit from the strategic inputs and advice, in particular, on the suitable investment opportunities and potential customers for our Group which could help establish, strengthen and expand our business network and client base in the PRC, from Quantum Star	As Mr. Hui, the sole shareholder of Merit Winner, has extensive experience in the manufacturing and trading of toys which uses substantially the same raw materials and production method as the manufacturing of disposable plastic food storage containers, our Directors are of the view that our Group will be able to benefit from the strategic inputs and advice, in particular, on the business operations and development of our Group, from Merit Winner

Notes:

1. These figures did not take into account of any Shares which may be allotted and issued pursuant to the Offer Size Adjustment Option.

2. Cost per Share is calculated by dividing the total consideration paid by the total number of Shares held following the Capitalisation Issue in respect of the Pre-IPO Investment.

3. The discount to the Offer Price is calculated based on the assumption that the Offer Price is HK$0.50 per Share, being the mid-point of the indicative Offer Price range of HK$0.40 to HK$0.60.

4. The consideration of the pre-IPO investment by Mr. Hui Man Kit was paid to Mr. Xu, the sole shareholder of Prize Investment.

Background of the Pre-IPO Investors

Sun Kong is a BVI business company incorporated under the laws of the BVI on 28 January 2019 and is directly wholly-owned by Mr. Wong Hing Nam. The consideration for the pre-IPO investment made by Sun Kong was funded by the personal savings of Mr. Wong Hing Nam. Mr. Wong Hing Nam is a merchant and has extensive experience in the trading business of stationaries, toys and product packaging. As at the Latest Practicable Date, Mr. Wong Hing Nam held an investment portfolio of approximately HK$99.8 million in total, with a mix of investments in our Group, various real estate properties, equity securities, funds and personal savings, where the investment in our Group accounted for approximately 15.2% of his total investments. Apart from his investment in our Group, Mr. Wong Hing Nam did not have any investment in other companies conducting businesses similar or related to those of our Group as at the Latest Practicable Date. Mr. Wong Hing Nam was introduced to Mr. Xu by a common acquaintance around five years ago. Mr. Wong Hing Nam decided to invest in our Group through Sun Kong after analysing the business operations and prospects of our Group having obtained, among others, our Group's introduction brochure, the audited financial statements of Hengsheng Animation for the years ended 31 December 2017 and 2018 and the management accounts of Hengsheng Animation for the three months ended 31 March 2019 as he is optimistic about the prospects of our Group and the disposable plastic food storage containers industry arising from the robust demand for disposable plastic food storage containers in the food and beverage industry in the PRC. As confirmed by our Directors, there is no past or present relationship (including but not limited to family, employment, trust, business and financing relationship), other transaction (including but not limited to financing or fund flow transaction), agreement, arrangement or understanding between (i) Mr. Wong Hing Nam; and (ii) our Group, our Directors, shareholders and senior management and any of our respective associates, and our Group's customers and suppliers.

Quantum Star is a BVI business company incorporated under the laws of the BVI on 27 November 2018 and is directly wholly-owned by Mr. Hui Pan Pan. The consideration for the pre-IPO investment made by Quantum Star was funded by the personal savings of Mr. Hui Pan Pan. Mr. Hui Pan Pan obtained a diploma in customs management from the Chinese Academy of Customs Administration in July 1987 and was a customs supervisor of the Xiamen Customs from 1987 to 1996. Thereafter, Mr. Hui Pan Pan has been a merchant and has extensive investment experience in various industries, including the pharmaceutical and recycling industries. As at the Latest Practicable Date, Mr. Hui Pan Pan held an investment portfolio of approximately HK$29.5 million in total, with a mix of investments in our Group, a real estate property, equity securities and personal savings, where the investment in our Group accounted for approximately 25.8% of his total investments. Apart from his investment in our Group, Mr. Hui Pan Pan did not have any investment in other companies conducting businesses similar or related to those of our Group as at the Latest Practicable Date. Mr. Hui Pan Pan was acquainted with Mr. Xu in a social gathering around 20 years ago and has then been good friends with each other. After analysing the business operations and prospects of our Group having obtained, among others, our Group's introduction brochure, the audited financial statements of Hengsheng Animation for the years ended 31 December 2017 and 2018 and the management accounts of Hengsheng Animation for the three months ended 31 March 2019, Mr. Hui Pan Pan decided to invest in our Group as he saw good prospects of our Group and the disposable plastic food storage containers industry. As confirmed by our Directors, there is no past or present relationship (including but not limited to family, employment, trust, business and financing relationship), other transaction (including but not limited to financing or fund flow transaction), agreement, arrangement or understanding between (i) Mr. Hui Pan Pan and (ii) our Group, our Directors, shareholders and senior management and any of our respective associates, and our Group's customers and suppliers.

Merit Winner is a BVI business company incorporated under the laws of the BVI on 23 May 2019 and is directly wholly-owned by Mr. Hui. The consideration for the pre-IPO investment made by Merit Winner was funded by the personal savings of Mr. Hui. Mr. Hui completed the 21st Chief Executive Officer Program organised by the EDP Centre of the School of Management, Xiamen University in December 2013. Mr. Hui has over 20 years of experience in the manufacturing and trading of toys and is the chairman of Hengsheng Toys. He, together with his wife, owns the majority shareholding interest, and is also the chairman and director of Heng Sheng Holding Group Limited (1900270: KS) which holds the entire equity interest in Hengsheng Toys. As at the Latest Practicable Date, Mr. Hui held an investment portfolio of approximately HK$342.6 million in total, with a mix of investments in our Group, Heng Sheng Holding Group Limited (stock code: 1900270:KS), a trading company in Hong Kong, real estate properties and personal savings, where the investment in our Group accounted for approximately 5.7% of his total investments. Apart from his investment in our Group, Mr. Hui's investment in Heng Sheng Holding Group Limited which engages in the manufacturing and trading of toys and a company in Hong Kong which engages in the trading of toys and electronic products both conduct businesses similar or related to those of our Group as at the Latest Practicable Date. Mr. Hui is the brother of Mr. Xu. In order to recognise Mr. Hui's contribution to Hengsheng Animation being its founder and having considered his expertise in the manufacturing of toys and his sales network in the PRC which guided and led Hengsheng Animation in its business development at the beginning of its establishment, Mr. Xu agreed to sell 15% of his shares in our Company to Mr. Hui. At the same time, after analysing the business operations and prospects of our Group having obtained, among others, the audited financial statements of Hengsheng Animation for the years ended 31 December 2017 and 2018 and the management accounts of Hengsheng Animation for the three months ended 31 March 2019, and having taken into consideration his extensive experience in the manufacturing of toys which uses substantially the same raw materials and production method as the manufacturing of disposable plastic food storage containers, Mr. Hui decided to invest in our Group as he saw good prospects and development potential of our Group coupled with the strategic inputs and advice that he would be able to provide our Group given his experience in the manufacturing and trading of toys.

As confirmed by each of Mr. Wong Hing Nam, Mr. Hui Pan Pan and Mr. Hui, there is (i) no verbal or written agreement, arrangement or undertaking among them with regard to their investment in our Group; and (ii) no past or present relationship, including but not limited to business, employment, financial, shareholding and co-investment relationship, among them. Save for the Pre-IPO Investment and that Mr. Hui being the brother of Mr. Xu, each of the Pre-IPO Investors, its shareholders and their respective associates did not and currently does not hold any directorship or management position in our Company and/or any member of our Group and, to the best knowledge of our Directors after having made reasonable enquiries, each of the Pre-IPO Investors, its shareholders, directors and their respective associates are Independent Third Parties.

Special rights that will survive after the Listing

There are no special rights granted to each of the Pre-IPO Investors.

Lock-up and public float

Pursuant to the abovementioned pre-IPO investment agreements and sale and purchase agreement, each of the Pre-IPO Investors undertook not to dispose of any Shares held by them up to 6 months from the Listing Date. All Shares held by Sun Kong and Quantum Star will be considered as part of the public float for the purposes of rule 11.23 of the GEM Listing Rules since the shareholding of both Sun Kong and Quantum Star will be less than 10% upon the Listing.

Compliance with the guidance letters

The Sole Sponsor is of the view that the Pre-IPO Investment is in compliance with Guidance Letters HKEx-GL29-12 (January 2012) (Updated in March 2017) and HKEx-GL43-12 (October 2012) (Updated in July 2013 and March 2017) in respect of guidance on pre-IPO investments issued by the Stock Exchange to the extent applicable.

CAPITALISATION ISSUE AND SHARE OFFER

Capitalisation Issue

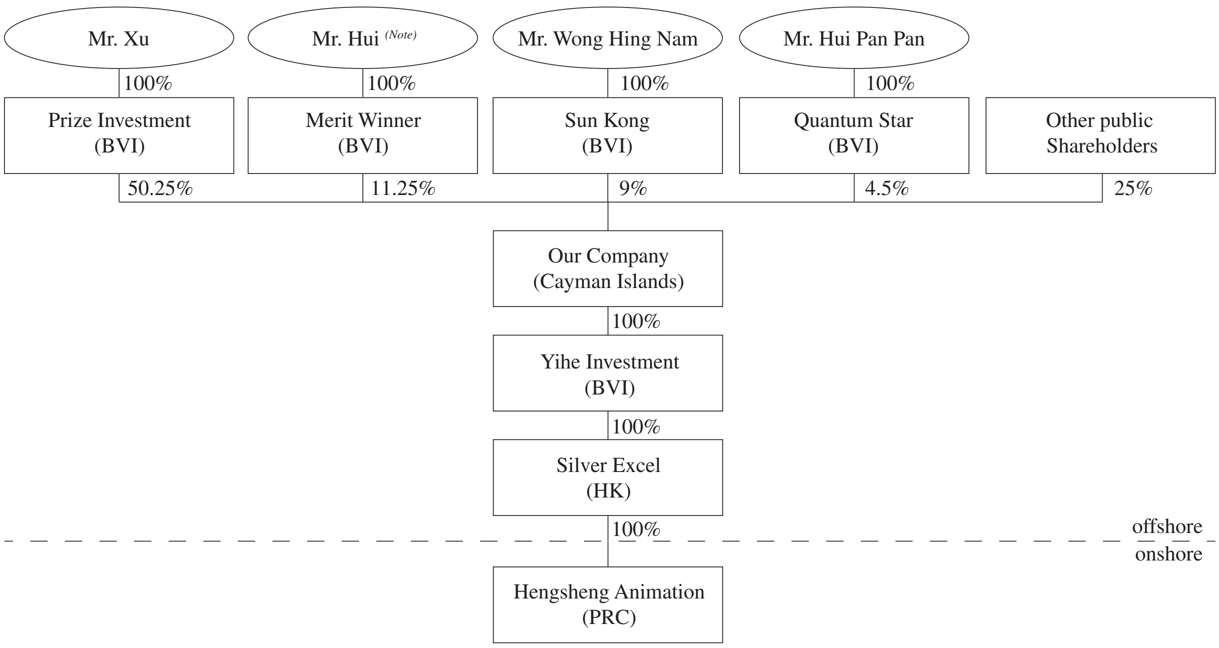
Pursuant to the written resolutions of our Shareholders passed on 19 June 2020, conditional upon the fulfilment or waiver of the conditions set out in "Structure and Conditions of the Share Offer" in this prospectus and subject to the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of the new Shares under the Share Offer, our Directors are authorised to allot and issue a total of 449,990,000 Shares credited as fully paid at par to the Shareholders whose names appear on the register of members of our Company at the close of business on 19 June 2020 in proportion to their shareholdings by way of capitalisation of an amount of HK$4,499,900 standing to the credit of the share premium account of our Company.

Share Offer

For details, please refer to the section headed "Structure and conditions of the Share Offer" in this prospectus.

Group structure immediately after completion of the Share Offer and the Capitalisation Issue

The following chart sets forth the shareholding and corporate structure of our Group immediately after the Reorganisation and completion of the Share Offer and the Capitalisation Issue, but without taking into account any Shares which may be allotted and issued upon the exercise of the Offer Size Adjustment Option:



Note: Mr. Hui is the brother of Mr. Xu.

PRC REGULATORY REQUIREMENTS

Our PRC Legal Advisers confirmed that all relevant approvals and permits required under the PRC laws and regulations in respect of the Reorganisation and equity interests transfers of our PRC operating subsidiary as described above have been obtained and the procedures and steps involved are in compliance with the relevant laws and regulations in all material respects in the PRC.

M&A Rules

Pursuant to Article 11 of the M&A Rules, where a domestic individual person intends to take over his/her related domestic company in the name of an offshore company which he/she lawfully established or controls, the takeover shall be subject to the examination and approval of MOFCOM.

As advised by our PRC Legal Advisers, Article 11 of the M&A Rules does not apply to our Reorganisation as (i) Mr. Hui Pan Pan was a foreign investor and was independent from Hengsheng Animation and its shareholders at the time of his acquisition of 6% equity interest in Hengsheng Animation, hence such acquisition shall be subject to the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) instead of the M&A Rules; (ii) in the case of acquisition of the entire equity interest in Hengsheng Animation by Silver Excel, Hengsheng Animation was a foreign-invested company, hence such acquisition shall be subject to Provisions of the Alteration of Investor's Equity in Foreign-funded Enterprises (《外商投資企業投資者股權變更的若干規定》) and the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) instead of the M&A Rules. Hengsheng Animation has obtained the record-filing receipt for the change of foreign-invested enterprises (外商投資企業變更備案回執) and the new business license pursuant to the Provisions of the Alteration of Investor's Equity in Foreign-funded Enterprises (《外商投資企業投資者股權變更的若干規定》) and the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》).

Based on the foregoing, our PRC Legal Advisers confirmed that we are not required to obtain approval from the MOFCOM or other relevant PRC authorities for the Listing.

SAFE Regulations

Pursuant to Circular No.37 and Circular No.13, a PRC domestic resident legal person or a PRC domestic resident natural person is required to complete foreign exchange registration with qualified banks bureau when such PRC domestic resident legal person or natural person uses its/his/her enterprise assets or interest in the PRC to establish or take control of an offshore special purpose company for investments and/or financing purposes. As confirmed by our PRC Legal Advisers. Mr. Xu who is one of the shareholders of the offshore special purpose company in our Group has completed his registration under Circular No.37 and Circular No.13 on 9 May 2019.

OVERVIEW

Our business. Our Group engages in the design and development, manufacturing and sales of disposable plastic food storage containers. According to the F&S Report, we are the fourth largest disposable plastic food storage container company with a market share of 2.2% in the PRC in 2019 in terms of our sales. Our disposable plastic food storage container is a kind of plastic container processed by high temperature hot-melt plastic injection moulding method with polypropylene resin or other thermoplastic materials. In terms of application, disposable plastic food storage containers can be divided into lunch boxes, fresh and preserved fruit containers, semi-food containers and others. Our products have various physical properties such as high heat thermal resistance, high strength and elasticity and are generally used in the downstream industries for food and beverage storage in the catering and food delivery markets.

Our products. To facilitate production of a comprehensive range of disposable plastic food storage containers, we design and produce the moulds by ourselves for use in the production of our products. As at the Latest Practicable Date, we offered over 400 models of products with various sizes, designs and shapes, which are mainly sold to customers in the PRC with a small part to customers in overseas countries. Our products are mainly sold under our "JAZZIT" brand with a small portion on a non-branded basis. The table below sets forth the breakdown of our revenue in respect of the sales of our "JAZZIT" branded products and non-branded products for the periods indicated:

	Year ended 31 December					
	2017		**2018**		**2019**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Products under "JAZZIT" brand	151,136	91.0	176,798	91.9	191,518	90.0
Non-branded products	14,981	9.0	15,660	8.1	21,277	10.0
Total	**166,117**	**100.0**	**192,458**	**100.0**	**212,795**	**100.0**

As our products are used for storage of food and drinks, our products have passed relevant tests of food safety, high heat thermal resistance, melting index, performance and colour migration pursuant to the standards and/or requirements of the relevant certifications in the PRC before we sell such products to our customers. As at 31 December 2019, in addition to meeting all requirements pursuant to Food Safety Law and the General Requirements in terms of food safety during the Track Record Period, a small portion of our products have passed the tests pursuant to the SGS certifications and/or standards; and some of our products meet international standards such as Regulation (EU) No. 10/2011. Our Directors confirmed that there was no product return nor claim relating to the quality of our products in each year during the Track Record Period.

Our customers. Our customers are mainly PRC-based companies engaged in the trading of disposable plastic food storage containers, wholesaling or retailing of food and beverage and hotels, with some customers located in overseas countries. For each of the three years ended 31 December 2019, our sales to our top five customers accounted for approximately 39.4%, 37.5% and 37.8% of our total revenue, respectively, and our largest customer accounted for approximately 13.1%, 12.4% and 12.0% of our total revenue, respectively.

Product design and development. Over the years, our product and mould design team has placed great efforts to enhance the functionality, features and varieties of our products and to develop new products. Apart from traditional lunch boxes, we also design disposable plastic food storage bento boxes with different combination of compartments to separate and store different kinds of food. To protect our product design and development effort, we have obtained a total of 41 patents, and are currently applying for four patents as of the Latest Practicable Date. For further details of our patents, please refer to the paragraph headed “B. Further information about our business — 2. Intellectual property rights” in Appendix IV to this prospectus.

Our Production Facilities and production capacity. Our Production Facilities are located in Wukeng Village and Xiushan Village, Longhu Town, Jinjiang City, Fujian Province, the PRC with a site area of approximately 11,124.3 sq.m. As at the Latest Practicable Date, our Production Facilities are equipped with over 90 plastic injection moulding machines for the manufacturing of our products. For the creation, development and production of moulds, our Production Facilities also house one plastic injection moulding machine, seven CNC processing machines, two precision moulding machines and ancillary equipment. Our CNC processing machines, precision moulding machines and the plastic injection moulding machine for the production of moulds form part of our research and development expenses. For each of the three years ended 31 December 2019, the actual production volume of our Production Facilities (measured by the actual weight of the polypropylene resins processed by our plastic injection moulding machines in respect of the products we sold to customers of the relevant year) was approximately 12,279 tonnes, 13,063 tonnes and 14,014 tonnes of polypropylene resins, respectively. Our operating subsidiary, namely, Hengsheng Animation, has been accredited with the ISO 9001 certification on quality management system and ISO 14001 certification on environment management system since May 2014.

Major raw materials and our suppliers. Polypropylene resin is the key raw material for our products. During the Track Record Period, we purchased polypropylene resins from suppliers in the PRC. For each of the three years ended 31 December 2019, our cost of purchases from our five largest suppliers amounted to approximately RMB89.0 million, RMB98.5 million and RMB113.5 million, respectively, representing approximately 82.5%, 83.4% and 82.9% of our total purchases during the corresponding periods.

Outlook of our Group. According to the F&S Report, sales revenue for disposable plastic food storage containers in the PRC increased from approximately RMB3.5 billion in 2014 to RMB9.6 billion in 2019, representing a CAGR of 22.0%. It is anticipated that the sales revenue of disposable plastic food storage containers in the PRC will continue to grow at a CAGR of 11.8% from approximately RMB9.6 billion in 2019 to approximately RMB16.7 billion in 2024. Leveraging our historical growth during the Track Record Period, our Directors are confident that we are able to ride on the growth trend in the disposable plastic food storage containers industry in the PRC. Given the aforesaid, we target to further strengthen our ability in product design and development, increase our production capacity and capture emerging business opportunities in the PRC.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and distinguish us from our competitors:

We have strong product design, development and production capability attributable to our vertically integrated business model

We distinguish ourselves from other disposable plastic food storage container manufacturers by our capability to design and produce the moulds for production of our products. This vertically integrated business model, coupled with our automated production process involving melting of raw materials and moulding, has enabled us to provide a vertically integrated production platform for the provision of both standardised and customised plastic food storage containers for our customers. Our strength in designing and producing the moulds has not only saved our mould design and creation cost, but also enabled us to promptly respond to the varying needs of different customers, which differentiates us from our competitors. Hence, our Directors believe that our vertically integrated business model could offer cost-effective and efficient manufacturing services to our customers. With our in-house made moulds, we can also offer a portfolio of more than 400 models of products to our customers.

Our product design and development team works closely with our production team who helps transform the product concept, graphic arts and features into physical products. The process may involve numerous rounds of trials, testings and modifications. Our product design and development team also focuses on designing and developing new products, and enhancing existing products to capture changing market trends and safety standards. In order to keep abreast of the trends in disposable plastic food storage containers, we analyse and monitor market trends, designs and safety standards updates on our products. We also obtain updated information through attending trade shows and events, studying industry magazines, communicating with major market players and understanding the market trends by visiting our major markets regularly. We continuously seek to identify new product trends and applications to cater to the latest market trends and safety standards.

As at the Latest Practicable Date, our in-house product design and development team consisted of 23 staff members, who are experienced in product and mould design for disposable plastic food storage containers. The supervisor who leads our product design and development team possessed over 18 years of experience in the disposable plastic food storage container industry. Our Directors believe that having the ability to design, create and produce all of the moulds for our products with our high-precision machines, we can save mould design and creation costs, and ensure prompt response to any modifications during our production process. As at the Latest Practicable Date, we had over 200 product moulds which can be readily used for production. This allows us to efficiently convert our design patterns into mass production, which shortens our production lead time, increases our production efficiency and reduces our production cost as a whole.

In light of our product design and development effort, as at the Latest Practicable Date, we registered 41 patents, which were mainly developed by our Group. For further details, please refer to the paragraph headed "B. Further information about out business — 2. Intellectual property rights" in Appendix IV to this prospectus. For further details about our products, please refer to paragraph headed "Our products" in this section.

To transform our product design into physical products, we focus on production automation in our manufacturing process. Our automated plastic injection moulding machines are connected to a centralised conveying system which delivers raw materials to the injection moulding machines according to our product specification and the pre-set raw material mix. Hence, we could achieve high level of quality, consistency and production efficiency with optimum manpower utilisation.

Our Directors believe our vertically integrated business model is attractive to our customers because they will not have to source from various suppliers for products design, mould production and product production separately and thus, they can enhance diversity of their product offering.

We adopt stringent quality control measures for strict compliance with the relevant standards for food contact substances and other safety standards in production of our products

Our disposable plastic food storage containers include food storage containers and drinkware. It is crucial that our products can meet the relevant safety standards and governmental policies in all respects. For example, the State Administration for Quality Supervision, Inspection and Quarantine of the PRC Government and the National Standardisation Management Committee of PRC issued the "General Technical Requirements for Plastic Disposable Tableware (塑料一次性餐飲具通用技術要求), a series of policies and standards released by the PRC Government in 2009, which stipulated the technical requirements, inspection methods, and rules and requirements for product marking, packaging, transportation and storage for disposable plastic food storage containers.

Furthermore, our products have passed relevant tests on safeness of our products, high heat thermal resistance, melting index, performance, colour migration and meet other specific requirements before we sell such products. For example, in addition to meeting the requirements pursuant to Food Safety Law and the General Requirements in terms of food safety during the Track Record Period, some of our products have met the requirements pursuant to the Regulation (EU) No. 10/2011 standards regarding plastic materials and articles that are intended to be in contact with food, and we have obtained SGS test reports relating to such products.

We prioritise strict compliance with the relevant standards for food contact substances and other safety standards. We have therefore implemented a set of stringent quality control measures throughout our manufacturing process from incoming raw materials, production process to finished products, their transportation and storage. We source our raw materials only from suppliers who are on our approved supplier list. We also require our suppliers to conduct sample testing of their raw materials to be provided to us including melting index, density and chemical extract tests, and, if necessary, provide us with the test reports of the raw material upon delivery. Product testing is carried out by our in-house quality control staff. As at the Latest Practicable Date, our quality control processes were carried out by four staff members who served at our production team.

Attributed to our stringent quality and safety control policies, we have obtained the ISO 9001 certification since May 2014, which demonstrates our ability to consistently provide products that meet applicable regulatory requirements. As aforementioned, certain of our products have also passed the tests pursuant to the Regulation (EU) No. 10/2011 and/or standards. We believe that our continuous implementation of strict quality control and safety standards will assure the quality of our products and help maintain our reputation in the industry. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any major sales return nor complaint about product quality and safety from our customers. We believe our compliance with industry standards, safety standards and quality control gives us competitive advantage to obtain sales orders and therefore increase our market share.

Our Directors consider that our quality control management system and delivery of products with stable, consistent and reliable quality are also the key contributing factors for us to secure sales contracts from our existing customers and maintain long-term business relationships with them.

We have an extensive product profile

According to the F&S Report, we are the fourth largest disposable plastic food storage container company in the PRC in 2019 in terms of our sales revenue. Our Directors believe our diversified product portfolio offering is attractive to our customers, which are mainly PRC-based companies engaged in the trading of food storage containers and retailing of food and beverage in the catering and food delivery market in the PRC.

During the Track Record Period, we offered more than 300 models disposable plastic food storage containers to customers in the PRC and overseas countries. Our extensive product portfolio enables us to maintain the position as a major supplier of disposable plastic food storage containers in the PRC. It also gives our customers a greater flexibility in providing both standardised and customised disposable plastic food storage containers and enables us to establish long-term business relationships with both suppliers and customers.

We believe that through our diversified product offering, we can provide our customers with a more comprehensive product mix so as to cater for their varying needs and requirements with different preferences on our disposable plastic food storage containers, qualities and specifications.

We maintain long-term business relationships with our major customers and suppliers

Our Directors believe that one of our competitive strengths is our ability to secure and maintain long-term business relationships with our major customers and major suppliers.

We provide a wide assortment of both standardised and customised disposable plastic food storage containers with different designs, styles, shapes, sizes, usages and, specifications to meet the varying needs of our customers in terms of food contact substances safety, material strength and high heat thermal resistance standards etc.

For the three years ended 31 December 2019, four, four and four of our top five customers had business relationship with us for five years or more, respectively. We believe that (i) our mould design and production capability; (ii) our product design and development capability; (iii) our stringent quality and production control on our production facilities; (iv) our product quality; (v) our ability to timely produce our products according to the terms in sales contracts and deliver products to our customers; and (vi) our efficient and responsive communications with our customers have enabled us to earn recurring businesses from our major customers. We believe that with a stable customer base, we are well-positioned to secure recurring sales contracts from our customers and implement our expansion plan.

As concerns our relationship with our major suppliers, for the three years ended 31 December 2019, five, five and five of our top five suppliers have worked with us for five years or more, respectively. We believe the stable business relationship with our suppliers enables us to secure a stable supply of polypropylene resins, which is the key raw material for our production.

We have a stable management team with extensive industry experience

Our Directors believe that our success is mainly attributable to our Directors and senior management team's knowledge and hands-on experience in the plastic food storage industry, its ability to identify market trends. These experience and capabilities therefore give us a competitive edge and enabled us to adapt to changing market demands by adjusting our product mix from time to time. Our management team is led by Mr. Xu, our chairman and executive Director, who has more than 28 years of experience and knowledge in the production of plastic products and is primarily responsible for the overall management, strategic development and major decision-making of our Group. Ms. Xu Liping, our executive Director and the vice chairman of our operating subsidiary, Hengsheng Animation, has over 29 years of work experience in the production of plastic products and packaging and is primarily responsible for the business development and overseeing daily administration and operations of our Group. She has held supervising roles in companies primarily engaged in the business of manufacturing of various plastic products, which our Directors believe will be beneficial to the management of our Group's business operation.

Over the years, our senior management team has accumulated in-depth knowledge of the disposable plastic food storage container industry and developed strong relationship with our major customers. Furthermore, attributed to the experience and technical knowledge of our executive Directors and senior management team, our Directors believe that we are able to remain competitive and well-positioned in competing for and securing sales contracts. For further biographical details of our Company's management team, please refer to the section headed "Directors, senior management and employees" in this prospectus.

OUR BUSINESS STRATEGIES

Our principal objectives are to further enhance our market presence through sustainable and profitable growth, our Directors plan to pursue the following growth strategies:

Expand our production capacity and enhance our production efficiency by purchasing new machinery

Industry prospects: According to the F&S Report, the sales revenue of disposable plastic food storage container industry has experienced a rapid growth from approximately RMB3.5 billion in 2014, to approximately RMB9.6 billion in 2019, with a CAGR of 22.0% during the same period. Owing to the increasing demand for online food delivery and the popularity of semi-finished food which requires disposable food storage containers, the demand for disposable plastic food storage containers is expected to grow continuously. According to the F&S Report, the sales revenue of disposable plastic food storage container is anticipated to reach approximately RMB16.7 billion in 2024, representing a CAGR of 11.8% from 2019 to 2024. Therefore, our Directors believe it is essential for our Group to expand our market shares and capture this business opportunity.

On the other hand, disposable plastic food storage container manufacturers in the PRC are required to constantly improve and upgrade their technology, and to have sufficient capital investment on their production machinery and equipment in order to keep up with the continuous expansion of the industry market scale. In addition, with the increasing demand for disposable plastic food storage containers in the downstream industries such as food delivery and catering markets in the PRC, industry players have to enhance the degree of automation in their production machinery and equipment. According to the F&S Report, higher degree of automation improves consistency of the quality of finished products, allowing industry players to closely monitor and control their operation. In this connection, we intend to expand our production capacity and enhance our production efficiency by acquiring additional automated machinery and equipment for our production.

Taking into account the industry outlook of the disposable plastic food storage container industry in the PRC, the average age and utilisation rate of our existing major production machinery and equipment, our Directors take the view that it is imperative for us to enhance our production capacity in order to capture the anticipated growth in the disposable plastic food storage container market and to cope with the simultaneous growth of the downstream catering and food delivery markets in the PRC in order to optimise our profitability. We intend to expand our production capacity and enhance our production efficiency by acquiring new machinery.

Our current production capacity and its utilisation rate: In respect of the production of our disposable plastic food storage containers, for each of the three years ended 31 December 2019, the utilisation rate of our machinery and equipment used for production was approximately 85.2%, 90.4% and 96.1%, respectively. For the purpose of quality control, we did not consider that subcontracting part of our production process to third party subcontractor as an alternative way to ease our pressure in enhancing our production capacity during the Track Record Period and up to the Latest Practicable Date. For further details, please refer to the paragraph headed "Our Production Facilities — Production capacity and utilisation rate" in this section.

The condition of our existing machinery: As at 31 December 2019, the average age of our major machinery, namely our plastic injection moulding machines, automated robot arm machines and centralised conveying systems were approximately 1.9 years, 1.9 years and 1.5 years, respectively, and their average remaining useful life were 4.9 years, 5.1 years and 4.5 years, respectively. The estimated average useful life for our plastic injection moulding machines, automated robot arm machines and our centralised conveying systems are 6.8 years, 7.0 years, and 6.0 years respectively. We adopt straight line method to recognise the depreciation of our machinery and equipment. For further details, please refer to the paragraph headed "Our Production Facilities — Our production machinery and equipment" in this section.

Acquiring new machinery: Based on the preliminary quotations obtained by us, we estimate that the capital expenditure for the acquisition of 40 units of new plastic injection moulding machines, 40 new automated robot arm machines and two units of centralised conveying system will be approximately RMB30.9 million and such capital expenditure will be financed from the net proceeds of the Share Offer and also our internal resources. For more details, please refer to the paragraph headed "Future plans and use of proceeds — Use of proceeds" in this prospectus.

The particulars of additional machinery (collectively, the "**New Machines**") we intend to acquire for production of our disposable plastic food storage containers are as follows:

Machinery and equipment	**Number of existing units as of 31 December 2020**	**Average remaining useful life of existing units as of 31 December 2020**	**Number of new units**	**Estimated costs for purchase of new units**
				(RMB'000 approximately)
Plastic injection moulding machines	95	4.9	40	27,520
Automated robot arm machines	71	5.1	40	2,400
Centralised conveying systems	2	4.5	2	1,000
Total				**30,920**

The said estimated cost of approximately RMB30.9 million was based on the preliminary quotations obtained by us. Assuming the additional production machinery and equipment are acquired in phases and available for production in accordance with the implementation plan set out in the paragraph headed "Future plans and use of proceeds — Implementation plans" in this prospectus, our Directors estimate that the depreciation charge for these additional machinery and equipment will be approximately RMB0.4 million and RMB2.5 million for the year ending 31 December 2020 and 2021, respectively.

Setting up a second production facility to cope with our business expansion

Our expansion plan also includes acquiring new machinery and establishing a new production facility to house our new machinery. Our current Production Facilities of approximately 11,124.3 sq. m. are already fully occupied for housing over 160 major production machines and equipment, our existing product and mould design machinery and for storage of our raw materials and finished products, and there is no further room for expansion. Therefore, our Group require additional space to accommodate the increase in the number of machinery.

Establishing new production facility: As aforementioned, our Production Facilities with a gross floor area of approximately 11,124.3 sq.m has almost been fully occupied, leaving no room for us to house any newly acquired machinery. To match our expansion plan, we intend to lease a factory premises with an area of approximately 3,000 sq.m. in Jinjiang City, Fujian Province, the PRC, for establishing a second production facility. The estimated annual rent for this new production facility and the estimated costs of renovating the new factory space will be financed from the net proceeds of the Share Offer. For further details, please refer to the section headed "Future plans and use of proceeds" in this prospectus.

As at the Latest Practicable Date, we had identified one potential factory premises in Jinjiang City, Fujian Province, the PRC, which is suitable for establishing our second production facility due to its location and its proximity to our Production Facilities. As at the Latest Practicable Date, we had not entered into any lease agreement for the lease of this factory premises. Subject to our Group's submitting all necessary documentation to the relevant authorities after entering into the lease agreement for the lease of this factory premises, our Directors are of the view that there should not be any legal impediments to obtaining all the necessary licences or permits required for the commencement of our second production facility.

Proposed timeline. We anticipate the proposed timeline of implementation to be in two phases, where the first batch of New Machines, including 20 plastic injection moulding machines, 20 automated robot arm machines and one centralised conveying system, will be installed and tested for production during the fourth quarter of 2020; and the second batch of New Machines, including 20 plastic injection moulding machines, 20 automated robot arm machines and one centralised conveying system, will be installed and tested for production during the third quarter of 2021. For further details for the implementation activities in establishing our second production facility, please refer to the paragraph headed "Future plans and use of proceeds — Use of proceeds" of this prospectus.

Projected increase of our production capacity: We expect the first batch of New Machines installed at our second production facility to commence full operation and generate sales revenue in the fourth quarter of 2020, increasing our production capacity to approximately 15,894 tonnes for the year ending 31 December 2020 and the second batch of New Machines to commence full operation and generate sales revenue in the third quarter of 2021 further increasing our production capacity to approximately 19,739 tonnes for the year ending 31 December 2021. We expect that after the set-up of our second production facility in Jinjiang with additional production machinery and equipment, our production capacity will increase by approximately 5,154 tonnes for the year ending 31 December 2021 representing an increase of 35.3% of our production capacity, as compared to the production capacity of approximately 14,585 tonnes for the year ended 31 December 2019.

Our Directors believe that the projected increase in the production capacity could satisfy our production need in the foreseeable future. As such, despite the additional production overheads, the additional direct labour costs to be incurred and the depreciation charge for the newly acquired production machinery and equipment, our Directors are of the view that it will not cause any material adverse impact on our financial performance as these additional machinery would enlarge our production capacity, enabling us to secure more sales contracts from our customers, especially during the anticipated steady growth of the disposable plastic food storage container industry in the PRC from 2019 to 2024 with a CAGR of approximately 11.8% and thus, offsetting the additional costs incurred or arisen from the purchase of additional machinery.

Strengthen our research and development capabilities in our mould and product design and production, and production techniques

According to the F&S Report, one of the future opportunities and challenges to disposable plastic food storage container manufacturers like our Group is their dedication to conduct mould design and development to provide diverse product categories including plastic food storage containers of not only different types and sizes, but also the customised shapes and functions, to meet the needs of different customers. Hence, we intend to strengthen our capabilities of design and production of moulds for production of our plastic food storage containers. As at the Latest Practicable Date, we have over 200 moulds for production of over 400 models of plastic food storage containers. We are also equipped with two precision moulding machines, seven CNC processing machines, one plastic injection moulding machine and ancillary equipment for the creation, development and production of moulds.

Based on our in-house product design and development experience and capabilities, by continuing to design and produce moulds for developing and launching of new products, we can respond to customers' requests promptly with modification of our then existing moulds. Thus, our market share in the disposable plastic food storage container industry can be enlarged.

According to the F&S Report, with the increasing focus on food safety, environmentally friendly products will be the trend of plastic food storage container market in the future. Degradability and recyclability are the important features of environmentally friendly products. In this connection, in order to meet the relevant product quality and safety standards and to respond to the call of resource conservation and environmental protection, we plan to constantly improve the quality of our products and the techniques applied to the production process of our products. Besides, in view of the fierce competition in plastic food storage container market in the PRC, we have to optimise the formula in the use of raw materials and apply advanced manufacturing technology to reduce cost and increase our profit margin.

We also believe that our product design and development capabilities to catch up the prevailing safety standards, requirements and market trends are crucial to our success. We will continue to recruit experienced staff to further develop and strengthen our product design and development capabilities, while using safer and more cost-effective raw materials.

In light of the above, we intend to strengthen our research and development capabilities in various aspects, namely (i) our product offering; (ii) our production techniques; and (iii) our mould design and production. To this end, we intend to use part of the net proceeds from the Share Offer to develop moulds and related parts of moulds by, acquiring additional precision-moulding machinery and equipment to expand our in-house product design and development capabilities. We also plan to nurture expertise by recruiting 10 product and mould designers to our product design and development design team with the net proceeds from Share Offer and our internal resources. Our Directors believe that by acquiring new talents to our Group, we will be able to remain competitive with our new development of products based on our own moulds and innovation. For further details, please refer to the section headed "Future plans and use of proceeds" in this prospectus.

Continue to expand our Group's sales and marketing team

According to the F&S Report, the PRC is the world's largest country in the production of disposable plastic food storage containers in terms of sales revenue in 2019, accounting for approximately 44.3% of global sales revenue. The sales revenue of disposable plastic food storage container industry in the PRC grew from approximately RMB3.5 billion in 2014 to approximately RMB9.6 billion in 2019 with a CAGR of approximately 22.0%. Furthermore, with the booming domestic demand for disposable plastic food storage containers, advancements in manufacturing technology and the growth in catering and food delivery market in general and through mobile applications by restaurants and food retailers, the market size of disposable plastic food storage container industry in the PRC will continue to grow at a CAGR of approximately 11.8% from 2019 to 2024 and reach approximately RMB16.7 billion in 2024.

To capture the business opportunities arising from the increasing demand for disposable plastic food storage containers in the food and beverage industry in the PRC, we plan to expand our sales and marketing team by recruiting eight sales representatives who have substantial experience and knowledge in disposable plastic food storage containers for food and drinks storage. Our Directors expect the level of customer demands for our products in the PRC will increase according to the corresponding growth of the disposable plastic food storage container industry in the PRC. The additional eight sales representatives will be dedicated to promoting and marketing our products to new and existing customers across different regions in the PRC. Our new sales staff will also directly approach industry consultants in order to obtain updates on the anticipated trend and market preference of our products, including appearances, outlooks, colours, shapes, product materials, functional features and safety awareness, enhancing our knowledge of both the "JAZZIT" brand and non-branded products. Our sales and marketing team will continue to work closely with our product design and development team in order to keep themselves abreast of the updated product standards and requirements, market trends and customers' preferences. Our sales and marketing team will visit potential customers in different regions of the PRC to promote the quality and strength of our products. We intend to apply part of the net proceeds from the Share Offer to recruit eight sales representatives for the expansion of our sales and marketing team. For further details, please refer to the section headed "Future plans and use of proceeds" in this prospectus.

OUR BUSINESS MODEL

Our vertically integrated business model include design, development, manufacture and sales of disposable plastic food storage containers by the moulds designed and manufactured by us. We sell our products mainly in the PRC with a small part to overseas countries. Our products are sold mainly under our "JAZZIT" brand with a small portion on a non-branded basis.

Our business model can generally be summarised as follows:

Product design and development; and mould production	• Improving the design and quality of our existing products and introducing new products • If necessary, designing and manufacturing new moulds • Prototypes are produced for testing and evaluation and our Group will run trial production and, if necessary, apply for patent registration for feasible product designs
Commercially launching the product and/or marketing of products	• Exploring new business opportunities by taking part in local exhibitions and trade fairs and active promotion by our sales representatives • Promoting new products to our existing customers and potential customers • Sample products are available for customers' selection and ordering • Updating our product catalogue from time to time
Contracting stage	• Contacting potential customers, providing fee quotation and handling enquiries from our customers • Negotiating the terms of sales contracts, including price and delivery time • Confirming and entering into sales contracts with customers after internal approval
Production planning and procurement	• Formulating production schedules and procurement plan • Procuring raw materials, mainly polypropylene resins, from our list of approved suppliers and monitoring the inventory level of our raw materials • Performing quality control tests on the raw materials supplied by our suppliers
Mass production	• Assessing our then production capacity and planning the production schedule • Producing the products according to product specifications • Supervising the production process and monitoring inventory level • Conducting quality control tests
Packaging and delivery	• Arranging third party logistic companies to deliver finished products to our customers' designated locations according to the terms agreed with our customers

On average 40 to 50 days

Note: From signing the contract to the date of delivery, approximately 40 to 50 days on average is taken.

Product design and development and mould production

Our product design and development team designs new products, whether they are under our brand of "JAZZIT" or non-branded products, of different shapes and combination of compartments and mixture of raw materials, based on its experience and observation on the market trends or individual customers' specific requirements. It also transforms the customers' concepts and requirements into graphic design for production of customised products. Before finalising our product design and specifications, our production team will test the prototypes to assess the products' manufacturing feasibility, and consider the quality and safeness of the products. If deemed necessary, our Group may apply for patent registration to protect our designs.

Our product design and development team will work together with our production team to design the mould to meet the desired shape and features of the products, if our then existing moulds cannot meet our customers' specifications, with or without modifications. We use our own high-precision moulding machines in the manufacturing of moulds.

Commercial launch of products and/or marketing of products

We will update our product catalogue by incorporating pictures and specifications such as the size and features of new products from time to time; and disseminate the details of our new products to our customers mainly by social networking platforms, emails or mails. We also launch new products at various trade fairs etc. Upon requests from customers, we also manufacture a small number of sample products for our customers' selection and ordering after the products have passed our internal quality control tests and the relevant safety test. To promote our products, our sales representatives may actively reach out to our existing and potential customers by making calls and physical visits.

Contracting stage

We generate our business primarily from our existing customers or by participating in trade fairs to reach out for potential customers. In trade fairs, our sales representatives promote our new and existing products. We also exchange market information and trends with potential and existing customers and enter into sales contracts with our recurring customers.

Customers select and purchase our products based on our product catalogues. Generally, customers contact our sales and marketing team to inquire about our product specifications and price. We will then provide a fee quotation to the customers. In some cases, customers may have specific requirements on our products in terms of their shape, combination of compartments and safety standards. We will then assess the production feasibility and the profitability thereof by taking into account whether we have to create the relevant moulds for production and the costs to be incurred in this respect.

Our sales staff negotiate and confirm the terms of sales contracts, including prices and delivery time, with the customers. We negotiate the price of our products with individual customers on a cost plus basis. After we have approved the contract terms internally, we then enter into sales contracts with our customers.

Procurement

We purchase raw materials for production based on our production schedule from time to time. Our procurement and production team, based on the terms of sales contract on hand, will formulate production schedules, which will specify the materials required and the time frame for production. Purchases of polypropylene resins, our principal materials, are made every few weeks. We keep an inventory level of polypropylene resins of not more than 10 days.

To ensure that the raw materials can meet the applicable food safety regulations and standards and also our product specifications, we have implemented quality control measures when raw materials are delivered to us, including quality control test. For further details, please refer to paragraph headed "Quality control" in this section.

Mass production

After we have entered into sales contracts with our customers, our production team will analyse our then available production capacity, estimate the production cost and prepare and finalise the overall procurement and production plan and schedule. We then start mass production of the products per the terms of contract. We did not outsource any production step to any sub-contractors during the Track Record Period and as at the Latest Practicable Date.

Since our products come into direct contact with food and drinks, we place great emphasis on the quality and standard of our products to ensure our products meet the applicable safety standards and policies in the PRC and our export destinations. We have implemented a quality control measure throughout the production process, from incoming materials to finished products. For further details, please refer to the paragraph heeded "Quality control" of this section.

Packaging and delivery

Our products are generally delivered by road transportation to the customers' warehouses in the PRC after they are duly packaged. We engage third party logistic companies to deliver the products to our customers.

OUR PRODUCTS

Our products have to meet relevant safety and certification standards. All of our Group's products have met the safety requirements pursuant to Food Safety Law and the General Requirements for use as food containers during the Track Record Period. In addition to meeting all relevant regulatory safety requirements for use as food containers, a small portion of our products have passed the tests pursuant to the SGS certifications and/or standards; and some of our products have met international standards such as Regulation (EU) No. 10/2011. The tests to the SGS certifications and/or international standards are pursuant to requests of certain overseas customers only as those customers are subject to the standards of the jurisdiction of which their business operates. Our Directors confirm that there have been no product returns nor claims relating to the quality of our products in each year during the Track Record Period.

As at the Latest Practicable Date, we offered over 400 models of products with various sizes, design and shapes to meet the varying needs of different customers. Our products include traditional lunch boxes generally used for take-away food and bento boxes with different compartments to separate different kinds of food. Like other disposable plastic food storage containers, our products are all high heat thermal resistant, disposable, microwavable, stackable and reusable. Initially, as a marketing strategy, we promoted our "JAZZIT" brand in March 2012 in order to strengthen our corporate identity in the relatively fragmented disposable plastic food storage container industry. Our Directors believe that this would arouse customer's interest and attention to our disposable plastic food storage container products. In June 2013, we first rolled-out a series of products under our "JAZZIT" brand to enhance brand awareness in the market. Since then, we have been offering our products mainly under our "JAZZIT" brand and we also offer our products on a non-branded basis.

For the three years ended 31 December 2019, approximately 91.0%, 91.9% and 90.0% of our total revenue were derived from sales of products under our "JAZZIT" brand, respectively, and approximately 9.0%, 8.1% and 10.0% of our total revenue were derived from our non-branded products, respectively.

The table below sets forth the breakdown of the revenue of sales of our products under our "JAZZIT" brand and non-branded products for the periods indicated:

	Year ended 31 December					
	2017		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Products under "JAZZIT" brand	151,136	91.0	176,798	91.9	191,518	90.0
Non-branded products	14,981	9.0	15,660	8.1	21,277	10.0
Total	**166,117**	**100.0**	**192,458**	**100.0**	**212,795**	**100.0**

The table below sets forth the gross profit and gross profit margin of our products under "JAZZIT" brand and non-branded products for the periods indicated:

	Year ended 31 December					
	2017		2018		2019	
	Gross profit	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Products under "JAZZIT" brand	44,188	29.2	51,140	28.9	55,066	28.8
Non-branded products	3,603	24.1	3,747	23.9	5,354	25.2
Total	**47,791**	**28.8**	**54,887**	**28.5**	**60,420**	**28.4**

In terms of their design, our products can be categorised into (i) regular products; (ii) customised products, and (iii) other products. Our regular products are of more simplistic design and features with only one compartment; and our customised products are of enhanced design features and higher degree of functionality, which can store various kinds of food and beverage with our multi-compartment disposable plastic food storage containers. We also offer other products including drinkware and removable trays which can be placed within other plastic food storage containers as additional interior compartment trays.

The table below sets forth the breakdown of our revenue generated from sales of products under our regular, customised and other products category for the period indicated:

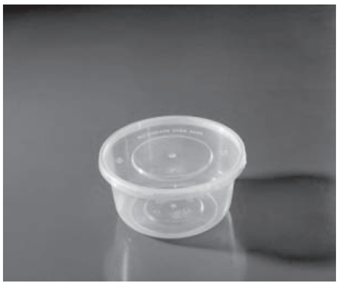
	Year ended 31 December					
	2017		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Regular products	131,238	79.0	152,494	79.2	168,681	79.3
Customised products	32,133	19.3	38,526	20.0	42,108	19.8
Others	2,746	1.7	1,438	0.8	2,006	0.9
Total	**166,117**	**100.0**	**192,458**	**100.0**	**212,795**	**100.0**

The table below sets forth our gross profit and gross profit margin of products under our regular, customised and other products for the period indicated:

	Year ended 31 December					
	2017		2018		2019	
	Gross profit	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Regular products	38,131	29.1	44,053	28.9	48,651	28.8
Customised products	9,050	28.2	10,519	27.3	11,290	26.8
Others	610	22.2	315	21.9	479	23.9
Total	**47,791**	**28.8**	**54,887**	**28.5**	**60,420**	**28.4**

To present our range of products in our product catalogues, our Group's products can be categorized into seven different groups by their shapes, namely (i) round box series; (ii) oval box series; (iii) rectangular box series; (iv) cubic box series; (v) multi-compartment bento box series; (vi) cup series; and (vii) removable tray series.

Set forth below is a brief description of some of our products:

Product	**Description**	**Product series**	**Unit price range as at the Latest Practicable Date** *(RMB)*
  	Products under this category are in round shape with different sizes for food storage	Round box series	RMB0.04 to RMB2.10
 	Products under this category are in oval shape with different sizes for food storage	Oval box series	RMB0.10 to RMB0.78

Product	Description	Product series	Unit price range as at the Latest Practicable Date *(RMB)*
  	Products under this category are in rectangular shape with different sizes for food storage	Rectangular box series	RMB0.07 to RMB1.25
	Products under this category are in cubic shape with different sizes for food storage	Cubic box series	RMB0.55 to RMB0.67

Product	Description	Product series	Unit price range as at the Latest Practicable Date *(RMB)*
  	Products under this category contain two or more in-built compartment trays for food storage	Multi-compartment bento box series	RMB0.15 to RMB1.65
  	Products under this category are designed for drinks storage	Cup series	RMB0.07 to RMB0.28

Product	Description	Product series	Unit price range as at the Latest Practicable Date *(RMB)*
  	Products under this category can be placed inside other container products to serve as interior compartment trays for food storage	Removable tray series	RMB0.08 to RMB0.34

PRODUCT DESIGN AND DEVELOPMENT

Product and mould design team

We place great emphasis on our product design and development with a view to offering a diverse range of quality and safe disposable plastic food storage containers to our customers. Our product design and development team consists of engineers and our technical and moulding staff. As at the Latest Practicable Date, our product and mould design team consisted of 23 staff members. The engineers and our technical and moulding staff are experienced in both product and mould design.

Our production and mould design team is primarily responsible for enhancing the functions and designs of our existing products and developing new products. It also explores new features of our products and the mixtures of raw materials. We were capable of delivering approximately 200, 300 and 300 models of products during the Track Record Period, respectively. To protect our design and development effort, we have obtained a total of 41 patents, including (i) two invention patents (發明專利), (ii) 36 utility model patents (實用新型專利) and (iii) three design patents (外觀設計專利) in relation to the features and other designs in our products. As of the Latest Practicable Date, four utility model patents (實用新型專利) are under application. For further details of our patents, please refer to the paragraph headed "B. Further information about out business — 2. Intellectual property rights" in Appendix IV to this prospectus.

Product design and development process

Our product design and development process can be generally divided into three stages: (i) market assessment; (ii) product drawing and visual design; and (iii) manufacturing and technical feasibility evaluation.

Market assessment

Our sales and marketing team collects and provides our product design and development team with information on market trends and preferences, updates on safety and certification standards and feedbacks from our customers on our products. Apart from the above, we also keep abreast of the market trends and up-to-date product safety standards through participating in trade fairs, studying industry statistics and market researches.

Product drawing and visual design

Our product design and development team analyses the information collected from various sources and generates the ideas and concepts on new products or enhancement of existing products. The ideas and concepts cover the amount and mixtures of the materials to be used, visual design, functionality, features and the relevant safety standards of the product. Our product and mould design team formulates the visual design of the product based on the new ideas and concepts.

Manufacturing and technical feasibility evaluation

Upon completion of the artistic design, our production team assesses the manufacturing and technical feasibility of the products, including ensuring compliance with the relevant safety and quality standards. Samples and prototypes are produced in this phase. Both our product design and development team and our production team work closely together to test the samples or prototypes and, if necessary, refine the design until they pass our quality tests. These tests are carried out by our in-house engineers or independent third party laboratories. Once the samples or prototypes have passed all the relevant tests, our management determines the commercial launching time of the new products after considering various factors including the then prevailing market trend, our business strategies, production and cost efficiency, etc.

For the three years ended 31 December 2019, we incurred approximately RMB2.7 million, RMB5.0 million and RMB7.4 million, respectively, as research and development expenses, which mainly consisted of the staff costs of the research and development team, depreciation expenses, materials and service fees for product developments, etc.

Product design and development results

Our continuous research and development efforts have led to development of certain technological know-how which are patented with intellectual property offices in the PRC. For further details, please refer to the paragraph headed “Intellectual property — Patents” in this section.

OUR PRODUCTION FACILITIES

Our Production Facilities for production of all our products and moulds are located in Wukeng Village and Xiushan Village, Longhu Town, Jinjiang City, Fujian Province, the PRC with a total gross floor area of approximately 11,124.3 sq.m. As at the Latest Practicable Date, our Production Facilities are equipped with over 90 plastic injection moulding machines for the manufacturing of our products. For the creation, development and production of moulds, our Production Facilities also house one plastic injection moulding machine, seven CNC processing machines, two precision moulding machines and ancillary equipment.

We lease the properties for our Production Facilities from both Hengsheng Toys and an Independent Third Party. The Production Facilities comprise three factories, one product and mould design facility, three warehouses under seven leases. The seven leases, five of which will expire in 2023, and the remaining two will expire in 2024 and 2028, respectively. For further details, please refer to the paragraph headed "Properties — Leased properties" of this section.

Our Directors confirm, upon seeking legal advice from our PRC Legal Advisers, that save for the Fujian Pollutant Discharge Permit* (福建省排污許可證) which has expired since 31 December 2019, we have obtained all the major licences and permits for the operation of our Production Facilities. We have also developed quality assurance and safety control processes for the production of our products and we have not experienced any suspension or termination of any licence, permit or certificate necessary for the operation of our Production Facilities during the Track Record Period.

According to the Statement on the Application for Pollutant Discharge Permit issued by the Quanzhou Municipal Jinjiang Bureau of Ecology and Environment* (泉州市晉江生態環境局) (formerly known as the Environmental Protection Bureau of Jinjiang City* (晉江市環境保護局)) (the "**Bureau of Ecology and Environment**") on December 24, 2019, due to the implementation of "Classification Management List of Discharge Permits for Fixed Pollution Sources (2017 Version)* 《固定污染源排污許可分類管理名錄(2017年版)》", the issue of the pollutant discharge permit of Fujian Province had been temporarily suspended until both the issue time and technical specifications of National Unified Coding Pollutant Discharge Permit*《全國統一編碼排污許可證》are confirmed and specified. As of the Latest Practicable Date, the Bureau of Ecology and Environment has started processing applications for pollutant discharge permit and our application for a pollutant discharge permit is under preparation. During the interim period, the production activities of Hengsheng Animation will be under regular inspection of environmental protection authorities before obtaining the pollutant discharge permit. Based on a confirmation letter issued by the Bureau of Ecology and Environment on 26 March 2020, which is a competent authority in charge of environmental protection in Jinjiang City, our Group can continue to discharge pollutants in its production process in accordance with the national and regional standards and regulations despite the fact that we have not yet obtained the pollutant discharge permit and the expiry of our previous pollutant discharge permit did not affect our business operation and no administrative penalty, enquiry or investigations would be in place against us in relation to the pollutant discharge. Our Directors note that due to the implementation of the new law and regulation on the issue of pollutant discharge permit, it is not possible for the Bureau of Ecology and Environment or our Directors to ascertain when our application for a pollutant discharge permit can be completed. As advised by our PRC Legal Advisers, given the said confirmation letter and our continued compliance with the relevant pollutant discharge regulations during the Track Record Period and as of the Latest Practicable Date, there is no material legal impediment in relation to the issue of the pollutant discharge permit. For further details, please refer to the paragraphs headed "Licences, permits and approval" in this section.

Production capacity and utilisation rate

As at the Latest Practicable Date, our Production Facilities were equipped with over 90 plastic injection moulding machines for the manufacturing of our products. Before we submit quotation or enter into new sales contracts, our Group would consider factors such as (i) the amount of polypropylene resins required based on the product design and complexity of the manufacturing process; and (ii) the availability of our production capacity and the estimated production time. The calculation of our production capacity and utilisation rate is based on all the plastic injection moulding machines used for the production of our products. The following table sets forth the utilisation of our Production Facilities based on the actual weight of the polypropylene resins had been processed for production of our products:

	Year ended 31 December		
	2017	**2018**	**2019**
Effective designed capacity (tonnes) *(Note 1)*	14,417	14,453	14,585
Actual production volume (tonnes) *(Note 2)*	12,279	13,063	14,014
Effective utilisation rate *(Note 3, 4)*	85.2%	90.4%	96.1%

Notes:

1. The effective designed capacity is estimated based on the designed capacity of our plastic injection moulding machines per hour multiplied by 23 hours per day multiplied by 365 days for each of the three years ended 31 December 2019, minus the required maintenance days during the year and statutory public holidays of the PRC. Among the 95 plastic injection moulding machines, three of them came into operation in December 2019. If the 95 plastic injection moulding machines are operating in full capacity, the effective designed capacity is estimated to be 15,050 tonnes.

2. The actual production volume refers to the actual weight of the polypropylene resins processed by the plastic injection moulding machines in respect of the products we sold to customers of the relevant year.

3. Effective utilisation rate is calculated by dividing the actual production volume by the effective designed capacity.

4. the utilisation rate of the existing production facilities is calculated on the basis that the plastic injection moulding machines operate 23 hours per day. Our Group's production staff works 24 hours a day in shifts despite the 23 hours operation of the injection moulding machines because for each working day for our Group's production, around one hour each day is used for conducting routine checking before the production process can start, and to the changing of moulds.

Due to the increasing demand for our products along with the increasing demand for take-away food, we installed another three sets of production machine including mainly plastic injection moulding machines ("**New Machines**") in April 2020 to increase our production capacity to satisfy our customers' needs. After the installation of the New Machines, our production capacity for the New Machines will therefore increase by approximately 317 tonnes for the year ending 31 December 2020 and 475 tonnes for the year ending 31 December 2021 representing an increase of approximately 3.3% as compared to 14,585 tonnes for the year ended 31 December 2019. For the month ended 30 April 2020, the utilisation rate of our production facilities used for production, on the basis that our plastic injection moulding machines having operated 23 hours a day excluding statutory public holidays was approximately 107.4%, which exceeded 100% because the production facilities operated in two public holidays in April 2020.

Our production machinery and equipment

Our production machinery and equipment were purchased from Independent Third Parties in the PRC. We believe that by using technologically advanced machinery and equipment, we can not only improve our production efficiency, cut down manpower costs, but also enhance our product quality. When Hengsheng Toys transferred the production machinery and equipment to our Group in June 2018, our Group's then production machinery and equipment had already been in use for four years. We have adopted a preventive maintenance system for our machinery and equipment, including standardised inspection and maintenance procedures which require our production team to schedule regular downtime for maintenance and repairs, and regular inspection of our production machinery and equipment in order to ensure our production lines run smoothly and operate at optimal levels. Our production lines are subject to on-going maintenance checks. Regular maintenance of our Production Facilities is generally performed on a monthly basis and is scheduled to rotate among different machines and equipment to avoid complete shutdown of our operation. During the Track Record Period, we had not experienced any material or prolonged interruption of our production processes due to machinery or equipment failure.

For the three years ended 31 December 2019, our capital expenditures consisting of the addition of mould, plant and machinery for our Production Facilities and enhancement of mould, plant and machinery amounted to approximately RMB4.0 million, RMB16.7 million and RMB2.5 million, respectively.

The estimated average useful life of our plastic injection moulding machines, automated robot arm machines and centralised conveying machine are 6.8 years, 7.0 years, and 6.0 years, respectively. We adopt straight line method to recognise the depreciation of our machinery. The table below sets forth information on our major machinery and equipment as at 31 December 2019:

Type of major machinery and equipment	Principal functions	Number of units	Approximate average age (years)	Approximate average remaining useful lives (years)
Plastic injection moulding machines	A machine that is used for moulding the melted raw material mixture in the mould cavity and release the finished product once the product is cooled.	95 *(Note)*	1.9	4.9
Automated robot arm machines	A machine that is used for picking up the finished products when they are cooled and ejected from the plastic injection moulding machines.	71	1.9	5.1
Centralised conveying systems	A machine that is used for placing the raw material mixture in the plastic injection moulding machines.	2	1.5	4.5

Note: Among the 95 plastic injection moulding machines, four of them are newly acquired and one came into operation in October 2018 while three came into operation in December 2019.

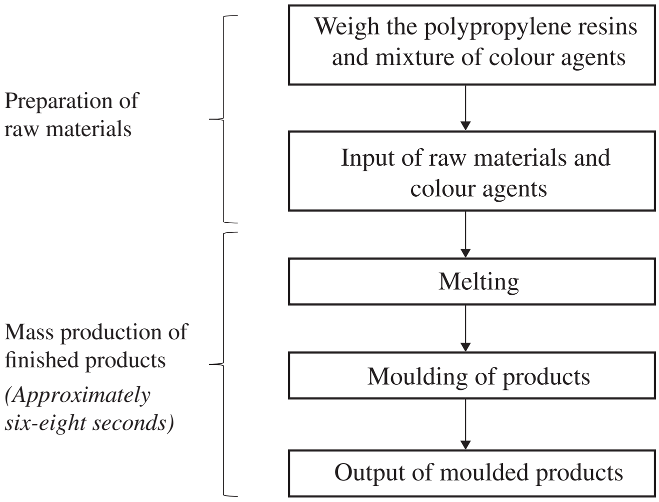
We believe that all major machinery and equipment that are being used by our Group are functioning properly. To further enhance our production capacity and efficiency, our Group plans to upgrade our existing production facilities and purchase new machinery and equipment which shall be funded by the net proceeds from the Share Offer. For further details, please refer to the paragraphs headed "Business — Our business strategies" and "Future plans and use of proceeds — Use of proceeds" in this prospectus.

PRODUCTION PROCESS

Most parts of our production process are automated.

During the Track Record Period, we carried out the production process of our products in our own Production Facilities, which operated 24 hours a day in shifts. During each shift, our production staff will prepare raw materials according to instructions from the supervisor of their team, and place appropriate quantity of raw materials into our production machinery and equipment.

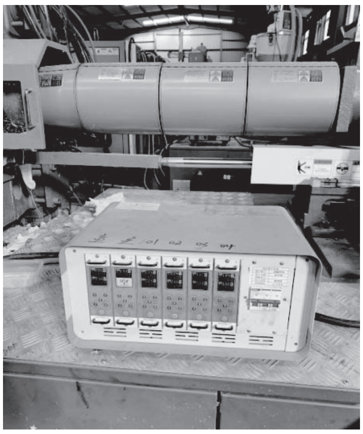
The following chart illustrates the typical production process of our products:



Input of raw materials and colour agents

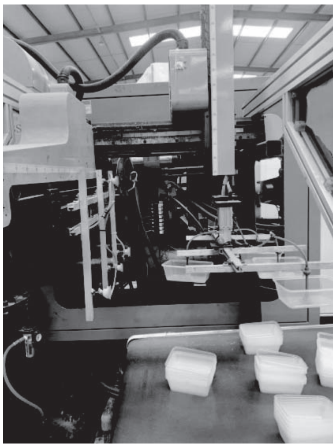
Our production staff members mix our raw materials, including polypropylene resins, colour agents and polymers, according to the predetermined product specifications. The mixture will then be placed in the centralised conveying system, which places the mixture into injection moulding machines via the connectors, and place the mixture by vacuum. After placement, we will conduct visual inspection to check if the raw material mixture is properly placed according to our product specifications.

Melting



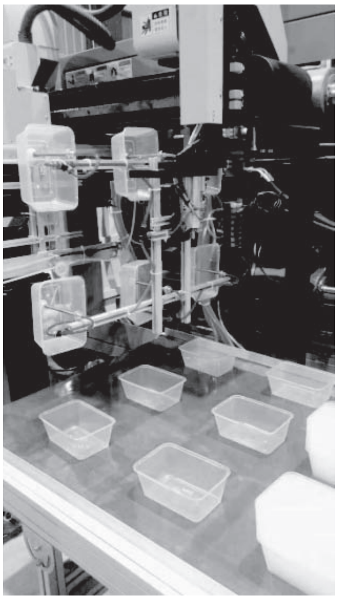
After the raw material mixture is placed in the injection moulding machine, our production staff will then confirm the setting of the injection moulding machine to ensure the moulding machine is operating properly and our raw material mixture is melted at the appropriate temperature.

Moulding of products



At this stage, the mould that has already been installed to the injection moulding machine will close, followed by the injection of the melted raw material mixture into the mould cavity. Once the cavity is filled, the moulded product has to be sufficiently cooled. Once the product is cooled down, the mould opens and the product is ejected.

Output of moulded products



The ejected moulded product is then picked up by the automated robot arm machines. This process is repeated until all products are properly moulded to the agreed quantity ordered by our customers. The automated robot arm machines will, according to the predetermined setting, place the moulded products in bulk, so our production staff can collect all products for packaging and delivery.

RAW MATERIALS

Principal raw materials

The principal raw material used in the production of our products is polypropylene resins. We purchase polypropylene resins from suppliers located in the PRC.

For the three years ended 31 December 2019, the cost of materials accounted for approximately 88.9%, 88.7% and 88.2% respectively, of our total cost of sales.

The following table sets out the breakdown of our total material costs during the Track Record Period:

	Year ended 31 December					
	2017		2018		2019	
	RMB'000	*% of total material costs*	*RMB'000*	*% of total material costs*	*RMB'000*	*% of total material costs*
Polypropylene resins	92,209	87.6	107,313	88.0	119,088	88.6
Packaging materials	4,682	4.5	5,449	4.5	6,013	4.5
Others *(Note)*	8,319	7.9	9,195	7.5	9,286	6.9
Total	105,210	100.0	121,957	100.0	134,387	100.0

Note: Others represent colour agents and other consumable materials.

Procurement planning

As at 31 December 2019, our procurement team was comprised of four staff members. Our production team, based on the terms of sales contracts on hand, will formulate the production plan, which will be passed to our procurement team to formulate the procurement plan for polypropylene resins.

We purchase raw materials based on our production plan. Our procurement and production team, based on the terms of sales contracts on hand from time to time, will formulate production plans which will specify the materials required for production. Purchases of polypropylene resins, our principal materials, are made every few weeks. We aim to keep an inventory level of polypropylene resins of not more than 10 days. Our procurement staff normally request for price quotation from at least three suppliers from our list of approved suppliers to obtain the best price for the polypropylene resins and packaging materials. Generally, the prices of polypropylene resins are subject to the fluctuations in the prices for crude oil. Due to the continuous decrease of crude oil prices and decreasing downstream demand, the average price of polypropylene experienced a decline from approximately RMB11,263 per tonne in 2013, to approximately RMB7,856 per tonne in 2016. However, according to the F&S Report, there was a shortage of market supply of polypropylene from 2016 to 2018 because of the recovery of crude oil price and the pressure of environmental protection, which led to shutdowns of some polypropylene resin producing companies. Thus, the average market price of polypropylene has increased to approximately RMB8,913.9 per tonne in 2019. During the Track Record Period, our average purchase price of polypropylene resins increased from approximately RMB8.2 per kg in 2017 to approximately RMB9.1 per kg as in 2019. Please refer to the paragraph headed "Financial information — Sensitivity analysis" of this prospectus for the sensitivity analysis of the staff cost and cost of raw materials on our profits.

During the Track Record Period, we did not experience any significant adverse fluctuations of the prices of our raw materials.

OUR SUPPLIERS

In general, we purchase raw materials such as polypropylene resins and packaging materials such as carton boxes from suppliers located in the PRC.

As at 31 December 2019, we had more than 20 approved suppliers and seven of which were suppliers of polypropylene resins and a stable supply of this key raw material can therefore be secured and the other approved suppliers are suppliers of colour agents, packaging materials and other materials. For the three years ended 31 December 2019, five, five and five of our top five suppliers had commenced business relationship with us for five years or more, respectively.

Our suppliers generally grant us a credit term of 50 days upon receipt of VAT invoices. During the Track Record Period, we settled payments with our suppliers in RMB mainly by bank transfer.

We adopt strict procedures in selecting our suppliers. We review their background information, including their scale of operation, quality control system, prices, financial position and reputation in the industry. A supplier will become our approved supplier only after they have met our selection criteria. We also conduct evaluation of our approved suppliers from time to time, which includes the stability and schedule of supply, their production facilities, quality control system and the validity of their relevant licences and permits.

Since polypropylene resins are our principal raw materials and the quality of which will affect the quality of our finished products, we place great emphasis on its quality. We require our polypropylene resins suppliers to provide us with the certifications of the polypropylene resins they supply to us. These certifications shall remain valid for the same type of polypropylene resins unless there are changes in the safety standard or requirement. For a new type of polypropylene resins or if there is any a recent change in the safety standard or requirement, we require our suppliers to provide us with a certification on such new polypropylene resins, safety standard or requirement.

Delivery of raw materials we purchased takes place in the PRC, and is made by road transport by the suppliers.

We do not foresee any significant difficulty in finding alternate suppliers for our raw materials and packaging materials. Although we have not entered in any long-term agreement or framework supply agreement with most of our suppliers, we entered into individual purchase contracts with them. We believe this arrangement provides us with the greatest flexibility in choosing our suppliers and obtaining a competitive price for the raw materials we require in our production process.

During the Track Record Period, we had not experienced any material return of raw materials or material dispute with our suppliers, nor any disruption, shortage or delay in the supply of raw materials, which may materially and adversely affect our operations and financial conditions.

Major contract terms with our suppliers

During the Track Record Period and up to the Latest Practicable Date, we did not enter into any long-term agreement nor framework agreement with our suppliers, which our Directors consider is in line with normal practice in the disposable plastic food storage container industry. For each purchase transaction for the procurement of our raw materials, we enter into individuals contracts with our suppliers.

Set out below is a summary of typical key terms of our purchase contracts with suppliers:

Product type	The purchase contract specifies the type, description and specifications of raw materials to be purchased by us.
Quantity	The purchase contract specifies the total quantity ordered.
Price	The purchase contract specifies a unit price and total purchase price for the products ordered.
Quality and acceptance	Different purchase contracts have different quality and acceptance standards, such as (i) sampling checks before delivery against our internal quality control requirements; (ii) compliance with national standard; or (iii) compliance with the specifications agreed in the purchase contract and a sample product shall be sent to us in advance before production commences. Our suppliers may also be obliged to produce necessary accredited certifications to assure that the quality of the raw materials can meet industry standards. For further details, please refer to paragraph headed "Quality control" in this section.
Payment terms	The purchase contract specifies that upon receipt of VAT invoice issued by our suppliers, we shall make payments within 50 days. Payment methods are not specified in the contract.
Warranty	There is no provision for warranty by our suppliers on the raw materials.
Product return	The purchase contract specifies that if the quality of the raw materials fail to meet the required standards, we have the right to return all or part of the raw materials ordered to our suppliers within three days.
Delivery	The purchase contract specifies the scope of the supplier's responsibility as to the logistics in delivering our products to us. It may also further specify the party that bears the cost of delivery, mode of logistic and if applicable, shipment date.

Our five largest suppliers

The tables below set forth a summary of our five largest suppliers for the three years ended 31 December 2019:

For the year ended 31 December 2017

Rank	Supplier	Background	Approximate years of relationship up to the Latest Practicable Date	Principal raw materials purchased/ service received	Approximate amount of purchase	Approximate percentage of our total purchase	Credit term(s)	Settlement method(s)
		(Note 1)			*(RMB'000)*	*(%)*	*(Days)*	
1	Supplier A *(Note 2)*	Supplier A is a PRC incorporated company engaged in the sales and marketing of petro chemical products.	7	Polypropylene resins	28,655	26.6	50	Bank transfer
2	Supplier B *(Note 3)*	Supplier B is a PRC incorporated company engaged in the sales of oil products. Its holding company is China Petroleum & Chemical Corporation, a PRC company listed on the Main Board of the Stock Exchange (stock code: 0386).	6	Polypropylene resins	24,042	22.3	50	Bank transfer
3	Supplier C *(Note 4)*	Supplier C is a PRC incorporated private company engaged in the wholesale of plastic products, chemical products and metals.	7	Polypropylene resins	20,422	18.9	50	Bank transfer
4	Supplier D *(Note 5)*	Supplier D is a PRC incorporated private company engaged in the wholesale of plastic and chemical products.	6	Polypropylene resins	9,842	9.1	50	Bank transfer
5	Supplier E *(Note 6)*	Supplier E is a PRC incorporated private company engaged in the wholesale of plastic products.	6	Polypropylene resins	6,030	5.6	50	Bank transfer
				Sub-total:	88,991	82.5		

For the year ended 31 December 2018

Rank	Supplier	Background	Approximate years of relationship up to the Latest Practicable Date	Principal raw materials purchased/ service received	Approximate amount of purchase	Approximate percentage of our total purchase	Credit term(s)	Settlement method(s)
		(Note 1)			*(RMB'000)*	*(%)*	*(Days)*	
1	Supplier A *(Note 2)*	Supplier A is a PRC incorporated company engaged in the sales and marketing of petro chemical products.	7	Polypropylene resins	30,743	26.1	50	Bank transfer
2	Supplier B *(Note 3)*	Supplier B is a PRC incorporated company engaged in the sales of oil products. Its holding company is China Petroleum & Chemical Corporation, a PRC company listed on the Main Board of the Stock Exchange (stock code: 0386).	6	Polypropylene resins	27,323	23.1	50	Bank transfer
3	Supplier C *(Note 4)*	Supplier C is a PRC incorporated private company engaged in the wholesale of plastic products, chemical products and metals.	7	Polypropylene resins	22,195	18.8	50	Bank transfer
4	Supplier D *(Note 5)*	Supplier D is a PRC incorporated private company engaged in the wholesale of plastic and chemical products.	6	Polypropylene resins	11,822	10.0	50	Bank transfer
5	Supplier F *(Note 7)*	Supplier F is a PRC incorporated private company engaged in the wholesale of plastic and chemical products.	7	Polypropylene resins	6,387	5.4	50	Bank transfer
				Sub-total:	98,470	83.4		

For the year ended 31 December 2019

Rank	Supplier	Background	Approximate years of relationship up to the Latest Practicable Date	Principal raw materials purchased/ service received	Approximate amount of purchase	Approximate percentage of our total purchase	Credit term(s)	Settlement method(s)
		(Note 1)			*(RMB'000)*	*(%)*	*(Days)*	
1.	Supplier A *(Note 2)*	Supplier A is a PRC incorporated company engaged in the sales and marketing of petrol chemical products.	7	Polypropylene resins	33,850	24.7	50	Bank transfer
2.	Supplier B *(Note 3)*	Supplier B is a PRC incorporated company engaged in the sales of oil products. Its holding company is China Petroleum & Chemical Corporation, a PRC company listed on the Main Board of the Stock Exchange (stock code: 0386).	6	Polypropylene resins	29,473	21.5	50	Bank transfer
3.	Supplier C *(Note 4)*	Supplier C is a PRC incorporated private company engaged in the wholesale of plastic products, chemical products and metals.	7	Polypropylene resins	26,416	19.3	50	Bank transfer
4.	Supplier D *(Note 5)*	Supplier D is a PRC incorporated private company engaged in the wholesale of plastic and chemical products.	6	Polypropylene resins	16,040	11.8	50	Bank transfer
5.	Supplier G *(Note 6)*	Supplier G is a PRC incorporated private company engaged in the wholesale of plastic products.	7	Polypropylene resins	7,685	5.6	50	Bank transfer
				Sub-total:	113,464	82.9		

Notes:

1. Such information is based on publicly available information from the official websites of our customers or their respectively holding company and the stock exchange, if applicable.

2. Supplier A is the subsidiary of listed company in the PRC.

3. Supplier B is a limited liability company incorporated in the PRC.

4. Supplier C is a limited liability company incorporated in the PRC.

5. Supplier D is a limited liability company incorporated in the PRC.

6. Supplier E is a limited liability company incorporated in the PRC.

7. Supplier F is a limited liability company incorporated in the PRC.

8. Supplier G is a limited liability company incorporated in the PRC.

None of our Directors, Shareholders (which to the best knowledge of our Directors owns more than 5% of the issued share capital of our Company) or their respective close associates had any interest in any of our five largest suppliers during the Track Record Period.

Concentration of Suppliers

For the three years ended 31 December 2019, purchases from our five largest suppliers amounted to approximately RMB89.0 million, RMB98.5 million and RMB113.5 million, which accounted for approximately 82.5%, 83.4% and 82.9% of our total purchases, respectively. Purchases from our largest supplier for the three years ended 31 December 2019 amounted to approximately RMB28.7 million, RMB30.7 million and RMB33.9 million, which accounted for approximately 26.6%, 26.1% and 24.7% of our total purchases, respectively.

For further details on the supplier concentration risk of our Group, please refer to the paragraph headed "Risk factors — Risks relating to our business — Our Group had a concentration of major suppliers in the supply of polypropylene resins for our production during the Track Record Period" in this prospectus.

Despite such supplier concentration, our Directors consider that our Group's business model is sustainable due to the following factors:

(i) *Industry landscape and business nature.* Due to the nature of the disposable plastic food storage container industry and the fact that our businesses primarily operate in order-by-order basis, it is common for manufactures like our Group to procure raw materials from a single supplier for manufacturing the product of the entire sales order for our customers to ensure consistency in the quality of the raw materials supplied by the same supplier. The raw material primarily used in the production of our products is polypropylene resins, which accounted for approximately 87.6%, 88.0% and 88.6% of our total material costs during the Track Record Period. We therefore select suppliers who are able to deliver polypropylene resins to us with a consistently high-level performance in quality and amount for our Group to meet our production plans and schedules. In order to maintain a long-term strategic relationship with our suppliers, the F&S Report confirmed that sourcing raw materials from a single supplier for the completion of a purchase order for our customers allows us to ensure the consistency of quality of the raw materials, which in turn allows us to monitor the quality of our products more effectively. Moreover, F&S also confirmed that sourcing raw materials from a single supplier generally means that we place procurement orders in large order volume, giving our Group greater bargaining power for bulk purchase of raw materials and thus help reducing our cost in production. It is therefore not uncommon for a single order placed by our customers, in particular those large-scaled sales, to have a large contract sum such that one large-scaled transaction can contribute to a substantial amount of our cost of sales. Therefore, the relevant supplier from whom we procured large quantity of raw materials may easily become our largest supplier;

(ii) *Abundance of polypropylene resin suppliers in the market and expanding supplier base.* While our Group endeavours to maintain the established business relationships with our existing suppliers, our Directors also recognise the importance of expanding our supplier base with a view to sustaining long-term growth. Our Directors believe that there are many alternative suppliers available in the market which can supply polypropylene resins that we use for production at comparable market prices and qualities. Hence, our Group should not have any difficulty in purchasing raw materials from alternative suppliers. Our Group will continue to identify and approach suitable suppliers to expand its supplier base as well as to cope with our Group's expansion plan; and

(iii) *Flexibility in sourcing from other quality suppliers.* Our Group does not enter into any long-term agreement or framework agreements with our suppliers. Instead, our Group enters into purchase contracts with our suppliers on an order-by-order basis. Our Directors consider that this practice is in line with the industry norm and our Group would maintain flexibility in supplier selection. Our Group maintains flexibility in supplier selection since we maintain an internal list of approved suppliers which is reviewed and updated periodically. As at the Latest Practicable Date, we had more than 20 approved suppliers on our list. In the event that a supplier ceases to supply raw materials to our Group, our Group could select approved suppliers from the list as replacement to prevent disruption to our production and ensure the quality of the raw materials and our products. In respect of our comprehensive list of approved suppliers, our Directors already assure a reasonably diversified base of reliable suppliers which can meet our internal quality control standards.

OUR CUSTOMERS

We have built a diversified and stable customer base in the PRC, which in our Directors' opinion, was primarily due to the consistency in the quality of our products, our ability to provide stable supply of products and to meet customers' varying needs on disposable plastic food storage containers. We will continue to focus on maintaining long-term relationships with our existing customers and on identifying and developing new business relationships with potential customers. As at 31 December 2017, 2018 and 2019, we had approximately 50, 60 and 60 customers, respectively.

Our customers are mainly PRC-based companies engaged in the trading of disposable plastic food storage containers, wholesaling or retailing of food and beverage and hotels, with some customers located in overseas countries. For the three years ended 31 December 2019, four, four and four of our five largest customers had business relationship with us for five years or more. For each period during the Track Record Period, our five largest customers accounted for approximately 39.4%, 37.5% and 37.8% of our total revenue, respectively, while the percentage of our total revenue attributable to our largest customer amounted to approximately 13.1%, 12.4% and 12.0%, respectively for the corresponding periods. The following table shows the breakdown of our revenue by geographical regions and the revenue generated from each region as a percentage of our revenue during the Track Record Period:

	Year ended 31 December					
	2017		**2018**		**2019**	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*
The PRC	164,712	99.2	190,423	98.9	209,991	98.7
Overseas *(Note)*	1,405	0.8	2,035	1.1	2,804	1.3
Total	**166,117**	**100.0**	**192,458**	**100.0**	**212,795**	**100.0**

Note: The overseas countries include United States, Australia, Saudi Arabia and the Republic of Trinidad and Tobago.

The following table shows the breakdown of our revenue by provinces or municipality in the PRC and overseas during the Track Record Period:

	Year ended 31 December					
	2017		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Fujian Province	78,095	47.0	91,514	47.6	101,388	47.6
Heilongjiang Province	21,710	13.1	23,859	12.4	25,496	12.0
Zhejiang Province	15,555	9.4	17,352	9.0	20,616	9.7
Hubei Province	10,838	6.5	13,282	6.9	14,290	6.7
Henan Province	10,755	6.5	11,843	6.2	12,210	5.7
Guangdong Province (Note)	9,527	5.7	10,822	5.6	11,879	5.6
Hebei Province	4,074	2.5	4,615	2.4	5,066	2.4
Shanxi Province	3,155	1.9	3,821	2.0	4,157	2.0
Jiangsu Province	2,439	1.5	3,008	1.6	3,327	1.6
Hunan Province	1,502	0.9	1,778	0.9	1,928	0.9
Shaanxi Province	1,050	0.6	1,181	0.6	1,367	0.6
Liaoning Province	750	0.5	887	0.5	974	0.5
Yunnan Province	43	0.0	—	0.0	—	0.0
Sichuan Province	—	0.0	3	0.0	—	0.0
Beijing Municipality	1,261	0.7	1,176	0.6	1,553	0.7
Shanghai Municipality	2,461	1.5	3,502	1.8	3,284	1.5
Tianjin Municipality	1,497	0.9	1,780	0.9	2,456	1.2
Overseas	1,405	0.8	2,035	1.0	2,804	1.3
	166,117	**100.0**	**192,458**	**100.0**	**212,795**	**100.0**

Note: The revenue generated from Shenzhen is considered immaterial during the Track Record Period, and thus it is included in the Guangdong Province.

During the Track Record Period, all of our customers are our direct customers and our products sold to customers in the PRC are normally delivered via road transportation, while our products sold to our overseas customers are generally delivered under FOB basis.

Our five largest customers

The table below sets forth a summary of our five largest customers for the three years ended 31 December 2019:

For the year ended 31 December 2017

Rank	Customer	Background	Approximate years of relationship up to the Latest Practicable Date	Principal product(s) sold	Approximate amount of revenue	Approximate percentage of our total revenue	Credit term(s)	Settlement method(s)
		(Note 1)			*(RMB'000)*	*(%)*	*(Days)*	
1	Customer A *(Note 2)*	Customer A is a group of companies incorporated in the PRC engaged in the retailing of food and household products.	4	disposable plastic food storage containers for food and beverage storage	21,710	13.1	40	bank transfer
2	Customer B *(Note 3)*	Customer B is a PRC incorporated company with limited liability engaged in the wholesale of household products and food products.	7	disposable plastic food storage containers for food and drinks storage	12,115	7.3	40	bank transfer
3	Customer C *(Note 4)*	Customer C is a PRC incorporated company with limited liability engaged in the wholesale of plastic and household products.	6	disposable plastic food storage containers for food and drinks storage	11,520	6.9	40	bank transfer
4	Customer D *(Note 5)*	Customer D is a PRC incorporated company with limited liability engaged in the sales and packaging of food products.	6	disposable plastic food storage containers for food and drinks storage	10,755	6.5	40	bank transfer
5	Customer E *(Note 6)*	Customer E is a PRC incorporated company with limited liability engaged in the wholesaling and retailing of plastic and household products.	7	disposable plastic food storage containers for food and beverage storage	9,334	5.6	40	bank transfer
				Sub-total:	65,434	39.4		

For the year ended 31 December 2018

Rank	Customer	Background	Approximate years of relationship up to the Latest Practicable Date	Principal product(s) sold	Approximate amount of revenue	Approximate percentage of our total revenue	Credit term(s)	Settlement method(s)
		(Note 1)			*(RMB'000)*	*(%)*	*(Days)*	
1	Customer A *(Note 2)*	Customer A is a group of companies incorporated in the PRC engaged in the retailing of food and household products.	4	disposable plastic food storage containers for food and beverage storage	23,859	12.4	40	bank transfer
2	Customer B *(Note 3)*	Customer B is a PRC incorporated company with limited liability engaged in the wholesale of household products and food products.	7	disposable plastic food storage containers for food and drinks storage	13,145	6.8	40	bank transfer
3	Customer C *(Note 4)*	Customer C is a PRC incorporated company with limited liability engaged in the wholesale of plastic and household products.	6	disposable plastic food storage containers for food and drinks storage	12,452	6.5	40	bank transfer
4	Customer D *(Note 5)*	Customer D is a PRC incorporated company with limited liability engaged in the sales and packaging of food products.	6	disposable plastic food storage containers for food and drinks storage	11,820	6.1	40	bank transfer
5	Customer E *(Note 6)*	Customer E is a PRC incorporated company with limited liability engaged in the wholesaling and retailing of plastic and household products.	7	disposable plastic food storage containers for food and beverage storage	10,847	5.7	40	bank transfer
				Sub-total:	72,123	37.5		

For the year ended 31 December 2019

Rank	Customer	Background	Approximate years of relationship up to the Latest Practicable Date	Principal product(s) sold	Approximate amount of revenue	Approximate percentage of our total revenue	Credit term(s)	Settlement method(s)
		(Note 1)			*(RMB'000)*	*(%)*	*(Days)*	
1.	Customer A *(Note 2)*	Customer A is a private company incorporated in the PRC engaged in the retailing of food and household products.	4	disposable plastic food storage containers for food and beverage storage	25,496	12.0	40	bank transfer
2.	Customer B *(Note 3)*	Customer B is a PRC incorporated company with limited liability engaged in the wholesale of household products and food products.	7	disposable plastic food storage containers for food and beverage storage	14,966	7.0	40	bank transfer
3.	Customer E *(Note 6)*	Customer E is a PRC incorporated company with limited liability engaged in the wholesaling and retailing of plastic and household products.	7	disposable plastic food storage containers for food and beverage storage	14,353	6.7	40	bank transfer
4.	Customer C *(Note 4)*	Customer C is a PRC incorporated company with limited liability engaged in the wholesale of plastic and household products.	6	disposable plastic food storage containers for food and beverage storage	13,368	6.3	40	bank transfer
5.	Customer D *(Note 5)*	Customer D is a PRC incorporated company with limited liability engaged in the sales and packaging of food products.	6	disposable plastic food storage containers for food and beverage storage	12,183	5.8	40	bank transfer
				Sub-total:	80,366	37.8		

Notes:

1. Such information is based on publicly available information from the official websites of our customers or their respectively holding company and the stock exchange, if applicable.

2. Customer A is consisted of company 1 and company 2 of Customer A, which are controlled by the same ultimate shareholder. Both companies are limited liability companies incorporated in the PRC. Company 1 of Customer A, was incorporated in 2016 with a registered share capital of RMB50.0 million, and is primarily engaged in the retailing of food and household products; Company 2 of Customer A was registered in 2016 with a registered capital of RMB15.0 million, and is primarily engaged in the retailing of food products. Our sales to Customer A include the aggregate sales to both Company 1 and 2 controlled by the same ultimate shareholder. Based on the search conducted by Frost & Sullivan, Company 1 and 2 belong to a sizable nationwide chain retailing conglomerate group with business across different sectors, such as retailing, chain supermarket, logistics, clothing, food processing, department stores and shopping centres, covering cities in Heilongjiang Province. The ultimate holding group of Customer A was established in 1996.

3. Customer B is a limited liability company incorporated in the PRC. Customer B was incorporated in 2005 with a registered share capital of RMB5.0 million, and is primarily engaged in the wholesale of household products including toiletries and skincare products, targeting their sales in the PRC market. Based on the search conducted by Frost & Sullivan, Customer B is a leading supplier of household and personal care products for local and international brands in Central Zhejiang Province, with sales coverage mainly in the Yangtze River Delta area across e-commerce platforms, supermarkets and specialty stores.

4. Customer C is a limited liability company incorporated in the PRC. Customer C was incorporated in 2007 with a registered share capital of RMB7.0 million, and primarily engaged in the wholesale of plastic and household products, including plastic gloves, clingfilm and tablecloths, targeting their sales in the PRC and overseas. Based on the search conducted by Frost & Sullivan, Customer C conducts sales in multiple provinces and cities across the PRC including Zhejiang, Yunan, Hunan, Hubei, Jiangxi, Xinjiang, Sichuan, Hainan, Shanghai, Guangdong and Fujian. Their international sales footprint includes Japan, the Philippines and the United States.

5. Customer D is a limited liability company incorporated in the PRC. Customer D was incorporated in 1997 with a registered share capital of RMB188.0 million, and is primarily engaged in the sales and packaging of food products. Established for over 20 years, Customer D is a sizable retail chain comprising more than five branches in the PRC with business across different sectors, such as retailing of food, clothing, food processing, department stores and shopping centres, with major business activates situated in Henan Province. Based on the search conducted by Frost & Sullivan, Customer D principally conducts its business in Henan Province, and its stores are located in Xuchang City and Xinxiang City of Henan Province.

6. Customer E is a limited liability company incorporated in the PRC. Customer E was incorporated in 2012 with a registered share capital of RMB1 million, and is primarily engaged in the wholesale and retailing of plastic and household products. Based on the search conducted by Frost & Sullivan, Customer E also engages in the manufacturing and exporting of food products, footwear, bags, and suitcases, exporting products to overseas customers in Europe, such as Italy, Spain and Austria.

Relationship with our five largest customers during the Track Record Period

During the Track Record Period, we did not have any customers who were also our suppliers.

None of our Directors, Shareholders (which to the best knowledge of our Directors owns more than 5% of the issued share capital of our Company) or their respective close associates had any interest in any of our five largest customers during the Track Record Period.

Our Directors confirmed that none of our Group's five largest customers, their subsidiaries, any of the directors, shareholder's or management, or any of their respective associates have any past or present relationship (including without limitation, family, employment, trust, financing, shareholding or otherwise), other transaction (including, without limitation, financing or fund flow), agreement, arrangement or understanding with our Company, our subsidiaries, our shareholders, directors, senior management or any of their respective associates.

Sustainability of our Group's business in view of the concentration on major customers during the Track Record Period

For the three years ended 31 December 2019, sales to our five largest customers amounted to approximately RMB65.4 million, RMB72.1 million and RMB80.4 million and accounted for approximately 39.4%, 37.5% and 37.8%, respectively, of our total revenue, and sales to our largest customer amounted to approximately RMB21.7 million, RMB23.9 million and RMB25.5 million and accounted for approximately 13.1%, 12.4% and 12.0%, respectively, of our total revenue during the same periods. Owing to our concentration on major customers during the Track Record Period, we are subject to the risks associated with concentration of customers. For further details, please refer to the paragraph headed "Risk factors — Risks relating to our business — Our Group had a concentration of customers during the Track Record Period and does not have any long-term purchase commitment from our customers; hence, any decrease in our sales to any of them could adversely and substantially affect our operations and financial conditions" in this prospectus. Despite such concentration of major customers, our Directors consider that our business is sustainable due to our efforts in actively diversifying customer base.

Major contract terms with our customers

We do not enter into any long-term sales agreement or framework agreement with our customers. Instead, our customers enter into individual sales contracts with us for our products on a transaction by transaction basis. The sales contracts, in general, set out, among others, the purchase price and order amount, delivery arrangement, payment terms, quality standard according to individual customers' specifications.

Set out below is a summary of typical key terms of our sales contracts with customers:

Product type	The sales contract specifies the type, description and specifications of the disposable plastic food containers to be purchased by our customers.
Quantity	The sales contract specifies the total quantity ordered.
Price	The sales contract specifies a unit price and total price for the products ordered.
Quality and acceptance	Different contracts have different quality and acceptance standards, such as (i) sampling checks upon delivery against our customer's requirements on product quality; (ii) compliance with national standard; or (iii) compliance with the specifications agreed in the contract. We may also be obliged to produce necessary accredited certifications to assure that the quality of our products is in line with industry standards. For further details, please refer to paragraph headed "Quality control" in this section.
Payment terms	The sales contract specifies that payments shall be made to us not more than 40 days from the invoice date. Payment methods are generally not specified in the contract.
Warranty	There is no provision for warranty on our products.
Product return	The sales contract specifies that if our products fail to meet the quality and acceptance standards, our customers have the right to return the products to us. Any costs and expenses incurred thereof would be borne by us.
Delivery	The contract specifies the scope of our responsibility as to the logistics in delivering our products. It may also further specify the party that bears the cost of delivery, mode of logistic and if applicable, shipment date.

Pricing strategy and policy

Our pricing policy aims to enable us to achieve a profitable and sustainable growth in our business.

The price of our products is generally determined on a "cost-plus" basis, comprising mainly the price of the raw materials, labour costs and our profit margin with reference to the market demand, anticipated market trends, historical sales data and prices of our competitors' products. The cost, including any increase in the cost of raw materials, will be taken into account in determining the selling price for our customer. As a result of our "cost-plus" pricing strategy, our Directors believe that we can pass on the increase in purchase costs of raw materials to our customers.

For each of the three years ended 31 December 2019, the minimum and maximum unit price of our "JAZZIT" branded products and non-branded products are as follows (Note 1):

	Year ended 31 December					
	2017		2018		2019	
	Min.	Max.	Min.	Max.	Min.	Max.
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Products under "JAZZIT" brand	0.08	1.93	0.09	2.10	0.07	2.10
Non-branded products	0.08	1.93	0.08	1.99	0.04	1.21

For each of the three years ended 31 December 2019, the minimum and maximum unit price of our products under our regular, customised and other products are as follows (Note 1):

	Year ended 31 December					
	2017		2018		2019	
	Min.	Max.	Min.	Max.	Min.	Max.
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Regular products	0.08	1.93	0.08	2.10	0.04	2.10
Customised products	0.10	1.19	0.10	1.65	0.09	1.65
Others (Note 2)	0.08	0.32	0.09	0.34	0.09	0.34

Notes:

1. The pricing of our products is on a cost-plus basis and is also subject to our product design, features and specifications. The unit price ranges are prepared by piece, regardless of the specification, order quantity, raw materials, labour costs and our profit margin and other elements which may be factored in the pricing of our disposable plastic food storage containers by order. As a result, there could be a significant difference between the minimum and maximum unit prices of certain products during the Track Record Period.

2. Interior compartment trays and drinkwares.

Our Directors confirm that the following are the reasons for the fluctuations of the unit prices of our products under various product categories during the Track Record Period:

1. Our "JAZZIT" branded products and our non-branded products:

The average unit price of our "JAZZIT" branded products is higher than the average unit price of our non-branded products for each of the three years ended 31 December 2019, and for the same periods, our gross profit margin for products under "JAZZIT" brand and non-branded products maintained at a stable level at approximately 29.2%, 28.9% and 28.8%, and 24.1%, 23.9% and 25.2%, respectively.

Our Directors confirmed that the difference in the average unit price between our "JAZZIT"-branded products and our non-branded products is mainly contributed by the following factors:

(i) according to the F&S Report, key success factors for industry players in the disposable plastic food storage container market in the PRC is personalised branding, good corporate reputation and brand awareness. A successful brand image can attract a wider variety of consumers and is reported to be a crucial promotional strategy to drive up demand for products. F&S Report also mentioned that with an enhanced brand awareness among the customers, customers' loyalty to both the brand and the industry player will increase, which allows market players such as our Group to maintain a solid customer base and appeal to more potential business partners. Considering the potential benefits our "JAZZIT" brand can bring to our Group, our Directors believe that it is our strategy to adjust the selling price of our "JAZZIT" branded products slightly higher than our non-branded products; and

(ii) it is the pricing strategy of our Group to adopt a cost-plus basis and adjust the selling price of our products based on any change in our cost of sales so as to maintain the similar gross profit margin of our products.

2. Our regular products, customised products and other products:

Our Directors confirmed that the difference in the minimum and maximum unit price between our regular, customised and other products is mainly attributed by the fact that the production cost of these products would vary, depending on the amount of raw materials used and the labour cost etc. The material costs for production of each unit of regular products, which refers to disposable plastic food storage container with one compartment, may be higher than the material costs for production of customised product with more than one compartment, if the size of which is bigger and the amount of raw materials used is more than that of the customised products, regardless of the functionality of the products and the number of compartments of the products. Based on our pricing strategy on a cost-plus basis, we will adjust the selling price of our products if there is any change on our cost of sales so as to maintain the similar gross profit margin of our products.

Tax Rebate

During the Track Record Period, a small part of our products were exported to overseas countries such as the United States, Australia and Saudi Arabia and for the three years ended 31 December 2019, the revenue generated from export sales represented approximately 0.8%, 1.1% and 1.3% of our sales revenue, for the corresponding periods, respectively. From 1 January 2017 up to 1 May 2018, we were entitled to a rebate of the VAT from the PRC tax authority arising from these export sales at rate of 17% for our products. Effective from 1 May 2018, the rate of rebate of the VAT from the PRC tax authority arising from our export sales was adjusted to a rate of 16%. The amount of tax rebate is calculated by multiplying the invoiced value of our export sales with the tax rebate rate applicable to the export product type. Application of tax rebate has to be made to the tax authority in the PRC. Should the PRC tax authority find the documents submitted in relation to the application of tax rebate in order, the tax rebate will be realised, by way of cash settlement or offsetting the VAT payable within one month. We received this tax rebate as cash settlement in the respective sum of approximately nil, nil and nil for each of the three years ended 31 December 2019, respectively. To realize our tax rebate, our VAT payable was reduced by approximately RMB0.1 million, RMB0.2 million and RMB0.4 million for the three years ended 31 December 2019, respectively. Our Directors confirmed that in view of the fact that the revenue generated from our export sales amounted to less than 2% of our sales revenue for each year of our Track Record Period, we elected to not receive any tax rebate in cash as the cash generated from tax rebate will be insignificant. Effective from 1 April 2019, the rate of rebate of the VAT from the PRC tax authority arising from our export sales has been adjusted to a rate of 13%. The purpose of the tax rebate is to refund the VAT incurred on the raw materials we sourced for the production of our products in the PRC, which were subsequently exported to overseas countries.

Credit period and payments

With a view to fostering long-term business relationships with our customers and at the same time protect our interests, our Group adopts different credit policies for different customers. We principally consider our customers' trading and credit history, sales volume, scale of operations, background, financial conditions and the length of business relationship with our Group to determine the credit terms for individual customers. We generally grant to our customers a credit period of not more than 40 days from the invoice date.

Alongside with our credit policy, we also adopt a series of credit control measures which require all customers to first go through credit check performed by our sales and marketing team and our finance department. The results of these assessments are then reviewed by our Directors. The assessment and review on the credit terms of individual customers is conducted on a periodic basis.

Our finance department is responsible for payment collection, invoice issuance and the management of receivables. Our staff in the sales and marketing department will, at the direction of the finance department, remind our customers to make timely payments to us. When any trade receivables become overdue for an extended period of time, our sales and marketing department will take follow-up actions, including issuing demand notes to the relevant customer and inform relevant sales representative of the details. Our Group will consider engaging external legal counsels to issue demand letter to the customer or institute legal proceedings against the customers after we have exhausted other means of demands. Based on assessment of the recoverability of the trade receivables, we will make allowances for bad and doubtful debts accordingly. During Track Record Period, our Group had not experienced any material bad debt. For the three years ended 31 December 2019, our average trade receivables turnover days were approximately 57 days, 58 days and 57 days, respectively.

Our customers settled our payments mainly by way of bank transfer in RMB.

During the Track Record Period, we had not experienced any major defaults in payments or bad debts from our customers which may materially affect our financial condition and operating results.

Products return policy and after-sale services

Given the nature of our products, we are not required by our customers to offer after-sale services. We do not offer any product return or warranties to our customers unless it is due to quality of our products. We require our customers to notify us within three days upon delivery to the customer's designated location, if there is any defect in the products. Our customers are entitled to return products to us only if the products deviate from the specifications in the purchase orders. For any product quality complaints, our quality control team will ascertain the validity of the claims and report its findings to our production team and sales team. We may offer product exchange to our customers with regards to any products which are certified by us as being defective.

Our Directors confirm that there had been no product returns from our customers during the Track Record Period.

As concerns customers' complaints, our sales representatives are responsible for dealing with complaints from our customers. All complaints about our products will be directed to the relevant sales manager and he/she will directly handle the complaint with the customer and report the results to our management team. Our Directors confirmed that we had not received any material complaints lodged by our customers or in relation to our products during the Track Record Period.

Our staff from the sales and marketing team communicate with our customers regularly to collect their feedbacks on the quality of our products, their preferences, and market demands for our products. Our sales and marketing team will share this feedbacks with our product and mould design team so that the latter can improve our product quality and develop new products.

Delivery and logistics

Our Group is generally responsible for delivery of our products to customer's designated place and bears the costs and risks during transportation. We rely on Independent Third Party logistic service providers for product delivery and we bear their logistic service fee, generally calculated on the basis of the real transportation volume. The logistic service providers are responsible for all risks relating to the products in transit upon completion of unloading of the products. Delivery of our products is made by road transportation to our customers in the PRC. During the Track Record Period, all of our overseas customers are our direct and end customers and our sales to them are normally transported under FOB basis. Under the FOB arrangement, the risks of loss or damage of goods transported are passed to the buyer when the goods are on board of the vessel, and the buyer bears all costs from that moment onwards. We do not refund or provide inventory to them. During the Track Record Period, we did not engage any distributors to distribute our products. There are instances where our customers engage their own third party logistic providers to pick up the products from our Production Facilities. For the three years ended 31 December 2019, the costs for engaging Independent Third Party logistics providers amounted to approximately RMB6.6 million, RMB7.1 million and RMB7.7 million, respectively.

Our Directors confirmed that we had not experienced any material disruption or damage to our products in the delivery of our products during the Track Record Period.

SALES AND MARKETING

Our sales and marketing strategies focus on establishing a reputation for consistent and stable production and supply of quality disposable plastic food storage containers at competitive prices, offering product designs, and building stable and long-term relationships with our customers.

As at 31 December 2019, our sales and marketing team was consisted of eight staff members who were responsible for formulating our overall sales strategies, coordinating with, handling enquiries from, and confirming orders and product specifications with our customers as well as providing on-going customer services including obtaining customers' feedbacks and following up on any customers' complaints or improvement suggestions and collecting updated market information. Our sales staff are remunerated with a monthly basic salary and commissions based on certain performance indicators such as the amount of revenue generated, number of new customers sourced and in-time payment collection from customers.

We mainly promote our Group and our products through participating in trade fairs such as The Hotelex Shanghai (上海國際酒店用品博覽會), and The Guangzhou Hotel Equipment and Supply Exhibition (廣州酒店用品展覽會). We also promote our products through setting up a product showroom in our Fujian office. Our sales representatives from our sales and marketing team also make cold calls to actively reach out more potential customers, and to update our existing customers about our latest products and innovations. As an established disposable plastic food storage container supplier in the PRC with a reputation for providing reliable and high standard products to our customers, we have been able to source new customers through word-of-mouth and referrals from our existing customers, many of whom made recommendations based on their positive experience with our quality products and competitive pricing. We believe customers' referrals and word-of-mouth to be the most efficient way to expand our clientele and gain trust from new customers.

We believe our sales and marketing strategies give an effective channel for us to promote our products, enhance profile and public awareness of our Group and therefore broaden our customer base and enhance our revenue.

QUALITY CONTROL

As at 31 December 2019, we had four staff members serving at our production team and are responsible for quality control of our products. We have implemented quality control measures throughout our manufacturing process from incoming material quality control to delivery of finished products in accordance with the requirement of ISO 9001 and ISO 14001 standards. Our production supervisor is in charge of the overall quality control of the production. Our quality control staff are mandated to identify any quality control issues and provide solutions to our production team to address the quality control issues. Our production team together with our quality control staff are tasked with examination of our products at each key stage of production to ensure that the quality of our products can meet our internal standards and/or our customers' requirements.

Raw materials

We obtain certifications or test results from our suppliers showing that the polypropylene resins they supply to us can meet the required safety standards. Such certifications or test results remain valid for that particular polypropylene resins supplied by the same supplier unless there are changes in the safety standards and requirements. We also obtain the relevant certification or test results from our suppliers on any new types of polypropylene resins and new safety standards and requirements.

Our quality control staff conduct sample checks on the incoming raw materials. Upon discovery of any sub-standard or defective raw materials, we will request for a refund of the purchase price or a set-off of the purchase price of the defective polypropylene resins against our outstanding purchase price with the supplier. For defective packaging materials, we will arrange for return or substitute of the packaging materials with our suppliers.

Production Process

During the production process, our quality control staff conduct random sample check on the products covering aspects of quality and appearance. Those products that fail to meet the quality standards will be disposed of and will be subject to further analysis to identify the root cause of the failures and determine if any corrective action can be taken. Our production staff and quality control staff meet regularly to discuss the causes of the quality problems of our products and the corresponding solution to improve and ensure the quality of our products.

Finished products

Before packaging and delivery of our finished products, we conduct final quality control check to ensure that the outgoing products can comply with the relevant standards and specifications. We require our quality control staff to conduct visual inspection and safety testing on our finished products on random basis in accordance with our internal quality control policy. The finished products must pass our final quality testing before packaging. Those products that fail to meet the quality standard will be subject to disposal.

Occasionally, some of our customers also send representatives to conduct quality checks on our finished products during the production process shortly before delivery of finished products.

Our Directors confirm that we had not experienced any substantial return or recall of our products due to quality and safety defects during the Track Record Period and up to the Latest Practicable Date.

INVENTORY MANAGEMENT

Our inventory comprises mainly polypropylene resins, packaging materials and finished products. We closely monitor our inventory level to meet our production requirements, minimise any waste on inventory and avoid obsolete inventory.

For our raw materials, we formulate our inventory plan according to our confirmed purchase orders. Generally, we aim to keep an average inventory level for polypropylene resins of not more than 10 days. We adopt a first-in-first-out approach for the utilisation of the raw materials. We continuously monitor our inventory level by conducting regular checks on quality and quantity. In addition, our procurement staff work closely with our production team to formulate our procurement plan and budget.

As we normally manufacture our products after receipt of purchase orders placed by our customers, we do not maintain a high level of inventory for finished goods. As at 31 December 2017, 2018 and 2019, the finished good inventories amounted to approximately RMB3.6 million, RMB3.0 million and RMB3.4 million, respectively.

AWARDS AND CERTIFICATIONS

In recognition of our quality management, we have been granted a number of awards and certifications.

The following table sets forth the major awards/ certifications received by us:

Date of grant	Award/Certification	Issuing authority/institution
January 2017	Third prize in Patent of the Scientific Technology Award of Jinjiang Municipality	People's Government of Jinjiang Municipality
March 2017	Fujian Science and Technology Enterprise Certificate	Fujian Provincial Department of Science and Technology
May 2014	ISO 9001	China United Certification Center
May 2014	ISO 14001	China United Certification Center

SEASONALITY

The disposable plastic food storage container industry in the PRC exhibits seasonality and is subject to dynamic changes in trends and consumers' preference, as well as varying consumer behaviour in different regions of the country. During the Track Record Period, our Group generally recorded lower sales during the first quarter of a financial year. The sales generated in the first quarter for the three years ended 31 December 2019 accounted for approximately 21.4%, 19.6% and 19.9%, respectively.

For further details of the risk associated to seasonality, please refer to the paragraph headed "Risk factors — Risks relating to our business — Sales of our products are subject to seasonality and our results of operations are subject to fluctuations" of this prospectus.

COMPETITION

According to the F&S Report, the rapid development of downstream industries such as the catering and food delivery market, which is the main application of disposable plastic food storage container industry, has driven demand for disposable plastic food storage containers in the PRC. The sales revenue of disposable plastic food storage container industry has experienced a fast growth from approximately RMB3.5 billion in 2014 to approximately RMB9.6 billion in 2019, with a CAGR of 22.0% during the said period.

According to the F&S Report, in terms of sales revenue in 2019, top five players in the market accounted for approximately 15.1% of market share in the PRC, and our Group ranked the fourth with a market share of 2.2%.

In view of (i) the continuous growth of catering and food delivery market; (ii) the increasing popularity of online food delivery and semi-finished food; and (iii) the anticipated growth of consumption potential due to new urbanization constructions in the PRC, the demand for disposable plastic food storage containers is expected to grow in the future. According to the F&S Report, sales revenue of disposable plastic food storage container is anticipated to reach approximately RMB16.7 billion, representing a CAGR of 11.8% from 2019 to 2024. Our Directors consider that (i) the ability to pass stringent national quality requirements; (ii) the ability to gain brand recognition and long term, stable relations with suppliers; (iii) maturity of production technologies; and (iv) sufficiency of capital investment in production, research and development and marketing network, as our main entry barriers to the disposable plastic food storage container industry in the PRC.

INSURANCE

We maintain insurance in respect of our fixed assets, machinery and equipment, raw materials and finished goods. Our employees are provided with social insurance in conformity with PRC social security regulations, including pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance. However, we do not maintain various insurance policies covering our product liability and properties. For further details of the risk relating to our insurance, please refer to the paragraph headed "Risk factors — Risks relating to our business — Our operations are exposed to risks customary to the disposable plastic food storage container industry and our existing insurance coverage may not provide our Group with adequate protection against these risks" of this prospectus.

Our Directors confirmed that our Group maintained adequate coverage of insurance policies in the context of our business and believe it is in line with industry practice. Since the Track Record Period and up until the Latest Practicable Date, our total insurance expenses for our fixed assets, machinery and equipment, raw materials and finished goods amounted to approximately RMB82,162. Up to the Latest Practicable Date, our Directors confirm that we had not made, or been the subject of, any material insurance claim.

ENVIRONMENTAL COMPLIANCE

Our operations are subject to the PRC national and local environmental laws, regulations and rules including, among others, provisions including Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), Prevention and Control of Atmospheric Pollution Law of the PRC (《中華人民共和國大氣污染防治法》), Prevention and Control of Environmental Noise Pollution Law of the PRC (《中華人民共和國環境噪聲污染防治法》), Prevention and Control of Solid Waste Pollution Law of the PRC (《中華人民共和國固體廢物污染環境防治法》), Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation) (《排污許可管理辦法(試行)》) and Law of the PRC on Environmental Impact Assessment (《中華人民共和國環境影響評價法》). Please refer to the paragraph headed "Regulatory overview — Environmental protection" of this prospectus. Our PRC Legal Advisers confirmed that based on the confirmation letter issued by the relevant competent government authority we have complied with the legal or regulatory requirements under environmental protection in all material respects in the PRC.

Our Directors consider the implementation of environmentally responsible practices, policies and maintaining high standard of environmental compliance to be one of our missions as it reduces both our risk of exposure to liability under environmental protection laws and regulations in the PRC, and the impact of our operations on the environment. We are committed to complying with the relevant environmental protection requirements in the PRC. Our production process for our disposable plastic food storage container products involves the use of polypropylene resins. Our business operation is therefore subject to environmental protection laws, regulations and policies in the PRC in relation to the disposable plastic food storage container industry. For the risk associated with our environmental protection requirements, please refer to the paragraphs headed "Risk factors — Risks relating to our business — We are subject to the pressure of increasingly stringent PRC environmental laws and regulation and may be adversely affected by changes in the environmental laws, regulations and policies and in the worst scenario where the PRC Government prohibits the production of disposable plastic food storage containers with polypropylene resins, our contingency plan may not be effective as we have expected" and "Risk factors — Risks relating to the industry in which we operate — We are subject to stringent environmental and workplace safety laws and regulations and we may incur substantial costs in complying with such laws and regulations and may be subject to potential liability" of this prospectus.

Our Group has been awarded the Environmental Management System Certificate in compliance with ISO 14001:2004 standards in the production and correlative management activities of disposable plastic tableware (food package, cup) issued by the China United Certification Center. In order to ensure compliance with the relevant laws and regulations in the PRC, our Group has implemented, among others, the following governance measures in identifying, assessing and managing environmental related risks, which are stipulated in our quality environmental management manual and its appendices:

- Our Directors and senior management team members are responsible for formulating major environmental protection policies within our Group and overseeing strategies and implementation of policies in managing environmental-related risks; and

- Our administration department will be responsible for the day-to-day implementation of our environmental-related risk. In particular, the supervisor of administration department is in charge of formulating specific strategies to ensure legal compliance in environmental protection laws in the PRC, and to regularly monitor relevant environmental-related risks in accordance with our internal guidelines and standard.

Our environmental-related risk assessment policy

To identify, assess and manage environmental-related risks, we have adopted an assessment policy, details of which are as follows:-

(i) we had engaged an Independent Third-Party inspection and assessment institution to identify and assess the level of compliance in respect of environmental protection covering emission of wastewater, noise control and air pollution control in May 2019. This institution has obtained China Inspection Body and Laboratory Mandatory Approval (CMA) issued by the Fujian Provincial Bureau of Quality and Technical Supervision* (福建省質量技術監督局), whereby it is qualified to carry out inspection and testing on our environmental protection measures and assess our level of compliance. This institution is a company incorporated in the PRC in 2012 with a registered capital of RMB 50 million. This institution offers a variety of technical testing services across various industries in the PRC in areas including, among others, environmental protection related issues. With the data set out in the inspection report, our Directors note that the wastewater, noise and air pollutants incurred in the course of our production is within the range under the relevant laws and regulations in the PRC. In view of the importance of maintaining high standard of environmental protection compliance, our Directors intend to engage the inspection and assessment institution to identify and assess the environmental-related risks on a yearly basis;

(ii) our administration department will keep a monthly record on the type of pollutants and the quantity of the pollutants to ensure that both of them are within the scope of the Fujian Pollutant Discharge Permit* (福建省排污許可證) granted by the Environmental Protection Bureau of Jinjiang City. If the quantity of our Group's pollutants emitted in the course of production in our Production Facilities has exceeded the amount permitted under the Fujian Pollution Discharge Permit, this indicates that our environmental measures are not adequate;

(iii) our production team is responsible for ensuring that the treatment plants for reducing pollutants in wastewater can properly function; and

(iv) our Fujian Pollutant Discharge Permit* (福建省排污許可證) is subject to renewal for every three or five years, depending on requirements set out by the Quanzhou Municipal Jinjiang Bureau of Ecology and Environment* (泉州市晉江生態環境局) whereby the environmental-related risks shall have been identified and mitigated before we can apply for the renewal.

Our environmental, social and governance policies

Set forth below are the major governance measures towards our major environmental related risks:

Waste water treatment. Our Group uses treatment plants to reduce pollutants in the waste water generated during the production process before being discharged;

Noise control. Our Group adopts soundproofing and vibration reduction measures to reduce the level of noise emitted from our machinery and equipment;

Air pollution control. Our Group uses dust screens and covers to lower the level of pollutant and other particles generated from the production process.

Environmental policies

We also have put in place a set of environmental policy that targets to manage the environmental impact of our business operation, as well as to promote equal opportunities and diversity as follows:

- We imposed measures to achieve electricity-saving, such as (i) using electricity-saving equipment, electrical appliances, and lamps for production, office, and domestic electricity use; (ii) requiring our employees to turn on electrical equipment, including lighting equipment, air conditioners, fans, etc. during business hours only depending on actual needs, and encouraging them to turn off the power when it is not in use or before they are off duty; and (iii) forbidding the running of idle equipment, and the unreasonable electric wiring distribution;

- We also encourage water consumption efficiency by (i) applying water-saving appliances in water facilities as much as possible; (ii) closing the faucets in time after using water to prevent the wastage and leakage of water; and (iii) if abnormal conditions are detected, notifying the relevant department in time to prevent any wastage of water resources; and

- We performed assessment and management of environment-related risks associated with our production process.

Social policies

During the Track Record Period, our Company demonstrated our commitment to our corporate social responsibilities. We also have put in place a set of social policies to encourage equality and fairness as follows:

- We have a policy of providing equal opportunities in employment and career development regardless of gender, age and religion;

- In strict compliance with the requirements of the Labour Law of the PRC (《中華人民共和國勞動法》), it is our Company' s policy to avoid any hiring of child or forced labour in our business operation and firmly insist on a zero tolerance approach to child or forced labour in any form; and

- We provided trainings to our workers on safe use of machinery and our workers were required to pass the relevant assessments conducted by us.

For more details, please refer to the paragraph headed "Employees" in this section.

Governance policies

Our Company strictly abides by the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) and the Anti-Money Laundering Law of the PRC (《中華人民共和國反洗錢法》), and has made clear undertakings in respect of the responsibilities of various positions in respect of avoiding any conflict of interest with our Company, which require the employees to report conflicts of interest in a timely manner to our Company. During the Track Record Period, no legal case regarding corrupt practices was brought against us nor any of our directors and employees. For more details of the anti-bribery and anti-money laundering policies, please refer to the paragraphs headed "Employees — Corporate governance policies governing the employees' behaviour" in this prospectus.

Our pollutant discharge permit application

In November 2014, we had been granted the Pollutant Discharge Permit* (《排放污染物許可證》) by the Environmental Protection Bureau of Jinjiang City* (晉江市環境保護局), which expired in November 2017. In November 2017, we were granted the Fujian Pollutant Discharge Permit* (《福建省排污許可證》) by the Environmental Protection Bureau of Jinjiang City* (晉江市環境保護局), which had expired since 31 December 2019. Based on a confirmation letter issued by the Quanzhou Municipal Jinjiang Bureau of Ecology and Environment* (泉州市晉江生態環境局) (formerly known as the Environmental Protection Bureau of Jinjiang City* (晉江市環境保護局)) (the "**Bureau of Ecology and Environment**") on 26 March 2020 (the "**Confirmation Letter**"), which is a competent authority in charge of environmental protection in Jinjiang City, our Group was in compliance with the relevant laws and regulations of the PRC in relation to environmental protection since the establishment of Hengsheng Animation till the issuance date of such confirmation letter and our Group was allowed to discharge pollutants generated from our operation according to the prevailing national and relevant regional standards until we have obtained the pollutant discharge permit; and during this period, the unavailability of a pollutant discharge permit would not affect our production and daily operation and the authority would not impose any administrative penalty, enquiry or investigation on our Group. As advised and confirmed by our PRC Legal Advisers, according to the Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》) the environmental protection authorities of the local people's governments at or above the county level shall exercise unified supervision and administration of the environmental protection work within their respective administrative areas. The Quanzhou Municipal Jinjiang Bureau of Ecology and Environment* (泉州市晉江生態環境局), being the local supervising body for environmental protection, has the power and authority to issue the aforementioned confirmation letter. As at the Latest Practicable Date, the Bureau of Ecology and Environment has started processing applications for pollutant discharge permit and our application for the pollutant discharge permit is under preparation. Our Directors confirmed that the application for the pollutant discharge permit is expected to be submitted by the end of June 2020 or early July 2020. Our Directors note that due to the implementation of the new law and regulation on the issue of pollutant discharge permit, it is hard for the relevant authority or the Directors to ascertain when our application for a pollutant discharge permit can be completed. Considering the content of the Confirmation Letter and our continued compliance with the relevant pollutant regulations, our PRC Legal Advisers take the view that there should not be any material legal impediment on our application. For further details, please refer to the paragraphs headed "Licenses, permits and approval" in this section. Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, our Group's business, strategy and financial performance have not been materially adversely affected by any actual or potential impacts of environmental-related risks. Going forward, we will continue to allocate adequate resources and efforts to uphold and improve our environmental protection measures in order to reduce the inherent risks related to environment-related risk issues.

For the three years ended 31 December 2019, the amount incurred by our Group in respect of environmental protection amounted to approximately RMB0.2 million, RMB0.2 million and RMB0.2 million, respectively, which was mainly consisted of the salaries of the responsible employees and the service fees of the Independent Third Party inspection and assessment institution. Our Directors consider that our annual costs of compliance with the applicable environmental protection laws and regulations were not material during the Track Record Period and the costs of such compliance are not expected to be material in the coming years. As confirmed by our PRC Legal Advisers, according to the Regulations on Administration of Levy and Use of Pollutant Discharge Fee (排污費徵收使用管理條例) enforced up to 1 January 2018, enterprises that discharge wastewater to facilities for centralized treatment of urban wastewater and pay wastewater treatment fee are not obliged to pay pollutant discharge fee. Our Directors confirmed that our Group discharges wastewater to facilities and pays wastewater treatment fee and are not obliged to pay pollutant discharge fee. As confirmed by our PRC Legal Advisers, according to the Environmental Protection Tax Law of the PRC implemented from 1 January 2018, enterprises that directly discharge taxable pollutants prescribed by the Table of Taxable Items and Tax Rates of Environmental Protection Tax (環境保護税税目税額表) and the Table of Taxable Pollutants and Their Equivalent Value (應税污染物和當量值表) to the environment within the territory of the PRC and other sea waters under the jurisdictions thereof shall be taxpayers of environmental protection tax. Our Directors confirmed that the pollutants discharged during the production process do not fall into the scope of taxable pollutants prescribed by the abovementioned Tables.

Our Directors believe that we have adopted effective measures to prevent and control pollution to the environment. After seeking opinions from our PRC Legal Advisers, our Directors confirmed that our Group was in compliance with all relevant environmental laws and regulations in the PRC in all material respects and we had not encountered penalty for failure to comply with the applicable environmental laws and regulation during the Track Record Period and up to the Latest Practicable Date.

Our contingency plan in the worst-case scenario where the government prohibits the production of disposable plastic food storage containers

According to the F&S Report, at present, the products made of polypropylene resins are widely used in people's daily life and despite the availability of some alternatives such as cardboard containers, starch-based containers, polypropylene resins disposable plastic food storage containers cannot be replaced completely in the forecasting period (before the year of 2024), mainly due to their high oil content, high temperature and strong liquidity of Chinese dishes, while paper containers, starch-based containers have poor stability, heat resistance and sealing performance. Other food containers such as glass canning jars, stainless steel containers or silicon food containers are not disposable, which may not be suitable for the takeaway food. According to the F&S Report, the eating habits of Chinese people are expected to remain unchanged in the near future, and PP disposable plastic food storage containers will be one of the most suitable containers in the food delivery market in the PRC.

According to the Classification Management List of Discharge Permits for Fixed Pollution Sources (2019 Version)*《固定污染源排污許可分類管理名錄(2019年版)》published in December 2019 (the "**Classification Management List**"), pollutant discharge entities will be divided into key management entities, simplified management entities and registration management entities based on the pollutant amount of production and emission and the degree of environmental damage. The Directors confirmed that our Company is regarded as a manufacturer of plastic packaging and storage containers only under the Classification Management List. Based on the above, our PRC Legal Advisers take the view that in relation to the pollutant discharge in our production, our Group shall belong to simplified management entities instead of key management entities, which have to be subject to key supervision.

In light of the above, our Directors take the view that it is not feasible to absolutely prohibit the use of disposable plastic food storage containers largely in the PRC in the near future. As advised by our PRC Legal Advisers that as at the Latest Practicable Date, there were not any new developments in the PRC environmental laws and regulations related to pollutant discharge, noise pollution and/or air pollution that would likely have a material adverse impact on our business operations and financial conditions. Notwithstanding that, in the worst-case scenario where the PRC Government prohibits the production of plastic products, in particular, disposable plastic food storage containers, our Directors will have the following contingency plan:

(i) We can apply biodegradable materials to manufacture our disposable plastic food storage containers.

Our disposable plastic food storage containers in the PRC are made of PP which come from petroleum origin and their wastes cannot be biodegraded, although it can only be degradable with chemical additives to help speeding up the rate of degradation. Our Directors take the view that our strategy to solve the environmental problem caused by the products made of PP is using biodegradable materials in manufacturing our disposable plastic food storage containers. To this end and in view of the PRC Government's policy on tightening the rules and regulations on environmental protection, we have been exploring ways to strengthen the degradability and recyclability of our products such as the use of other materials (the polylactic acid ("**PLA**") and polybutylene adipate terephthalate ("**PBAT**")), the compatibility of our existing machinery and the moulds. During the Track Record Period, we had already registered a patent, namely, PRC Disposable and Degradable Food Container* (一種一次性可降解快餐盒), which is a biodegradable food storage containers. While our existing disposable food storage containers are not biodegradable as no biodegradable additives were added during the manufacturing process in view of the additional costs that would likely to be incurred, our Directors take the view that we are prepared and can shift to develop biodegradable food storage containers if there are any laws and regulations which prohibit the production of PP disposable plastic food storage containers in the PRC for the purpose of enhancing the measures on environmental protection. Our Directors expect that by that time when no PP disposable plastic food storage containers is available in the market, our customers would shift to purchase disposable biodegradable food storage containers in substitution. Our Directors consider that the Group still has the capabilities and expertise to change to manufacture disposable biodegradable food storage containers in the future.

Our Directors also confirm that most of our existing production facilities and machinery can support the production of disposable biodegradable plastic food storage containers. Further, our Group also has the expertise and experience gained through its persistent efforts in research and disposable biodegradable food storage containers.

With an aim to more frequently use biodegradable materials in manufacturing our products, we plan to enhance the compatibility of our existing machinery by modifying the computer systems that control our plastic injection moulding machines. After the modification, all our plastic injection moulding machines will be able to manufacture both disposable plastic food storage containers made by PP and biodegradable disposable plastic food storage containers. We intend to modify these computer systems by the end of 2021. We estimate the cost to be incurred for modifying the computer systems of our plastic injection moulding machines will be approximately RMB0.4 million.

(ii) We will strengthen our research and development capabilities in degradability and recyclability of our products, which are the important features of environmentally friendly products.

Apart from the aforementioned patent, namely, PRC Disposable and Degradable Food Container* (一種一次性可降解快餐盒), which is a biodegradable food storage container, we continue to endeavour to strengthen our research and development capabilities in degradability and recyclability of our products, which are the important features of environmentally friendly products. In this connection, in order to meet the relevant product quality and safety standards and to respond to the call of resource conservation and environmental protection, we have planned to constantly improve the quality of our products and the techniques applied to the production process of our products. We intend to use approximately HK$4.1 million (equivalent to approximately RMB3.5 million), representing approximately 10.8% of the net proceeds), and also approximately HK$0.6 million (equivalent to approximately RMB0.5 million from our internal resources for enhancing its research and development capabilities in various aspects, namely (i) our product offering; (ii) our production techniques; and (iii) the mould design and production.

(iii) We can apply our skill and expertise in production of traditional plastic food storage containers

To the best knowledge of our Directors, the production process of traditional plastic food storage containers with biodegradable materials, which are more durable, safe for storage of food and can be reused over and over again, is similar to the production process of our existing products. The production process of both kinds of products involves input of raw materials and colour agents, melting in the plastic injection moulding machines and moulding of products. Hence, we can apply our skill and expertise in production of disposable plastic food storage containers to the production of traditional plastic food storage containers in the worst-case scenario that the PRC Government prohibits the production of disposable plastic food storage containers.

(iv) We will explore the overseas market of our products

During the Track Record Period, our customers are mainly PRC-based companies with a small portion located in overseas countries including the United States, Australia, Saudi Arabia and the Republic of Trinidad and Tobago. For the three years ended 31 December 2019, approximately 0.8%, 1.1% and 1.3% of our revenue was generated from overseas customers. Notwithstanding the small portion of our revenue which was generated from these overseas customers, our Directors believe that in the worst-case scenario where the PRC Government prohibits the production of plastic products, in particular, disposable plastic food storage containers, we can shift our focus to the overseas markets of our products.

OCCUPATIONAL HEALTH AND SAFETY

Our operations are also subject to a number of regulatory requirements imposed by the PRC Government with regard to employees' health and safety. We regard occupational health and safety as one of our important social responsibilities. We are committed to providing our employees with a safe and healthy working environment. As such, we have implemented safety guidelines at our Production Facilities with which all of our employees are required to comply. We inspect our Production Facilities from time to time in order to ensure that such facilities are safe for use. We also organise workplace safety trainings for our employees on a regular basis and arrange personnel to supervise different stages of our production process so as to promote workplace safety.

In practice, we document our safety plan in writing, which is conveyed to our employees before they started working with us. We also give instructions and provide trainings to our employees in relation to safety measures from time to time.

Based on a confirmation letter issued by the Emergency Management Office of Jinjiang City* (晉江市應急管理局) on 9 March 2020, which is a competent authority in charge of workplace safety in Jinjiang City, we were in compliance with the relevant laws and regulations of the PRC in relation to work safety and there had been no major accidents since its incorporation during the Track Record Period. As advised and confirmed by PRC Legal Advisers, according to the Work Safety Law of the PRC* (《中華人民共和國安全生產法》), the supervisory and administrative departments of production safety of the local people's governments at or above the county level shall exercise comprehensive supervision and administration over the work of production safety within their respective administrative areas. The Emergency Management Bureau of Jinjiang City* (晉江市應急管理局), being the local supervising body for safety with respect to production activities, therefore has the power and authority to issue the aforementioned confirmation letter. Going forward, we will continue to allocate adequate resources and efforts to uphold and improve our safety management in order to reduce the inherent risks related to safety issues.

After seeking opinions from our PRC Legal Advisers, our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we had complied with all relevant national or local occupational health and safety laws and regulations in all material respects and we had not experienced any major accidents that had resulted in the death or serious injury of our employees.

As part of our Group's risk management regarding the ongoing COVID-19 epidemic, on 7 February 2020, our Group has devised and circulated its contingency plan (the "**Contingency Plan**") to minimize the risk of contagion among its employees; to mitigate the adverse impact of the COVID-19 epidemic that may cause to its business and operations. Under the Contingency Plan, Mr. Xu, together with other executive Directors and representatives from each department within our Group set up a centralised COVID-19 infection prevention team to facilitate communication among different departments within our Group, supervise the disinfection work inside our Production Facilities and monitor the health conditions of our workers.

Under the Contingency Plan, each department has its own prevention and control team responsible for the following: -

— Keeping close communication and coordination with the contingency office and other prevention and control teams;

— Carrying out the prevention measures issued by the contingency office from time to time;

— Keeping records of attendance of workers;

— Keeping track of the workers returning to work from the areas affected by COVID-19; and

— Reporting to the centralised COVID-19 infection prevention team on a daily basis.

To facilitate the implementation of the measures as part of the Contingency Plan, our Group has also taken measures to ensure we have sufficient stock of personal protective equipment, hand sanitizer and disinfection products, etc. Our Directors estimate that this has incurred additional costs of approximately RMB70,000.

In line with our continuing efforts to provide a safe and healthy working environment to our own employees, we have implemented the following preventive measures in response to the outbreak of COVID-19:

— Requiring all employees to wear surgical masks at all times in our Production Facilities;

— Encouraging employees to shorten their travelling time to work and to avoid visiting areas with serious outbreak of COVID-19;

— Forbidding all employees who have fever, cough, fatigue, trouble breathing or any respiratory disease symptoms from entering into our Production Facilities and requiring such employees to see doctors;

— Taking temperature of all employees and keeping a register of the temperature taken before they are allowed to enter into our Production Facilities;

— Restricting entries to our Production Facilities except for the workers and visitors who are entering for business purpose;

— Restricting entries to the staff dormitories except for employees and their family members;

— Forbidding communal meals, social gathering and celebration events;

— Forbidding employees to travel to Hubei Province without our Company's permission; and

— Carrying out disinfection and other prevention work inside our Production Facilities on a daily basis.

EMPLOYEES

Number of employees by function

As at 31 December 2017, 31 December 2018 and 31 December 2019, we had a total of 83, 120 and 125 employees, respectively. The following table sets out the functional distribution of our Group's employees as at 31 December 2017, 31 December 2018 and 31 December 2019, respectively:

	As at 31 December		
Department	**2017**	**2018**	**2019**
Directors and senior management	3	4	3
Administration	5	7	7
Finance	10	10	10
Product and mould design	6	20	22
Production	47	67	71
Procurement	4	4	4
Sales and marketing	8	8	8
Total	83	120	125

Relationship with staff

We believe that our ability to recruit and retain experienced and skilled labour is crucial to our growth and development. We provide trainings to our new employees and such trainings cover various areas of our operations including knowledge on the operations of the production machinery and equipment, safety inspections, and the internal control system of our Group. In addition to providing our staff with the opportunities to receive on-the-job trainings, we strive to create a harmonious and warm working and living environment for our staff.

We have established the remuneration and review management system in accordance with our employees' positions and their responsibilities. The head of our departments is responsible for the salary review and promotion appraisal of the staff of his/her own department.

Recruitment policy

We recruit employees based on a number of factors such as their work experience, educational background and vacancy needs. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group had not encountered any difficulty in recruitment and retention of staff for our operation or experienced any disruption in our operation as a result of labour disputes with our employees in all material respects.

Training and remuneration policies

In order to increase the overall competitiveness of our Group's workforce and to attract and retain existing employees and strengthen their knowledge, skill level and quality, our Group places strong emphasis on the training of its employees. We provide trainings across different operational functions, including induction training for new employees, technical training, and training to enhance the employees' knowledge in safety measures when performing their duties.

Remuneration policy

Our employees are generally remunerated by way of fixed salary. We utilise an appraisal system for our employees. We consider the appraisal result in conducting our salary reviews, and making promotion decisions.

Staff benefits

In the PRC, in accordance with relevant national and local labour and social welfare laws and regulations, we are required to maintain social security insurance including pension insurance, medical insurance, unemployment insurance, industrial injury insurance and maternity insurance for our employees in the PRC. We contribute to social security insurance for our full-time employees in accordance with the relevant PRC laws and regulations. Based on the confirmation letter issued by the Human Resources and Social Security Bureau of Jinjiang City* (晉江市人力資源和社會保障局) on 10 March, 2020, which is a competent authority in charge of social insurance matters, we had no outstanding payment of the social insurance for our employees up to the date of issuance of the confirmation letter. As advised and confirmed by PRC Legal Advisers, according to the Labour Law of the PRC* (《中華人民共和國勞動法》) and the Social Insurance Law of the PRC* (《中華人民共和國社會保險法》), the labour and social security administrative authorities of the local people's government at or above the county level shall be in charge of labour work and social security within their respective administrative areas. The Human Resources and Social Security Administration of Jinjiang City* (晉江市人力資源和社會保障局), being the local supervising body for labour and social security, has the power and authority to issue the aforementioned confirmation letter.

We also participate in the housing provident funds for our employees in accordance with relevant PRC laws and regulations. As confirmed by our PRC Legal Advisers, based on the confirmation letter issued by Jinjiang City Management Department of Provident Fund Management Centre of Quanzhou* (泉州市住房公積金管理中心晉江市管理部) on 10 March, 2020, which is a competent authority in charge of housing provident funds matters, we had not been subject to any penalty imposed by Jinjiang City Management Department of Provident Fund Management Centre of Quanzhou* (泉州市住房公積金管理中心晉江市管理部) since we commenced to pay the housing provident funds for our employees. As advised and confirmed by PRC Legal Advisers, according to the Regulation on the Administration of Housing Accumulation Funds* (《住房公積金管理條例》), the housing provident fund management centre is in charge of management and operation of the housing provident fund. The Jinjiang City Management Department of Provident Fund Management Centre of Quanzhou* (泉州市住房公積金管理中心晉江市管理部), being the local authority for management and operation of housing provident fund, has the power and authority to issue the aforementioned confirmation letter.

Employee related policy

We believe that it is important for us to maintain harmonious employment relationships and working atmosphere with a view to ensuring stable growth of our Group. As such, in addition to complying with relevant labour laws, we have developed equal opportunities, diversity and antidiscrimination policies to ensure all employees are treated reasonably and fairly. Under such policies, we respect the gender, age and ethnicity of each person. Each job applicant has an equal job opportunity. All of them will be treated equally and there is no discrimination as to gender, age and ethnicity. Further, any promotion within our Group would be based solely on the employee's performance, experience and capability. As such, any factors not related to work, such as marital status, would have no impact on employee's promotion.

Incident handling and records

We have established an incident handling and record system, which requires all our employees to comply with in order to minimise the number of casualties and property damage, prevent further damage, and take effective rectification measures in an emergency. In case of any incident, we first categorise the incident according to its level of damage. Investigations and reporting on the incident follow immediately according to the procedures designated to the specified category. Complete records of the incident would be kept by us.

Corporate governance policies governing the employees' behaviour

Our Company strictly abides by the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) and the Anti-Money Laundering Law of the PRC (《中華人民共和國反洗錢法》), and has made clear undertakings in respect of the responsibilities of various positions in respect of avoiding any conflict of interest with our Company, which require the employees to report conflicts of interest in a timely manner to our Company. As stated in our internal policy, our management ensures that our Company strictly follows the rules of fair competition. The internal policy further states that our management is required to supervise our employees closely to ensure that all employees abide by relevant anti-corruption laws. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material non-compliance with the laws and regulations relating to bribery, extortion, fraud and money laundering in the PRC. During the Track Record Period, no legal case regarding corrupt practices was brought against us nor any of our Directors and employees. The legal proceedings and non-compliances as disclosed in the paragraphs headed "Business — Legal proceedings and non-compliances" were not related to corruption.

INTELLECTUAL PROPERTY

Our production know-how in the production process is important to our success. We have registered certain patents and trademarks. For further details, please refer to the paragraph headed "2. Intellectual property rights" in Appendix IV to this prospectus.

To the best of our Directors' knowledge, during the Track Record Period and up to the Latest Practicable Date, we were not aware of any material infringement or were not alleged to infringe any intellectual property rights owned by third parties, which would have a material adverse effect on our business.

Trademarks

As at the Latest Practicable Date, our Group had the following registered trademarks which are material to our business:

No.	Trademark	Class	Place of registration	Registered owner	Registration number	Registration date	Expiry date
1.		21	PRC	Hengsheng Animation	23398436	21 March 2018	20 March 2028
2.		21	PRC	Hengsheng Animation	23398497	21 March 2018	20 March 2028
3.		9	PRC	Hengsheng Animation	31379551	7 March 2019	6 March 2029
4.		41	PRC	Hengsheng Animation	31375183	7 March 2019	6 March 2029
5.	爵士兔 —JAZZIT— (Note)	21	PRC	Hengsheng Animation	15873319	7 February 2016	6 February 2026
6.	爵士兔 —JAZZIT— (Note)	21	PRC	Hengsheng Animation	9853900	21 October 2012	20 October 2022

Note: Pursuant to the trademark transfer agreement entered into between Hengsheng Animation and Jazz Rabbit Apparels in June 2018, Jazz Rabbit Apparels agreed to transfer to Hengsheng Animation two trademarks with the respective registration number being 15873319 and 9853900, and Hengsheng Animation had fully settled the consideration pursuant to the agreement. In October 2018, in order to complete the registration as the new trademark registrant as required by the relevant PRC trademark laws and regulations, Hengsheng Animation and Jazz Rabbit Apparels entered into two additional trademark transfer agreements as supplemental agreements to the trademark transfer agreement entered in June 2018 to include the terms of transfer. The transfer of trademarks had been published in February 2019 on China Trademark Website of Trademark Office of National Intellectual Property Administration (國家知識產權局商標局). On the same day, Hengsheng Animation received the certificates of transferred trademarks. This means our Group has successfully acquired all trademarks for our "JAZZIT" branded products as at the Latest Practicable Date. Such trademarks were previously licensed to Hengsheng Toys which sub-licensed to Hengsheng Animation for use. For further details, please refer to the section headed "History, Reorganisation and corporate structure" in this prospectus.

Salient terms of trademark transfer agreement

Set out below is a summary of the key terms of the trademark transfer agreement ("**the Agreement**") entered between Hengsheng Animation and Jazz Rabbit Apparels in June 2018, which was subsequently supplemented in October 2018:

Effective Date of the Agreement:	28 June 2018
Trademarks:	1. (Registration number: 15873319) 2. (Registration number: 9853900) (Collectively the "Trademarks")
Transferor:	Jazz Rabbit Apparels *(Note)* (the "**Transferor**")
Transferee:	Hengsheng Animation (the "**Transferee**")
Consideration:	RMB10,070,000
Transfer:	— The Transferor irrevocably assigns, and transfers to the Transferee all rights, title and interest in and to the Trademarks in perpetuity. — Between the Effective Date of the Agreement to the completion of registration of Trademarks at the Trademark Office of National Intellectual Property Administration* (國家知識產權局商標局), the Transferor authorises the Transferee to have the right of use of the Trademarks free-of-charge.
Execution and Delivery	— The Transferor shall execute and deliver to Transferee any and all instrument of transfer and all documents necessary for the registration of the Trademarks at the Trademark Office of National Intellectual Property Administration* (國家知識產權局商標局). — The Transferee shall pay in full the consideration upon receipt of trademark registration certificate and transfer documents.
Representation and Warranties	— Transferor represents and warrants to the Transferee that the Transferor is the legal and rightful owner of the Trademarks, has good marketable title to and full legal right and authority to sell ad transfer the same and that the Trademarks is free of all liens, claims, and encumbrances.

Note: Jazz Rabbit Apparels is a wholly-owned subsidiary of Hengsheng Toys. As set out in Mr. Xu's biographical information in the section headed "Directors, senior management and employees" in this prospectus, Mr. Xu had been employed by Jazz Rabbit Apparels. Other than the trademark transfer agreements, the familial relationship between Mr. Xu, Mr. Hui and Ms. Hui Mei Nga, and Mr. Xu's past employment at Jazz Rabbit Apparels, our Directors confirmed that Jazz Rabbit Apparels, its subsidiaries, any of the directors, shareholders or management, or any of their respective associates do not have any other past or present relationships (including without limitation, family, employment, trust, financing or otherwise) with our Company, our subsidiaries, our shareholders, Directors, senior management or any of their respective associates.

Patents

(i) As at the Latest Practicable Date, our Group had the following registered patents which are material to our business:

No.	Patent	Registered owner	Place of Registration	Type	Patent number	Application date	Expiry date
1.	Two-case food container* (飯、菜分離一體飯盒)	Hengsheng Animation	PRC	Invention	ZL201210360226.3	25 September 2012	24 September 2032
2.	Anti-bacterial PP plastic material* (一種PP抗菌塑料)	Hengsheng Animation	PRC	Invention	ZL201310371759.6	23 August 2013	22 August 2033
3.	An enhanced structure of a disposable food container* (一次性快餐盒的改進結構)	Hengsheng Animation	PRC	Utility Model	ZL201620961885.6	26 August 2016	25 August 2026
4.	Disposable food container bowl* (一次性碗狀快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201620960564.4	26 August 2016	25 August 2026
5.	An enhanced structure of a disposable water cup* (一次性飲水杯的改進結構)	Hengsheng Animation	PRC	Utility Model	ZL201620960600.7	26 August 2016	25 August 2026
6.	An enhanced structure of a biscuit box* (一種餅盒的改進結構)	Hengsheng Animation	PRC	Utility Model	ZL201620961917.2	26 August 2016	25 August 2026

No.	Patent	Registered owner	Place of Registration	Type	Patent number	Application date	Expiry date
7.	An enhanced structure of a beverage cup* (一種飲料杯的改進結構)	Hengsheng Animation	PRC	Utility Model	ZL201620962156.2	26 August 2016	25 August 2026
8.	Food container with sauce case* (一種便於存放醬料的快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201621030285.4	31 August 2016	30 August 2026
9.	An enhanced model of a food container* (一種改進型快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201621016446.4	31 August 2016	30 August 2026
10.	An enhanced model of a disposable food container* (一種改進型的一次性快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201621023899.X	31 August 2016	30 August 2026
11.	Milk tea cup* (一種便於飲用奶茶的奶茶杯)	Hengsheng Animation	PRC	Utility Model	ZL201621059622.2	18 September 2016	17 September 2026
12.	Stand-up spoon* (一種可站立的湯匙)	Hengsheng Animation	PRC	Utility Model	ZL201621015498.X	31 August 2016	30 August 2026
13.	An enhanced structure of a disposable bowl* (一次性碗的改進結構)	Hengsheng Animation	PRC	Utility Model	ZL201620962001.9	26 August 2016	25 August 2026
14.	Spoon — new model* (一種新型湯匙)	Hengsheng Animation	PRC	Utility Model	ZL201621014984.X	31 August 2016	30 August 2026
15.	Compact food container* (一體式快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201621022940.1	31 August 2016	30 August 2026
16.	Portable food container* (便携式快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201621023072.9	31 August 2016	30 August 2026

No.	Patent	Registered owner	Place of Registration	Type	Patent number	Application date	Expiry date
17.	Handled food container* (一種自帶提手的快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201621022137.8	31 August 2016	30 August 2026
18.	Multi-purpose food container* (一種多用途快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201621020107.3	31 August 2016	30 August 2026
19.	Enhanced model of a food container* (改進型快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201621023039.6	31 August 2016	30 August 2026
20.	Two-tier food container* (一種子母快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201621022202.7	31 August 2016	30 August 2026
21.	Foldable take-out food container (rectangular)* (一種便於疊加打包的方型快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201621020679.1	31 August 2016	30 August 2026
22.	Insulated beverage cup — new model* (一種新型隔熱快餐杯)	Hengsheng Animation	PRC	Utility Model	ZL201621022598.5	31 August 2016	30 August 2026
23.	Disposable food container (rectangular)* (一種方形一次性快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201621028931.3	31 August 2016	30 August 2026
24.	Disposable and non-detachable food containment* (一種一次性防拆快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201821880178.X	15 November 2018	14 November 2028
25.	Sealed food container — new model* (一種新型密封快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201821880177.5	15 November 2018	14 November 2028

No.	Patent	Registered owner	Place of Registration	Type	Patent number	Application date	Expiry date
26.	Sealed take-out food container* (一種密封式外賣快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201821829367.4	7 November 2018	6 November 2028
27.	Reusable food container* (一種可多次使用的快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201821828716.0	7 November 2018	6 November 2028
28.	Recognisable and reusable healthy food container* (一種能識別重複使用的衛生快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201821828699.0	7 November 2018	6 November 2028
29.	Non-detachable food container with quick opening* (一種能快速開蓋的防拆快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201821828698.6	7 November 2018	6 November 2028
30.	Foldable and anti-spillage food container* (一種便於疊加防傾倒的快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201821725880.9	24 October 2018	23 October 2028
31.	Insulated food container* (一種防燙快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201821771490.5	30 October 2018	29 October 2028
32.	Food container with sauce case* (一種具有容置調料結構 的快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201821772918.8	30 October 2018	29 October 2028
33.	Anti-theft food container* (一種新型防偷吃安全快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201821725877.7	24 October 2018	23 October 2028

No.	Patent	Registered owner	Place of Registration	Type	Patent number	Application date	Expiry date
34.	Environmental and self-heating food container with heat preservation* (一種環保保溫自熱快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201821772909.9	30 October 2018	29 October 2028
35.	Disposable food container with latching arrangement* (一種扣合可靠的一次性快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201821725878.1	24 October 2018	23 October 2028
36.	Latching structure of the food container* (一種快餐盒的扣合結構)	Hengsheng Animation	PRC	Utility Model	ZL201821072834.3	6 July 2018	5 July 2028
37	PRC Disposable and degradable food container*(一種一次性可降解快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201821880182.6	15 November 2018	14 November 2028
38	Portable food container* (一種易於存放的便攜式快餐盒)	Hengsheng Animation	PRC	Utility Model	ZL201821880181.1	15 November 2018	14 November 2028
39	Food container 1* (餐盒(一))	Hengsheng Animation	PRC	Design	ZL201930492071.1	6 September 2019	5 September 2029
40	Food container 1* (餐盒(二))	Hengsheng Animation	PRC	Design	ZL201930492063.7	6 September 2019	5 September 2029
41	Food container 1* (餐盒(三))	Hengsheng Animation	PRC	Design	ZL201930492061.8	6 September 2019	5 September 2029

(ii) As at the Latest Practicable Date, our Group had applied for registration of the following patents which are material to our business:

No.	Place of registration	Title of patent	Applicant	Application number	Patent type	Date of application
1.	PRC	Foldable take-out food container* (一種便於疊加打包的快餐盒)	Hengsheng Animation	201821772926.2	Utility Model	30 October 2018
2.	PRC	Sealed take-out food container with sauce case* (一種具有醬料密封存放結構的外賣送餐盒)	Hengsheng Animation	201921480735.3	Utility Model	6 September 2019
3.	PRC	Dual-layer take-out food container* (一種雙層組合式外賣送餐盒)	Hengsheng Animation	201921481807.6	Utility Model	6 September 2019
4.	PRC	Food container — new model* (一種新型餐盒)	Hengsheng Animation	201921485350.6	Utility Model	6 September 2019

Domain name

As at the Latest Practicable Date, our Group had registered the following domain name which we believe is material to our business:

Domain name	Registrant	Registration date	Expiry date
yikwo.cn	Hengsheng Animation	18 June 2020	18 June 2022

Our Group recognises the importance of protecting and enforcing intellectual property rights. Save as the above, as at the Latest Practicable Date, we did not have any material intellectual property rights that are significant to our business operations or financial positions and our business operation is not dependent on any patents, licences or any other intellectual property rights. Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we have not violated any intellectual property rights or faced intellectual property claims by third parties, and we have not engaged in or threatened with any claim for infringement of any intellectual property rights which would have a material financial and operational impact on us, either as claimant or as respondent.

LICENCES, PERMITS AND APPROVAL

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, save for the Fujian Pollutant Discharge Permit* (福建省排污許可證) which has expired since 31 December 2019, our Group had obtained all material licences, permits and registration required for carrying on its business operations in the PRC, respectively, details of which are set out below:

Name of licence/ permits	Date of grant	Granting Authority	Validity period
Fujian Pollutant Discharge Permit* 《福建省排污許可證》	9 November 2017	Environmental Protection Bureau of Jinjiang City* (晉江市環境保護局)	Up to 31 December 2019 *(Note)*
National Industrial Product Manufacturing Licence*《全國工業產品生產許可證》	26 November 2018	Fujian Province Bureau of Quality and Technical Supervision* (福建省質量技術監督局)	Up to 25 November 2023
PRC Customs Declaration Unit Registration Certificate*《中華人民共和國海關報關單位註冊登記證書》	25 April 2016	Quanzhou Customs of the PRC* (中華人民共和國泉州海關)	No expiry date
Form of Archival Filing and Registration of Foreign Trade Business Operators* 《對外貿易經營者備案登記表》	21 May 2014	Department of Commerce of Jinjiang City* (晉江市商務局)	No expiry date

Note: According to the Statement on the Application for Pollutant Discharge Permit (the "**Statement**") issued by the Quanzhou Municipal Jinjiang Bureau of Ecology and Environment* (泉州市晉江生態環境局) on 24 December 2019, due to the implementation of the Classification Management List of Discharge Permits for Fixed Pollution Sources (2017 Version)*《固定污染源排污許可分類管理名錄(2017年版)》, the issue of the Pollutant Discharge Permit of Fujian Province has been temporarily suspended until both the issue time and technical specifications of National Unified Coding Pollutant Discharge Permit*《全國統一編碼排污許可證》is confirmed and specified. As at the Latest Practicable Date, Bureau of Ecology and Environment has started processing applications for pollutant discharge permit and our application for a pollutant discharge permit is under preparation. During the interim period, the production activities of Hengsheng Animation may be under the regular inspection of environmental protection authorities before obtaining the Pollutant Discharge Permit. Based on a confirmation letter issued by the Quanzhou Municipal Jinjiang Bureau of Ecology and Environment* (泉州市晉江生態環境局) (formerly known as the Environmental Protection Bureau of Jinjiang City* (晉江市環境保護局)) on 26 March 2020, which is a competent authority in charge of environmental protection in Jinjiang City, our Group can continue to discharge pollutants in its production process in accordance with the national and regional standards and regulations despite the fact that we have not yet obtained the Pollutant Discharge Permit. For more details, please refer to the paragraphs headed "Our production facilities" in this section.

PROPERTIES

Leased properties

Address	Gross floor area	Landlord	Expiry date of tenancy[Note]	Intended use of Property
	(sq.m)			
Factory Building on Level 2, Hengsheng Toys Xusheng Building A, Building 5, No. 301 Wukeng Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮梧坑工業區301號五幢恒盛玩具許盛A樓二樓廠房)	1,624.74	Hengsheng Toys	20 June 2023	Warehouse
Office on Level 4, Hengsheng Toys Jazzit Building, Building 1, No. 301 Wukeng Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮梧坑工業區301號一幢恒盛玩具爵士兔四樓辦公室)	512	Hengsheng Toys	20 June 2023	Office
Office on Level 3, Hengsheng Toys Jazzit Building, Building 1, No. 301 Wukeng Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮梧坑工業區301號一幢恒盛玩具爵士兔三樓辦公室)	512	Hengsheng Toys	20 June 2023	Office
Factory Building on Level 1, Hengsheng Toys Building, No. 1-1 Xiushan Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮秀山工業區1-1號恒盛玩具一樓廠房)	800	Hengsheng Toys	20 June 2023	Factory

Address	Gross floor area (sq.m)	Landlord	Expiry date of tenancy(Note)	Intended use of Property
Office on Level 4, Wenhua Building, Building 2, No. 301 Wukeng Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮梧坑工業區301號二幢文化樓四樓辦公室)	300	Hengsheng Toys	20 June 2023	Product showroom
Factory Building on Level 1, Toys Building, Building 1, No. 301 Wukeng Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮梧坑工業區301號一幢玩具大樓一樓廠房)	700	Hengsheng Toys	20 June 2023	Office for product and mould design facility
Factory Building on Level 1, Xusheng Building, Building 4, No. 301 Wukeng Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮梧坑工業區301號四幢許盛樓一樓廠房)	1,850	Hengsheng Toys	20 June 2023	Factory
1st Floor, Bairun, Wukeng Village, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮梧坑村佰潤1樓)	2,067.9	Independent Third Party	30 June 2024	Factory
Factory Building on Level 1, Wenhua Building, Building 2, No. 301 Wukeng Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮梧坑工業區301號二幢文化樓一樓廠房)	2,930	Hengsheng Toys	20 June 2023	Warehouse
Warehouse of 1st floor, Bairun, Wukeng Village, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮梧坑村佰潤一樓倉庫)	1,151.7	Independent Third Party	30 September 2028	Warehouse

LEGAL PROCEEDINGS AND NON-COMPLIANCE

As all our operations take place in PRC, we shall comply with the relevant laws and regulations in PRC. A summary of the relevant PRC laws and regulations applicable to our operations is set out in the section headed "Regulatory overview" of this prospectus.

During the Track Record Period and as at the Latest Practicable Date, our PRC Legal Advisers confirmed that, based on the compliance confirmation letters issued by 11 PRC governmental and regulatory authorities (the "**11 Authorities**"), Hengsheng Animation, our operating subsidiary, has never been penalised by the 11 Authorities since incorporation. These 11 Authorities included (i) Jinjiang Administration for Market Regulation (AMR) (晉江市市場監督管理局), being local authority for market supervision and administration at city level; (ii) The Bureau of Commerce of Jinjiang City (晉江市商務局), being the local authorities for foreign investment; (iii) Jinjiang Tax Administration of State Taxation Administration (國家稅務總局晉江市稅務局), being the local taxation authority; (iv) The Jinjiang Bureau of the State Administration of Foreign Exchange (國家外匯管理局晉江市支局) being the local supervising body for foreign exchange; (v) The Quanzhou Customs of the PRC (中

華人民共和國泉州海關), being the local custom; (vi) The Human Resources and Social Security Administration of Jinjiang City (晉江市人力資源和社會保障局), being the local supervising body for labour and social security; (vii) The Jinjiang City Management Department of Provident Fund Management Centre of Quanzhou (泉州市住房公積金管理中心晉江市管理部) being the local authority for management and operation of housing provident fund; (viii) The Quanzhou Municipal Jinjiang Bureau of Ecology and Environment (泉州市晉江生態環境局), being the local supervising body for environmental protection; (ix) The Rescue and Fire Control Brigade of Jinjiang City (晉江市消防救援大隊), being the supervising body for fire control; (x) The Health Bureau of Jinjiang City (晉江市衛生健康局) being the local supervising body for occupational hazard; and (xi) The Emergency Management Bureau of Jinjiang City, Quanzhou (晉江市應急管理局), being the local supervising body for safety with respect to production activities. Our Directors also confirmed that no litigation, arbitration or claim of material importance is known to our Directors to be pending and threatened by or against us, that would have a material adverse effect on our results of operations or financial condition. As advised and confirmed by PRC Legal Advisers, these 11 PRC governmental authorities are eligible and entitled to issue the letters of confirmations as their respective regulatory functions under the relevant PRC laws empower the respective governmental authorities to issue letters to Hengsheng Animation, the operating subsidiary of our Group, confirming compliance matters relating to its business operation in the PRC.

Non-compliance

Save for the incident of non-compliance set out below, our Directors are not aware of any incident of material non-compliance of our Group during the Track Record Period and as at the Latest Practicable Date:

Non-compliance incidents	Reason for non-compliance	Applicable laws including maximum penalty	Legal consequences and liabilities	Remedial actions and enhanced internal control
During the Track Record Period, Hengsheng Animation, the operating subsidiary of our Group, failed to accurately disclose the number of employees and was labelled as "the corporate information disclosed public had omitted the true circumstances" in the List of Enterprises with Unusual Operation* (**經營異常名錄**) ("**Unusual List**") on the NEC system on 29 October 2018 and was removed from the Unusual List on 5 November 2018 (the "**Removal**")	The non-compliance was not wilful and was due to the inadvertent oversight of the administrative staff responsible for supervision on secretarial matters and the absence of timely and professional advice at the material time. The Directors had no direct or wilful involvement in the breach.	According to the Interim Regulations on the Disclosure of Enterprise Information (《企業信息公示暫行條例》) (the "**Interim Regulations**") and Interim Measures on the Administration of List of Enterprises with Unusual Business Operations (《企業經營異常名錄管理暫行辦法》(the "**Interim Measures**"), the relevant administration authority for industry and commerce at or above the county level shall announce in public the name of the enterprise that has concealed true situations or made some of wrongful disclosure of its information in the Unusual List, via the enterprise credit information disclosure system, and remind the enterprise to perform its disclosure obligations; under grave circumstances, administrative punishments shall be imposed against the enterprise by relevant competent departments in accordance with the pertinent laws and administrative regulations; where losses have been caused to others, the enterprise shall be liable for compensation pursuant to the law; and, where criminal offenses are constituted, the enterprise shall be investigated for criminal liabilities pursuant to the law. On the other hand, the name of an enterprise having been included in the list of enterprises with unusual business operations shall be removed from the said list by the relevant administration authority for industry and commerce at or above the county level if the enterprise has subsequently fulfilled its disclosure obligations in accordance with these Regulations.	Pursuant to an approval letter ("**Approval Letter**") issued by the Administration for Market Regulation of Longhu Town, Jinjiang City* (晉江市龍湖鎮市場監督管理局* (the "**Bureau**") to Hengsheng Animation on 5 November 2018. The Approval Letter states from the Bureau states in view of Hengsheng Animation's timely rectification in correcting the number of employees of 2017, the Bureau had approved to remove Hengsheng Animation from the Unusual List from the NEC System.) According to a confirmation letter issued by the Jinjiang City Administration for Market Regulation (晉江市市場監督管理局) ("**Jinjiang AMR**") on 11 March 2020, Jinjiang AMR confirmed that it was not related to any serious situation that the corporate information disclosed publicly had omitted the true circumstances by Hengsheng Animation. Jinjiang AMR also confirmed that Jinjiang AMR had not imposed any administrative penalties against Hengsheng Animation for its act, and Jinjiang AMR would not impose any administrative penalties against Hengsheng Animation in the future due to the prompt rectification. Jinjiang AMR further confirmed, based on which the Company's PRC Legal Advisers concurs, that the non-compliance incident will not adversely affect the continuity of Hengsheng Animation as a legal entity, the legality of its production and operation activities, nor the qualifications of any of the directors, legal representatives and senior management serving at Hengsheng Animation. As advised by the Company's PRC Legal Advisers, the Jinjiang AMR is a competent authority in charge of administration of PRC industry and commerce and has the authority to issue the aforementioned confirmation letter.	Upon discovery of the non-compliance, Hengsheng Animation has, as soon as it was practicable, notified the Bureau and corrected it relevant disclosure, and upon receipt of the Approval Letter, Hengsheng Animation was subsequently removed from the Unusual List by the Bureau on 5 November 2018. Our Directors are of the view that such non-compliance incident will not have a material adverse effect on our business operations, nor will such incident constitute a material legal obstacle for the Listing. To enhance our on-going compliance, our administration department will consult our PRC Legal Advisers on the relevant laws and regulations on the Interim Regulations from time to time.

Save for the aforementioned, based on the compliance letters issued by 11 PRC governmental and regulatory authorities and searches conducted on the official websites of such governmental and regulatory authorities, it is advised by our PRC Legal Advisers that Hengsheng Animation (including its manufacturing business of disposable plastic food storage containers and the Excluded Business prior to its corporate division) has not been penalised by such 11 PRC governmental and regulatory authorities since its incorporation. Our Directors also confirmed that save for the non-compliance incident set out above, Hengsheng Animation (including its manufacturing business of disposable plastic food storage containers and the Excluded Business prior to its corporate division) has not been the subject of any non-compliant incidents.

Our Directors confirmed that we have complied with all applicable laws and regulations in all material respects in Hong Kong and the PRC during the Track Record Period and up to the Latest Practicable Date.

Indemnity given by our Controlling Shareholders

Our Controlling Shareholders, collectively as the indemnifiers, entered into the Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of any liabilities and penalties which may arise as a result of any non-compliances of our Group on or before the date on which the Share Offer becomes unconditional. For further details, please refer to the paragraphs headed "D. Other information — 1. Estate duty, tax and other indemnities" in Appendix IV to this prospectus.

INTERNAL CONTROL

To assess and identify weaknesses in our internal procedures, systems and controls, we engaged an independent internal control consulting company ("**Internal Control Consultant**") in December 2018 to perform a detailed evaluation of our Group's internal control system including the areas of financial, operation, compliance and risk management with an aim to, among other matters, improve our Group's corporate governance and ensure compliance with the applicable regulations.

Our Internal Control Consultant is a company providing, among others, internal control review services, which has been previously engaged in internal control review projects for a number of companies listed on the Stock Exchange and companies preparing for listing in Hong Kong. The expertise of the Internal Control Consultant includes providing corporate governance, controls assurance, internal audit, IT advisory and assurance, and risk management related services.

Internal control measures to improve corporate governance

We recognise the importance of up-keeping adequate internal control and risk management systems. In order to continuously improve our corporate governance, we intend to adopt or have adopted the following measures:

1. On 9 May 2019, our Directors attended training sessions conducted by our Company's legal adviser as to the Hong Kong laws on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange. We will continue to arrange various training programs on an annual basis to be provided by the legal advisers in Hong Kong and the PRC and/or any appropriate accredited institutions to update our Directors, senior management and relevant employees on the relevant laws and regulations. In addition, specific training programme(s) in relation to updates on relevant applicable laws and regulations will also be held when necessary;

2. On 12 June 2019, we have appointed Grand Moore Capital Limited as our compliance advisor upon Listing to advise us on regulatory compliance with the Listing Rules, who will be responsible for assessing and monitoring compliance with our internal control policies, recommending additional internal control measures if required, coordinating compliance training for our employees and reporting the above to our Directors;

3. We will strengthen trainings for our employees on compliance matters in order to develop a corporate culture and to enhance employee compliance perception and responsibility. We plan to provide trainings to employees of managerial level on an annual basis and ad hoc training to all relevant employees when we find it necessary;

4. Our Group has appointed Mr. Yeung Tsz Kit, Alban, as our Company secretary, to handle the secretarial matters and day-to-day compliance matters of our Group. Mr. Yeung is also responsible for the timing and procedures for convening annual general meetings, including the time for sending notice of meeting and laying the respective financial statements;

5. When necessary, we will engage external professionals, including auditors, internal control consultants, external legal adviser(s) and other advisers to render professional advice with respect to our compliance with statutory and regulatory requirements, as applicable to our Group from time to time. Our Group intends to engage Grant Thornton Hong Kong Limited as our Group's auditor after Listing;

6. On 19 June 2020, we established an audit committee which will implement formal and transparent arrangements to apply financial reporting and internal control principles in accounting and financial matters to ensure compliance with the GEM Listing Rules and all relevant laws and regulations, including timely preparation and laying of accounts. It will also periodically review our compliance status with the Hong Kong laws after Listing. The audit committee will exercise its oversight by:

   (i) reviewing our internal control and legal compliance;

(ii) discussing the internal control systems with the management of our Group to ensure that the management has performed its duty to have an effective internal control system; and

(iii) considering the major investigation findings on internal control matters as delegated by the Board or on its own initiative and the management's response to these findings.

7. Our Group will seek professional advice and assistance from independent internal control consultants, external legal advisors and/or other appropriate independent professional advisors with respect to matters related to our internal controls and compliance when necessary and appropriate. We will engage PRC legal advisers to provide legal services to our Group in relation to future compliance with the PRC laws and regulations including but not limited to environmental protection laws and regulations.

Liquidity risk management

Prudent liquidity risk management requires maintaining sufficient cash, cash equivalents and available funding. Our management believes that liquidity risk has been mitigated as we generated operating cash inflow (before movements in working capital) of approximately RMB33.3 million, RMB36.2 million and RMB37.8 million for the three years ended 31 December 2019, respectively. Our management expects that we will continue to generate operating cash inflow in the upcoming years.

In carrying out the business of plastic containers production, we face liquidity risk including the possibility that we become unable to maintain sufficient reserves of cash to meet our liquidity requirements and that we are unable to meet our financial obligation as they fall due.

Our Group's liquidity need is reviewed on a periodic basis. The review encompasses a detailed forecast of imminent liquidity requirements and a projection of cash needs for the next month.

Our Directors and chief financial officer continuously monitor our current and expected liquidity requirements as well as our cash and receivables in order to ensure that sufficient liquidity is maintained to meet our liquidity requirements. In the management of liquidity risk, our executive Directors and chief financial officer monitor and maintain a level of cash and cash equivalents deemed adequate by them to finance our operations and mitigate the effects of fluctuations in cash flows. For the experience of our Directors and chief financial officer, please refer to the section headed "Directors, senior management and employees" in this prospectus.

Measures for accounts receivables collection

Our Group has put efforts through strict enforcement of having regular communication with customers in relation to the outstanding accounts receivables in order to ensure settlement in accordance with the granted credit periods.

In order to improve the accounts receivables collection, regular ageing reports are prepared to monitor the accounts receivables collection and monthly target of accounts receivables collection has been set for responsible staff, which is a key performance indicator that would affect the performance and salary increment of the responsible staff.

View of our Directors

Based on the Internal Control Consultant's review and recommendations, our Group has duly adopted the measures and policies in order to improve our internal control systems and to ensure our compliance with the GEM Listing Rules and relevant PRC and Hong Kong laws. Furthermore, after the Internal Control Consultant had performed his follow-up review from February 2019 to March 2019, our Internal Control Consultant did not identify any further issues and made no further recommendations in the respective areas covered in its review. Based on the results of the internal control reviews, our Directors are of the view that the above internal control measures could adequately and effectively ensure that we have implemented a proper internal control system and maintained good corporate governance practices to prevent future non-compliance with the PRC and Hong Kong laws and regulations.

RISK MANAGEMENT

We are dedicated to the establishment and maintenance of a robust internal control system.

Key risks relating to our business are set out in the section headed "Risk factors" in this prospectus. The following sets out the key measures adopted by our Group under our risk management and internal control systems for managing the more particular operational and financial risks relating to our business operation:

(i) Quality control system;

(ii) Financial risks, in particularly foreign currency risk, credit risk and liquidity risk;

(iii) Health and safety system;

(iv) Environmental management system; and

(v) Corporate governance measures.

OVERVIEW

This section summarizes the environmental, social and governance ("**ESG**") initiatives, plans and performance of our Group, and demonstrates our commitment to sustainable development.

Our Company adheres to the ESG management direction for sustainable development, and is committed to progress effectively and responsibly against the ESG affairs of our Group as a core part of its business strategy. We will continue to meet customer demands, make contributions to the community, and advance our long-term business development.

Scope of Reporting and Reporting Period

Our Directors confirm that this section mainly focuses on the core businesses of our Group, which is the design and development, manufacturing and sales of disposable plastic food storage containers, and describes the ESG activities, challenges and measures taken by our Group during the year ended 31 December 2019.

MANAGEMENT AND ASSESSMENT APPROACHES

Our Directors consider that establishing and implementing sound ESG principles and practices will help increase the investment value of an enterprise and provide long-term returns to our stakeholders. To ensure the effectiveness of our ESG risk management measures and internal control systems, our Board is and will be responsible for overseeing the formulation and reporting of our Group's ESG strategies and assessing and determining the ESG-related risks.

Our Group will adopt the following approaches and strategies to evaluate prioritise and manage material ESG-related issues:

(a) Identification — industry benchmarking

- Relevant ESG areas are identified through the review of local and international industry ESG reports.
- The materiality of each ESG area will be determined based on the importance of each ESG area to our Group through internal discussion with our management and the recommendation of Appendix 20 of the GEM Listing Rules (the "**ESG Reporting Guide**").

(b) Prioritisation — stakeholder engagement

- Our Group will discuss with key stakeholders on key ESG area identified in step (a) to ensure that all the key aspects are covered.

(c) Validation — determining material issues

- Based on the discussion with key stakeholders and internal discussion among our management, our Group's management will ensure that all the key and material ESG areas, which are important to our business development, are reported and complied with the ESG Reporting Guide.

Our Directors confirm that, in order to improve our ESG governance, our Board will periodically conduct independent evaluation and efficiency analysis of the adequacy and effectiveness of our ESG management through the internal review function. After defining the targets and goals, they will identify the important milestones and decide on the timeline. Our Directors may then periodically review the timeline with all the stakeholders which are required to report the progress to our Directors at each milestone.

Materiality Assessment

The materiality assessment was divided into the following three main stages:

- Identify potential material ESG topics which may affect our Group's business or stakeholders, based on the actual development of our Group and characteristics of the industry;

- Invite stakeholders to participate in a questionnaire survey to express their concerns and opinions regarding various potential material topics; and

- Analyse the questionnaires collected and prioritise potential material topics.

We have been maintaining a close relationship with the stakeholders of our business as we believe they play a crucial role in maintaining business sustainability. Key stakeholders of our Group's business include investors, customers, employees and suppliers. Through continuous communication, our Group collects their views and opinions which help us to identify ESG-related risks and formulate the sustainability framework to address those risks. Our Group maintains an open dialogue with the stakeholders (including management, employees, customers, suppliers and investors) to receive their comments and understand their expectations on what the ESG issues matter most via meetings, interviews and discussions.

(A) ENVIRONMENTAL ASPECTS

A1. Emissions

General Disclosure

It is the general policy of our Group to minimize air emissions, discharge into water and land, and generation of hazardous and non-hazardous waste, with a view to mitigate the adverse impacts on the environment while operating our businesses, namely:

(i) Waste water treatment: Our Group uses treatment plants to reduce pollutants in the waste water generated during the production process before being discharged; and

(ii) Air pollution control: Our Group uses dust screens and covers to lower the level of pollutants and other particles generated from the production process.

For details, please refer to the paragraph headed “Business — Environmental compliance” of this prospectus.

During the Track Record Period, there was no incident of non-compliance with relevant local environmental laws and regulations that has a significant impact on our Group relating to air and greenhouse gas, emissions, discharge into water and land, and generation of hazardous and non-hazardous waste.

Air Emissions

In May 2019, our Group engaged an Independent Third-Party inspection and assessment institution to assess and issue an inspection report on the level of compliance in respect of environmental protection covering emission of wastewater, noise control and air pollution control (the “**Environmental Compliance Report**”). This institution has obtained China Inspection Body and Laboratory Mandatory Approval (CMA) issued by the Fujian Provincial Bureau of Quality and Technical Supervision* (福建省質量技術監督局), whereby it is qualified to carry out inspection and testing on our environmental protection measures and assess our level of compliance.

According to the Environmental Compliance Report, the average amount of volatile organic compounds (VOCs) in the air emissions produced from our Group’s products amounted to 1.0825mg/m3. With the data set out in the Environmental Compliance Report, our Directors note that the air pollutants incurred in the course of our Group’s production was within the range specified under the relevant laws and regulations in the PRC. In view of the importance of maintaining high standard of environmental protection compliance, our Directors intend to engage the inspection and assessment institution to identify and assess the environmental-related risks on a yearly basis.

Since obtaining more detailed data on the types and volume of emissions (including NO_x, SO_x, greenhouse gases, etc.) requires time for extensive assessment and analysis and may involve sampling of data by third party research teams on multiple occasions, our Directors undertake to provide such information in our environmental, social and governance report within specified time after Listing in compliance with the requirements under the GEM Listing Rules and Appendix 20 thereto.

Hazardous wastes

Hazardous wastes generated from our Group’s production processes, such as waste gloves and waste lamp scraps, are properly segregated, collected and centrally stored. Designated collection bins with clear labels are placed at specific areas for effective separation.

Since obtaining more detailed information on the types and volume of hazardous and non-hazardous wastes requires time for extensive assessment and analysis, our Directors undertake to provide such information in our environmental, social and governance report within specified time after Listing in compliance with the requirements under the GEM Listing Rules and Appendix 20 thereto.

During the Track Record Period, all hazardous and non-hazardous wastes of our Group were disposed of in accordance with the applicable rules and requirements.

Emission targets

The emission targets of our Group include (i) 100% compliance rate on waste disposal, water discharge, air emission and noise generation; (ii) zero complaint; and (iii) zero chemical leakage. Our Group currently adopted the following measures to achieve the emission targets:

(i) Waste water treatment: Our Group uses treatment plants to reduce pollutants in the waste water generated during the production process before being discharged;

(ii) Noise control: Our Group adopts soundproofing and vibration reduction measures to reduce the level of noise emitted from the machinery and equipment; and

(iii) Air pollution control: Our Group uses dust screens and covers to lower the level of pollutants and other particles generated from the production process.

Our Group will continue to monitor emission of wastewater, noise control and air pollution control regularly and our administration department will continue to keep record of pollutant emissions.

A2. Use of Resources

General Disclosures

Our Group is actively promoting the effective use of resources including energy and water, as follows:

Electricity Management: In the daily operation and production process, the main energy consumption of our Group includes consumption of production-based electricity and domestic electricity. Our Group has carried out the relevant plans for efficient use of energy to achieve the goals of saving electricity and using electricity efficiently. The relevant measures are as follows:

- Using electricity-saving equipment, electrical appliances and lamps for production, office, and domestic electricity use;
- Forbidding the running of idle equipment, and the unreasonable electric wiring distribution;
- Requiring our employees to turn on electrical equipment, including lighting equipment, air conditioners, fans, etc. during business hours depending on actual needs, and encouraging them to turn off the power when not in use or before off duty; and

- Enhancing the maintenance and overhaul of equipment, maintaining the best condition of all electronic equipment for effective use of electricity.

Water Management: To boost the water consumption efficiency, our Group has adopted the following measures:

- Applying water-saving appliances in water facilities as much as possible;
- The faucets should be closed in time after using water to prevent the wastage and leakage of water; and
- If abnormal conditions are detected, the relevant department should be notified in time to prevent any wastage of water resources.

Energy Consumption

Our Group uses a total of approximately 7.1 million kWh of electricity and approximately 506 kWh of electricity per tonne of products produced during the year ended 31 December 2019.

As for other energy sources, since obtaining information of the consumption amounts requires time for extensive assessment and analysis, our Directors undertake to provide such information in our annual/environmental, social and governance report within specified time after Listing in compliance with the requirements under the GEM Listing Rules.

Water Consumption

During the year ended 31 December 2019, our Group consumed approximately 35,900 tonnes of water in total and approximately 2.6 tonnes of water per tonne of products produced.

During the Track Record Period, our Group has not experienced material issues in sourcing water that is fit for purpose.

Packaging Materials

During the year ended 31 December 2019, our Group used approximately 1,086 tonnes of packaging materials for finished products in total and generally uses approximately 0.0183 tonnes of packaging materials for finished products per 10,000 sets of disposable food containers produced.

Targets for Use of Resources

For the year ending 31 December 2020, our Company targets to reduce its consumption of electricity and water per product produced, in accordance with the policies and measures implemented under the 13th Five-Year Plan.

Our Group strives to reduce its negative impact on the environment by improving operational efficiency and optimizing its production process to reduce the consumption of water, electricity, fuel and other resources and reduce environmental pollution. For steps to be taken to achieve the above target, please refer to the paragraph headed "A2. Use of resources — General disclosures" of this section. Our operating subsidiary, namely, Hengsheng Animation, has been accredited with ISO 14001 certification which is an internationally recognised standard for the environmental management of businesses that aims at recognising the desirable behaviour of businesses concerning the environment and prescribes controls for, amongst others, the use of natural resources and energy consumption.

A3. The Environment and Natural Resources

The major impact of our Group's business activities on the environment and natural resources include water pollution, noise pollution and air pollution.

With an aim to reduce energy consumption of our Group, we require all departments and staff members to be aware of the consumption of energy and resources in daily work and living, and cultivate energy saving habits. This includes such practices as switching off lights when leaving the workplace. Our Group strictly executes technological procedures in our production process and manages various energy consumption indicators to minimise energy waste. Production schedules are adjusted to conform with market orders, ensuring that the equipment can reach full capacity and the idle time is minimal. Our Group will continue to implement the abovementioned policies.

A4. Climate Change

Climate change may impose adverse effects to our Group's operation as follows:

(i) *Uneven distribution of water resources in PRC:* while water is one of the raw materials our Group has to use in the manufacturing process, the uneven distribution of water resources may elevate the cost of raw materials of our Group, affecting our financial performance; and

(ii) *Increasing temperature:* with climate change, the global temperature may increase, causing the higher consumption of the electricity resulting in a rise of cost of raw materials. Further, the increasing temperature globally may result in more unpredictable weather conditions such as frequent and severe occurrences of typhoons, hurricanes, droughts, flooding and increased rainfall etc. Such weather conditions are anticipated to cause disruption to transport services, which may in turn result in delay of delivery of raw materials and our products. In view of the possible increase in the cost of raw materials and the disruption of transportation, our supply chain may be adversely affected. Save for the above-mentioned possible disruption to the supply of raw materials, our Directors consider that the increasing temperature globally will not have a significant impact on our Group's production process. Our Production Facilities for production of all our products and moulds are located in Jinjiang City, Fujian Province, the PRC. The average temperature of Jinjiang City is 20 °C to 21°C. During winter seasons, the average temperature of Jinjiang City is 11.5°C to 11.9°C. During summer seasons, the average temperature of Jinjiang City is 27.5°C to 29.4°C. Given the range of average temperature of Jinjiang City, which is relatively moderate, even if there is a slight increase in the average global temperature, our production process would not be severely affected.

(iii) *Regulatory change:* As the impact of climate change will become more obvious in the coming years, it is likely that the PRC Government will impose tightened regulatory standards and restrictions on plastic product manufacture, which may lead to additional cost resulting from compliance of relevant standards or restrictions. For the risk associated with our environmental protection requirements, please refer to the paragraphs headed "Risk factors — Risks relating to our business — We are subject to the pressure of increasingly stringent PRC environmental laws and regulation and may be adversely affected by changes in the environmental laws, regulations and policies and in the worst scenario where the PRC Government prohibits the production of disposable plastic food storage containers with polypropylene resins, our contingency plan may not be effective as we have expected" of this prospectus.

Given the scale of the global climate challenge, the necessity to mitigate the effects of the greenhouse gases becomes a more prevalent concern of our Group. Our Directors and senior management will regularly have meetings on the various climate-related risks. In view of any policy and legal changes, our Group will communicate with the government authorities so as to understand any changes that may adversely affect the operation.

(B) SOCIAL ASPECTS

B1. Employment

General Disclosure

For staff policies, please refer to paragraphs headed "Business — Employees — Recruitment policy", "Business - Employees - Training and remuneration policies", "Business — Employees — Remuneration policy" and "Business — Employees — Staff benefits" of this prospectus.

As confirmed by our PRC Legal Advisers, our Group has no material non-compliance with relevant laws and regulations that have a significant impact on our Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

Diversity of workforce

The following sets out the total workforce by gender of our Group as at 31 December 2019:

	Number of employees	Percentage
Male	65	52%
Female	60	48%

The following sets out the total workforce by employment type of our Group as at 31 December 2019:

	Number of employees	Percentage
Full-time	125	100%
Part-time	0	0%

The following sets out the total workforce by age group of our Group as at 31 December 2019:

	Number of employees	Percentage
Aged 30 or below	43	34.4%
Aged 31-40	34	27.2%
Aged 41-50	40	32.0%
Aged 56 or above	8	6.4%

The following sets out the total workforce by geographical region of our Group as at 31 December 2019:

	Number of employees	Percentage
Fujian Province	51	40.8%
Jianxi Province	17	13.6%
Sichuan Province	16	12.8%
Guizhou Province	9	7.2%
Hubei Province	8	6.4%
Chongqing Province	7	5.6%
Others (*Note*)	17	13.6%

Note: Other provinces include Yunnan Province, Anhui Province, Shandong Province, Guangdong Province, Jinjiang Province, Jiangsu Province, Hainan Province, etc.

Employee Turnover

The following sets out the employee turnover rate by gender of our Group for the year ended 31 December 2019:

	Number of employees left	**Employee turnover rate**(Note)
Male	8	6.7%
Female	7	5.8%

Note: The turnover rate is calculated based on the number of employees left during the year ended 31 December 2019 and the number of employees as of 31 December 2018 of our Group. As of 31 December 2018, our Group had 120 employees. For more details, please refer to the paragraph headed "Business — Employee" of this prospectus.

The following sets out the employee turnover rate by age group of our Group for the year ended 31 December 2019:

	Number of employees left	**Employee turnover rate**(Note)
Aged 30 or below	5	4.2%
Aged 31-40	6	5.0%
Aged 41-50	3	2.5%
Aged 51 or above	1	0.8%

Note: The turnover rate is calculated based on the number of employees left during the year ended 31 December 2019 and the number of employees as of 31 December 2018 of our Group. As of 31 December 2018, our Group had 120 employees. For more details, please refer to the paragraph headed "Business — Employee" of this prospectus.

The following sets out the employee turnover rate by geographical location of our Group for the year ended 31 December 2019:

	Number of employees left	Employee turnover rate$^{(Note)}$
Fujian Province	9	7.5%
Yunnan Province	1	0.8%
Anhui Province	1	0.8%
Guizhou Province	1	0.8%
Chongqing Province	1	0.8%
Hainan	1	0.8%
Hubei	1	0.8%

Note: The turnover rate is calculated based on the number of employees left during the year ended 31 December 2019 and the number of employees as of 31 December 2018 of our Group. As of 31 December 2018, our Group had 120 employees. For more details, please refer to the paragraph headed "Business — Employee" of this prospectus.

B2. Health and Safety

General Disclosure

Our operations are also subject to a number of regulatory requirements imposed by the PRC Government with regard to employees' health and safety. We regard occupational health and safety as one of our important social responsibilities. We are committed to providing our employees with a safe and healthy working environment. As such, we have implemented safety guidelines at our Production Facilities with which all of our employees are required to comply. We inspect our Production Facilities from time to time in order to ensure that such facilities are safe for use. We also organise work place safety training for our employees on a regular basis and arrange personnel to supervise different stages of our production process so as to promote work place safety.

In practice, we document our safety plan in writing, which is conveyed to our employees before they started working with us. We also give instructions and provide trainings to our employees in relation to safety measures from time to time.

For details of our Group's policies regarding occupational health and safety and information relating to compliance with relevant laws and regulations that have a significant impact on our Group relating to providing a safe working environment and protecting employees from occupational hazards, please refer to the paragraph headed "Business — Occupational health and safety" of this prospectus.

Lost days due to work injury

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, our Group had complied with all relevant national or local occupational health and safety laws and regulations in all material respects and had not experienced any major accidents that had resulted in the death or serious injury of our employees.

The general lost day due to work injury is minimal as our Group had complied with all relevant national or local occupational health and safety laws and regulations in all material respects and had not experienced any major accidents that had resulted in the death or serious injury of our employees.

B3. Development and Training

General Disclosure

We provide trainings to our new employees and such trainings cover various areas of our operations including knowledge on the operations of the production machinery and equipment, safety inspections, and our internal control system. We also provide on-the-job training to our employees.

Statistics relating to our training activities

The following sets out the number and percentage of employees trained by gender for the year ended 31 December 2019:

	Number of trained employees(*Note*)	Percentage of employees being trained
Male	68	48.6%
Female	72	51.4%

Note: The number of trained employees include the all our employees who worked during the year ended 31 December 2019.

The following sets out the number and percentage of employees at various work levels as at 31 December 2019:

	Number of employees	Percentage of employees
Directors and Senior Management		
— Male	2	1.6%
— Female	1	0.8%
Middle Management		
— Male	8	6.4%
— Female	3	2.4%
General staff		
— Male	55	44.0%
— Female	56	44.8%

The following sets out the total training hours and average training hours completed per employee by gender for the year ended 31 December 2019:

	Total training hours	Average training hours per employee(Note)
Male	72	31.9
Female	68	31.3

Note: The number of trained employees include the all our employees who worked during the year ended 31 December 2019.

The following sets out the total training hours and average training hours completed per employee by employee category for the year ended 31 December 2019:

	Total training hours	Average training hours per employee(Note)
Directors and senior management	177	44.3
Administration	254	31.8
Finance	386	32.2
Product and mould design	744	31.0
Production	2,412	30.2
Procurement	168	42
Sales and marketing	288	36

Note: The number of trained employees include the all our employees who worked during the year ended 31 December 2019.

B4. Labour Standards

General Disclosure

In strict compliance with the requirements of the Labour Law of the PRC (《中華人民共和國勞動法》), it is our Company's policy to avoid any hiring of child or forced labour in its business operation and firmly insist on a zero tolerance approach to child or forced labour in any form. Our Company also requires its suppliers to avoid any hiring of child or forced labour as one of the assessment criteria in supplier selection. The legal proceedings and non-compliances as disclosed in the paragraphs headed "Business — Legal proceedings and non-compliance" of this prospectus were not related to such law.

Prevention of Child or Forced Labour

The human resources department of our Company is not allowed to hire child labour, who are aged under 16, and junior workers, who are aged between 16 and 18, during the recruitment process. Applicants are required to report their identity by showing their identity cards during the application. Upon issuance of letter of employment, staff from our Human Resources Department will require the applicant to show their original identity card for verification purpose. Our Directors are of the view that through discussion and checking of identity card during the engagement process, the possibility of recruiting child labour is minimized.

During the Track Record Period and up to the Latest Practicable Date, our Group was not aware of any material non-compliance with the laws and regulations relating to child and forced labour in the PRC. In case any child or forced labour are suspected by our Company's employees during our business operations, the employees shall report to our human resources department directly and senior departments for immediate investigation. If child or forced labour are discovered, our Group will report to the local labour authority without delay. If necessary, our Group will send the reported child or forced labour directly to local hospitals for health checks. If any child or forced labour are discovered in our Company's supply chain, our Company will demand its suppliers to terminate such employment and may consider terminating its business relationship with the suppliers in question if such practice is found to be intentional or permitted.

B5. Supply Chain Management

General Disclosure

Our Company has established clear rules on the selection and management of suppliers to ensure that suppliers are appropriately selected and managed. Such policies include, among others: (i) selecting suppliers from our list of approved suppliers with prescribed assessment criteria; (ii) sample testing of raw materials provided by suppliers; and (iii) selecting suppliers which supply environmentally friendly raw materials.

Our Company has 26 approved suppliers in the PRC, including 21 in Fujian Province, 1 in Gansu Province and 4 in Guangdong Province.

Environmental and Social Risk Management of the Supply Chain

Our Company selects suppliers from its list of approved suppliers. Our Company considers a number of factors in the compilation of the list of approved suppliers, including their background information, scale of operation, quality control system, prices, financial position and reputation in the industry. The list of approved suppliers will be reviewed and updated periodically. All our suppliers would undergo the above measures.

To avoid detrimental impacts on the environment and public health, our Company requires its suppliers to conduct sample testing of their raw materials to be provided, including melting index, density and chemical extract tests, and provide our Company with the test reports of the raw materials upon delivery.

Our Company selects suppliers that provide environmentally friendly raw materials. In terms of raw materials, disposable plastic food storage container can be mainly classified into PP (polypropylene) containers, PS (polystyrene) containers and EPS (expandable polystyrene) containers. Compared with the other two raw materials, PP is considered a more environmentally friendly material since the decomposition of PP can be accelerated by adding degradable materials and it is easy to recycle, whereas PS and EPS are difficult to degrade.

Our Group's disposable plastic food storage containers in the PRC are made of PP which come from petroleum origin and their wastes cannot be degraded. Our Directors take the view that the overall strategy to solve the environmental problem caused by the products made of PP is using biodegradable materials in manufacturing our disposable plastic food storage containers. To this end and in view of the PRC Government's policy on tightening the rules and regulations on environmental protection, our Group has been exploring ways to strengthen the degradability and recyclability of its products such as the use of other materials (the polylactic acid (PLA) and polybutylene adipate terephthalate (PBAT)), the compatibility of its existing machinery and the moulds).

B6. Product Responsibility

General Disclosure

Our Company strictly abides by the relevant regulations including the Product Quality Law of the PRC (《中華人民共和國產品質量法》) and the Regulation of the PRC on Administration of Production License for Industrial Products (《中華人民共和國工業產品生產許可證管理條例》). The legal proceedings and non-compliances as disclosed in the paragraphs headed "Business — Legal proceedings and non-compliance" of this prospectus were not related to such laws regulations.

Product policies relating to quality and safety

During the Track Record Period, our Company had not experienced any major sales return, recall or complaint due to quality and safety reasons from its customers. Our Group's customer is entitled to return the products to our Group only if the products do not fall within the specifications in the purchase orders. For any product quality complaints, the quality control team will examine to ascertain the validity of the claims and report their findings to the relevant production team and sales team. Our Group may offer exchanges to its customers with regards to any products which are certified by our Group as being defective. As concerns customers' complaints, our Group's sales representatives are responsible for dealing with complaints from the customers. All complaints of the products received will be directed to the relevant sale manager and he/she will directly handle the complaint with the customer and report the results to our management. During the Track Record Period, our Directors confirm that our Group had not received any material complaints lodged by the customers or in relation to the products.

Our Company has four staff members serving at its production team who are responsible for quality control. Our Company has implemented quality control measures throughout its manufacturing process from incoming material quality control to delivery of finished products in accordance with the requirement of ISO 9001 and ISO 14001 standards. Our Company's production supervisor is in charge of the overall quality control of the production. The quality control staff are mandated to identify any quality control issues and provide solutions to the production team to address such issues. Our Company's production team with its quality control staff are tasked with examination of the products at each key stage of production to ensure that the quality of its products is satisfactory as per the internal standards/customers' requirements. Members of the production team and quality control staff are trained to look out for certain quality issues. Our Group has developed quality assurance and safety control processes for the production of its products and it has not experienced any suspension or termination of any licence, permit or certificate necessary for the operation of the Production Facilities during the Track Record Period.

Intellectual Property Rights

In accordance with the Trademark Law of the PRC (《中華人民共和國商標法》) , the Patent Law of the PRC (《中華人民共和國專利法》) and other relevant regulations, our Company has registered patents and trademarks in relation to the production know-how in the production process, so as to effectively protect the intellectual property rights of our Company. For further details of our Company's trademarks and patents, please refer to the paragraph headed "2. Intellectual property rights" in Appendix IV to this prospectus.

Confidentiality of Information

Our Company keeps customers' data in strict confidence and shall not disclose the information directly or indirectly to any third party. Customer information is collected only when it is necessary. Unauthorized access and use of customers' data are prohibited. Internal training is also arranged to strengthen staff awareness of information protection. During the Track Record Period and up to the Latest Practicable Date, our Group was not aware of any material non-compliance with laws and regulations relating to privacy matters in the PRC.

B7. Anti-corruption

General Disclosure

Our Company strictly abides by the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) and the Anti-Money Laundering Law of the PRC (《中華人民共和國反洗錢法》), and has made clear undertakings in respect of the responsibilities of various positions in respect of avoiding any conflict of interest with our Company, which require the employees to report conflicts of interest in a timely manner to our Company. As stated in the internal policy of our Company, the management of our Company is to ensure that our Company strictly follows the rules of fair competition. The internal policy further states that the management of our Company is required to supervise our Company's employees closely to ensure that all employees abide by relevant anticorruption laws. During the Track Record Period and up to the Latest Practicable Date, our Group was not aware of any material non-compliance with the laws and regulations relating to bribery, extortion, fraud and money laundering in the PRC and there was no legal case regarding corrupt practices was brought against any member of our Group nor any of our directors and employees. The legal proceedings and non-compliances as disclosed in the paragraphs headed "Business — Legal proceedings and non-compliance" were not related to corruption.

Whistleblowing System

Our Group will establish a whistleblowing system to maintain a clean and transparent culture of our Group. The whistleblowing system will allow all employees to report anonymously or in secrecy directly to the Audit Committee or our Board or members authorized by our Board (such as members of the Audit Committee) such acts involving negligence, corruption, bribery, management overriding and other misconducts. Our Group will address the reports promptly, fairly and confidentially. On the other hand, the whistleblowing system will also safeguard the confidentiality of the identity of a whistle-blower, in which case, our Board or the members of the Audit Committee authorized by our Board will be required to observe the principle of confidentiality without disclosing the cases as reported by such employees and the issues in question, or divulging pending cases. Meanwhile, whistle-blowers will not be treated unfairly because of these reports, the whistle-blowers will not face unfair dismissal, unwarranted disciplinary actions, etc.

Staff Education

Our Group has adopted the following education measures to promote anti-corruption campaigns and cultivate a culture of anti-corruption within our Group:

- Promoting the code of conduct of integrity and anti-commercial bribery; and

- Providing training of anti-corruption and anti-bribery procedures to all employees.

B8. Community Investment

During the Track Record Period, our Company demonstrated its commitment to its corporate social responsibilities. Our Group mainly focused on the occupational health and safety as one of our important social responsibilities. As such, we have implemented safety guidelines at our Production Facilities with which all of our employees are required to comply. We inspect our Production Facilities from time to time in order to ensure that such facilities are safe for use. We also organise work place safety training for our employees on a regular basis and arrange personnel to supervise different stages of its production process so as to promote work place safety. Please refer to the paragraph headed "Business — Occupational health and safety" of this prospectus.

On the other hand, our Group also placed emphasis on the environmental protection and adopted some governance measures towards the major environmental risks in waste water treatment, noise control and air pollution control. For more details, please refer to the paragraph headed "Business — Our environmental, social and governance policies" of this prospectus.

Recently, in view of the outbreak of COVID-19, in February 2020, our Group also donated some disposable food containers to the Wuhan Charity Federation with an amount of over RMB1.0 million.

CONTROLLING SHAREHOLDERS

Immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account of any Share which may be issued upon exercise of the Offer Size Adjustment Option), our Company's ultimate Controlling Shareholder, Mr. Xu, through Prize Investment (a company wholly-owned by him), will be interested in 50.25% of the issued share capital of our Company. As Prize Investment and Mr. Xu are directly and indirectly entitled to exercise or control the exercise of 30% or more of the voting power of general meetings of our Company immediately following the Listing, each of Prize Investment and Mr. Xu shall be regarded as a Controlling Shareholder under the GEM Listing Rules.

Mr. Xu, our ultimate Controlling Shareholder, is one of our executive Directors and the chairman of our Board. For further details, please refer to the paragraph headed "Directors, senior management and employees — Board of Directors and senior management — Executive Directors" in this prospectus.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that our Group is capable of carrying on its business independently from our Controlling Shareholders and their close associates upon completion of the Share Offer.

Management Independence

Our management rests with our Board and senior management. Our Board comprises three executive Directors, namely Mr. Xu, Ms. Xu Liping and Mr. Zhang Yuansheng and three independent non-executive Directors, namely Mr. Li Danny Fui Lung, Mr. Liu Dajin and Mr. Deng Zhihuang. For details, please refer to the section headed "Directors, senior management and employees" in this prospectus.

We consider that our Board and senior management are able to function independently from our Controlling Shareholders due to the following reasons:

(a) each Director, including Mr. Xu, our Controlling Shareholder, is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit and in the best interest of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interests;

(b) our Board consists of three independent non-executive Directors and there will be sufficiently robust and independent voice within our Board to counter-balance any situation involving conflict of interest and protect the interests of our independent Shareholders;

(c) the management, operation and affairs of our Group are headed, managed and supervised by our Board as a whole and not by any individual Director. According to the Articles, our Board must act collectively by a majority decision, and no individual Director is allowed to transact or make any decision for and on behalf of our Company alone unless he/she is authorised by our Board or in accordance with the provisions of the Articles. Any view of a Director will be checked and balanced by the view of other Board member;

(d) in the event that there is a potential conflict arising out of any transaction to be entered into between our Group and our Directors or their respective associates (the "**Conflicting Transaction**"), the interested Director(s) shall be abstained from voting at the relevant board meetings of our Company in respect of such transactions, and shall not be counted in forming quorum, unless otherwise permitted under the Articles and/or the GEM Listing Rules. The interested Director(s) shall not attend any independent board committee meetings comprising our independent non-executive Directors only. In the event that there is a Conflicting Transaction which shall be submitted to our independent non-executive Directors for their consideration and approval, they would have sufficient experience and knowledge to oversee such Conflicting Transaction from different aspects;

(e) our Company has also established internal control mechanism to identify related party transactions and/or connected transactions that are subject to the requirements under the GEM Listing Rules, including the requirements of reporting, announcement, circular and independent Shareholders' approval (where appropriate);

(f) in order to allow the non-conflicting members of our Board to function properly and make informed decision with the necessary professional advice, our Company will engage third party professional advisor(s) to advise our Board when necessary, depending on the nature and significance of the Conflicting Transaction;

(g) our Controlling Shareholders have undertaken to provide all information requested by our Group which is necessary for the annual review conducted by the independent non-executive Directors and the enforcement of the Deed of Non-Competition;

(h) our independent non-executive Directors will, based on the information available to them, review on annual basis (i) the compliance with the Deed of Non-Competition; and (ii) all the decisions taken in relation to whether to pursue the new opportunity under the Deed of Non-Competition, and to disclose all decisions on the matters pertaining to the annual review either through the annual report, or by way of announcement to the public; and

(i) our Company has established corporate governance procedures in safeguarding the interests of our Shareholders and enhancing our Shareholders' value. For details, please refer to the paragraph headed "Corporate governance measures" in this section.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles as our Directors and manage the business of the Group independently from our Controlling Shareholders and their respective close associates after the Listing.

Financial Independence

Our Board believe that we are able to operate independently financially from our Controlling Shareholders and their associates due to the following reasons:

(a) we have an independent financial system and we make financial decisions independently according to our Group's own business and operation needs;

(b) we have sufficient capital to operate our business independently, and have adequate internal resources and credit profile to support our daily operation as evidenced by the fact that we had not relied on any banking facilities, bank and other borrowings for our financial results during the Track Record Period;

(c) none of our Controlling Shareholders or their respective close associates had provided any loans, advances, guarantees or pledges to our Group as at the Latest Practicable Date;

(d) we have independent access to third party financing on market terms and conditions for our business operations as and when required; and

(e) we have independent bank accounts and do not share any of our bank accounts, loan facilities or credit facilities with our Controlling Shareholders or their respective close associates.

Operational Independence

We make business decisions independently. Our Directors consider that we will continue to be operationally independent from our Controlling Shareholders and their respective close associates after the Listing due to the following reasons:

(a) we hold all licences that are material to the operation of our business and have sufficient capital, equipment and employees to operate our business independently;

(b) we have our own operational and administrative resources and we do not share such resources with our Controlling Shareholders and their respective close associates or other companies controlled by our Controlling Shareholders and their respective close associates;

(c) we have our own organisational and corporate governance structure and has established our own accounting, legal and human resources departments;

(d) we have established a set of internal control measures to facilitate the effective operation of our business;

(e) we have independent access to customers and suppliers; and

(f) each of our Controlling Shareholders and their respective close associates has no relationship with our five largest customers and five largest major suppliers of our Group (other than the business contracts in the ordinary and usual course of business of our Group) during the Track Record Period.

DISCLOSURE PURSUANT TO RULE 11.04 OF THE GEM LISTING RULES

EXCLUDED BUSINESS

Clear Delineation of Business

In anticipation of the Listing and as part of the Reorganisation, Hengsheng Animation, our PRC operating subsidiary, underwent and completed its corporate division in December 2018 where the Excluded Business and its relevant assets were separated and transferred to Fujian Renyue. Fujian Renyue then engages in the Excluded Business after completion of the aforementioned corporate division of Hengsheng Animation. For details of the corporate division of Hengsheng Animation in preparation for the Listing, please refer to the paragraph headed "History, Reorganisation and corporate structure" in this prospectus. During the Track Record Period and up to the Latest Practicable Date, Mr. Xu, our Controlling Shareholder, has had direct interest in Fujian Renyue, a business not in competition with the business of our Group, before the transfer of his entire equity interest in Fujian Renyue to Mr. Xu Yubin, nephew of both Mr. Xu and Mr. Hui, in March 2019.

Our Directors consider that our business are distinctly different from the Excluded Business and do not compete with each other having taken into account each of the following factors:

		Excluded Business	Our Group's Business
1.	Different business nature	Fujian Renyue engages in the provision of design services for animation and its ancillary products and the production and distribution of animation programmes.	Our Group engages in the design and development and the manufacturing and sales of plastic container products.
2.	Different products	Fujian Renyue's products comprise animated movies and TV series and its ancillary products which includes design services for its derivative products	Our products comprise a comprehensive range of plastic containers that are with various colours, sizes, shapes and features.

		Excluded Business	Our Group's Business
3.	Different customer base	Fujian Renyue's customers are mainly film and TV drama producers and manufacturers of food, leather goods and toys	Our customers are mainly PRC-based trading companies that specialise in the trading of household products.
4.	Different management	Before Mr. Xu resigned as a director of Fujian Renyue in March 2019, he did not participate in the daily operation of Fujian Renyue. Fujian Renyue has a separate management and operation team and engaged separate employees	Our Group is managed by Mr. Xu, our executive Directors and senior management members
5.	Different venue of operation	The office of Fujian Renyue is separated from that of our Group	Our Group's office and Production Facilities are separated from Fujian Renyue

As (i) the Excluded Business are clearly different from our business operations in terms of business nature, products and customer base; and (ii) we currently do not intend to engage in the Excluded Business, we consider that it is not in the best interests of our Company and our Shareholders as a whole to include any of the Excluded Business into our Group. Our Controlling Shareholders also confirmed that they have no intention to inject any of the Excluded Business into our Group.

Furthermore, our Group and Fujian Renyue, in aggregate generated net cash from their operating activities before working capital changes of approximately RMB23.1 million and RMB33.4 million for the years ended 31 December 2017 and 2018, respectively. Had Fujian Renyue which engages in the Excluded Business been included in our Group and their financial information been included in the financial information of our Group, our Group would still have recorded considerable net cash from their operating activities. Thus, our Directors are of the view that the exclusion of the Excluded Business from our Group will not affect our compliance with the requirements set out in Rule 11.12A(1) of the GEM Listing Rules.

As a result of the above, each of our Controlling Shareholders, our Directors, our Substantial Shareholders and their respective close associates confirmed that as at the Latest Practicable Date, he, she or it did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our Group's business, and requires disclosure under Rule 11.04 of the GEM Listing Rules.

DEED OF NON-COMPETITION

Our Controlling Shareholders have entered into the Deed of Non-Competition in favour of our Company (for ourselves and as trustee for each of our subsidiaries), under which each of our Controlling Shareholders has undertaken to our Company (for ourselves and for the benefits of our subsidiaries) that they shall not, and shall procure their respective close associates (other than members of our Group) not to, during the Restricted Period (as defined below), directly or indirectly, either on its own account, in conjunction with, on behalf of, or through any person, firm or company, among other things, carry on, participate or be interested, engaged or otherwise involved in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) any business, in Hong Kong or elsewhere, in relation to the design and development, manufacturing and sales of disposable plastic food storage containers and any other new business which our Group may undertake from time to time after the Listing (the "**Restricted Business**").

The undertaking given by our Controlling Shareholders under the Deed of Non-Competition does not apply to:

(a) the holding of, or interests in, the shares of any members of our Group; and

(b) the holding of, or interests in, the shares of a company (other than member of our Group):

   (i) whose shares are listed on a recognised stock market (as defined under the SFO) provided that the total number of shares held by the relevant Controlling Shareholder and/or its/his close associates does not exceed 5% of the issued shares of that class of the company in question, and such Controlling Shareholder and its/ his respective close associates would not participate in or be otherwise involved in the management of the company in question; or

   (ii) whose revenue of the Restricted Business accounts for less than 5% of that company's or group of companies' consolidated revenue, as shown in its/their audited accounts.

The Deed of Non-Competition will become effective upon the Share Offer becoming unconditional and remain in effect during the period (the "**Restricted Period**") from the Listing Date until the earlier of the date on which:

(a) our Shares cease to be listed on the Stock Exchange; or

(b) our Controlling Shareholders, together with their respective close associates (other than members of our Group), cease to be the controlling shareholders (as defined under the GEM Listing Rules) of our Company.

Each of our Controlling Shareholders has further undertaken, during the Restricted Period, to refer or procure to refer any business investment or other commercial opportunity relating to the Restricted Business (the "**New Opportunity**") identified by or offered to our Controlling Shareholders and/or any of their respective close associates (other than members of our Group) (the "**Offeror**") to our Group in the following manner:

(a) our Controlling Shareholders shall, and shall procure their respective close associates (other than members of our Group) to, promptly refer, or procure the referral of, the New Opportunity to our Group by giving written notice to our Company containing all information reasonably necessary for our Group to consider whether (i) the New Opportunity would constitute the Restricted Business; and (ii) it is in the interest of our Group to pursue the New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs (the "**Offer Notice**");

(b) our Company shall, within ten business days from our Company's receipt of the Offer Notice, reply to the Offeror stating whether (i) the New Opportunity constitutes Restricted Business; and (ii) our Group is interested in pursuing the New Opportunity (the "**Reply**");

(c) in the event that our Group is interested in pursuing the New Opportunity, the Offeror shall use its/his best endeavours to procure such New Opportunity to be offered to our Group on terms no less favourable than the terms on which such opportunity is offered to the Offeror;

(d) in the event that our Group declined the New Opportunity but indicated in the Reply that the New Opportunity constitutes Restricted Business, the Offeror shall not invest or otherwise participate in the New Opportunity; and

(e) in the event that we indicated in the Reply that the New Opportunity does not constitute Restricted Business or we failed to provide our Reply within ten business days from our Company's receipt of the Offer Notice, the Offeror may invest or otherwise participate in the New Opportunity.

Upon receipt of the Offer Notice, we will seek opinions and decisions from a committee of our Board consisting only our independent non-executive Directors as to whether (i) the New Opportunity constitutes Restricted Business; (ii) it is in the interest of our Company and our Shareholders as a whole to take up the New Opportunity; and (iii) to take up or decline the New Opportunity.

With a view to avoid competition of businesses between our Group and our Controlling Shareholders, our independent non-executive Directors will review the compliance with and enforcement of the Deed of Non-Competition at least on an annual basis and the results of such review will be included in our annual report.

Each of our Controlling Shareholders has further undertaken to promptly:

(a) provide all relevant information for review by our independent non-executive Directors for compliance with and enforcement of the Deed of Non-Competition;

(b) allow or procure to allow, subject to confidentiality restrictions imposed by any third party, our representatives, our auditors and our compliance adviser (if necessary) to have access to their business, financial and/or corporate records as may be necessary for our independent non-executive Directors to determine whether our Controlling Shareholders and their respective close associates (other than members of our Group) have complied with the Deed of Non-Competition;

(c) make an annual declaration to be included in our annual report on compliance with and enforcement of the Deed of Non-Competition in accordance with the GEM Listing Rules;

(d) address such other enquiries as may be made by the Stock Exchange, the SFC, any other regulatory bodies or our Company from time to time; and

(e) comply with the requirements under the relevant laws, rules and regulations of the Stock Exchange and the regulatory bodies having jurisdiction over our Company from time to time in connection with the Deed of Non-Competition and to do all such acts to facilitate our Company to comply with the same.

Our Controlling Shareholders have further jointly and severally undertaken that they will not, and will procure their respective close associates not to:

(a) directly or indirectly, solicit, interfere with or entice away from any member of our Group, any natural person, legal entity, enterprise or otherwise who, to any of our Controlling Shareholders' knowledge, as at the date of such solicitation, interference or enticing, is or, within a year thereof, was a customer, supplier, distributor or employee (of managerial grade or higher) of any member of our Group; or

(b) make use of any information pertaining to the business of our Group which may have come to its/his knowledge in its/his capacity as a Controlling Shareholder or otherwise for any purpose of engaging, investing or participating in any Restricted Business.

CORPORATE GOVERNANCE MEASURES

Our Company expects to comply with the Corporate Governance Code which sets out the principles of good corporate governance in aspects such as directors' responsibilities and their appointment, re-selection and removal, board composition, remuneration of directors and senior management, accountability and audit, and communication with Shareholders. Our Company will state in our interim and annual reports whether we have complied with such code provisions, and will provide details of, and reasons for, any deviation from it in the corporate governance reports attached to our annual reports.

In addition, our Company has adopted the following measures to strengthen our corporate governance practice and to safeguard the interests of our Shareholders:

(a) our Board will ensure that any material conflict or potential conflict of interests involving our Controlling Shareholders will be reported to our independent non-executive Directors as soon as practicable;

(b) the Articles provide that a Director shall not be counted in the quorum or vote on any resolution of our Board approving any contract or arrangement or other proposal in which he/she or any of his/her close associates is materially interested unless in certain circumstances as expressly stated in the Articles;

(c) each Director is aware of his/her fiduciary duties as a Director, which require, among other things, him/her to act for the benefit of our Company and our Shareholders as a whole and not to allow any conflict of interests between his/her duties as a Director and his/her personal interests;

(d) our audit committee will review, on an annual basis, compliance with the Deed of Non-Competition given by our Controlling Shareholders;

(e) our Company will obtain (i) an annual written confirmation in respect of our Controlling Shareholders' compliance with the terms of the Deed of Non-Competition, (ii) consent (from each of our Controlling Shareholders) to refer to the said confirmation in our annual reports, and (iii) all information as may reasonably be requested by us and/or our independent non-executive Directors for our review and enforcement of the Deed of Non-Competition;

(f) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-Competition of our Controlling Shareholders in the annual reports of our Company;

(g) our independent non-executive Directors may appoint independent financial advisers and other professional advisers as they consider appropriate to advise them on any matter relating to the non-competition undertaking or connected transaction(s) at the cost of our Company; and

(h) our Company has appointed Grand Moore Capital Limited as the compliance adviser which shall provide our Company with professional advice and guidance in respect of compliance with the GEM Listing Rules.

Further, any transaction that is proposed between our Group and our Controlling Shareholders and their respective associates will be required to comply with the requirements of the GEM Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent Shareholders' approval requirements.

With the corporate governance measures including the measures set out above, our Directors believe that the interest of our Shareholders will be protected.

TRANSACTIONS ENTERED INTO BEFORE THE LISTING WHICH WOULD OTHERWISE CONSTITUTE CONNECTED TRANSACTIONS

We have entered into the following transactions with parties who will, upon the Listing, become our connected persons. These transactions were entered into before the Listing and are accounted as one-off in nature under HKFRS 16. If these transactions were entered into after the Listing, such transactions would constitute connected transactions of our Group. Details of such transactions are set out below in order to facilitate potential investors to anticipate that we have, before the Listing, entered into transactions which would otherwise be considered as connected transactions should our Company be listed on the Stock Exchange at the time of the relevant transactions.

Connected Persons

Following the Listing, Hengsheng Toys, which has entered into the transactions described in this section, will be a connected person of our Company as Hengsheng Toys is wholly-owned by Heng Sheng Holding Group Limited (900270:KS), which in turn is owned as to approximately 54.7%, 22.3% and 23% by Mr. Hui (the brother of Mr. Xu, who is our chairman, executive Director and Controlling Shareholder), Ms. Hui Mei Nga (the sister-in-law of Mr. Xu, who is our chairman, executive Director and Controlling Shareholder) and four other entities that are Independent Third Parties, respectively.

Tenancy Agreements

As at the Latest Practicable Date, our Group has leased certain properties from our connected person under various tenancy agreements (the "**Leases**"), details of which are set out as follows:

	Date of tenancy agreement	**Property address**	**Parties**	**Approximate gross floor area**	**Yearly rental**	**Term**	**Use of premises**
				(sq. m.)	*(RMB)*		
1.	21 June 2020	Factory Building on Level 1, Wenhua Building, Building 2, No. 301 Wukeng Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮梧坑工業區301號二幢文化樓一樓廠房)	**Landlord:** Hengsheng Toys **Tenant:** Hengsheng Animation	2,930	150,000	21 June 2020 - 20 June 2023	Warehouse
2.	21 June 2020	Factory Building on Level 1, Xusheng Building, Building 4, No. 301 Wukeng Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮梧坑工業區301號四幢許盛樓一樓廠房)	**Landlord:** Hengsheng Toys **Tenant:** Hengsheng Animation	1,850	120,000	21 June 2020 - 20 June 2023	Factory

	Date of tenancy agreement	Property address	Parties	Approximate gross floor area	Yearly rental	Term	Use of premises
				(sq. m.)	*(RMB)*		
3.	21 June 2020	Office on Level 4, Wenhua Building, Building 2, No. 301 Wukeng Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮梧坑工業區301號二幢文化樓四樓辦公室)	**Landlord:** Hengsheng Toys **Tenant:** Hengsheng Animation	300	29,700	21 June 2020 - 20 June 2023	Product showroom
4.	21 June 2020	Factory Building on Level 1, Toys Building, Building 1, No. 301 Wukeng Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮梧坑工業區301號一幢玩具大樓一樓廠房)	**Landlord:** Hengsheng Toys **Tenant:** Hengsheng Animation	700	66,000	21 June 2020 - 20 June 2023	Office for product and mould design
5.	21 June 2020	Factory Building on Level 2, Hengsheng Toys Xusheng Building A, Building 5, No. 301 Wukeng Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮梧坑工業區301號五幢恒盛玩具許盛A樓二樓廠房)	**Landlord:** Hengsheng Toys **Tenant:** Hengsheng Animation	1,624.74	120,000	21 June 2020 - 20 June 2023	Warehouse
6.	21 June 2020	Office on Level 3, Hengsheng Toys Jazzit Building, Building 1, No. 301 Wukeng Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮梧坑工業區301號一幢恒盛玩具爵士兔三樓辦公室)	**Landlord:** Hengsheng Toys **Tenant:** Hengsheng Animation	512	48,333.33	21 June 2020 - 20 June 2023	Office
7.	21 June 2020	Office on Level 4, Hengsheng Toys Jazzit Building, Building 1, No. 301 Wukeng Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮梧坑工業區301號一幢恒盛玩具爵士兔四樓辦公室)	**Landlord:** Hengsheng Toys **Tenant:** Hengsheng Animation	512	48,333.33	21 June 2020 - 20 June 2023	Office
8.	21 June 2020	Factory Building on Level 1, Hengsheng Toys Building, No. 1-1 Xiushan Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市龍湖鎮秀山工業區1-1號恒盛玩具一樓廠房)	**Landlord:** Hengsheng Toys **Tenant:** Hengsheng Animation	800	80,000	21 June 2020 - 20 June 2023	Factory

Basis in determining the rental payable

The rental rates were on normal commercial terms or better determined after arm's length negotiations based on the prevailing market rates no less favourable to those offered by Independent Third Parties for similar properties at comparable locations. We have engaged an independent property valuer which is of the opinion that the rental payable under the Leases are comparative to the prevailing market rates of similar properties in the locality and are fair and reasonable.

Reasons for the transactions

Our Group has been using one of the properties under the Leases as our factory since October 2012. Having considered that the rent of the properties under the Leases are comparable to the prevailing market rates of comparable properties in the locality, and the additional renovation and associated costs which we may incur if we move out of the properties under the Leases and relocate to another premises, our Directors consider that it is desirable and in the interests of our Company and the Shareholders as a whole to continue using the properties under the Leases as our office, warehouse, factory and product showroom.

Accounting treatment of the Leases

The HKFRSs applicable to our Group include HKFRS 16 "Leases" which came into effect on 1 January 2019. Accordingly, the consolidated financial statements of our Group for the financial year ending 31 December 2020 (being the period in which the Leases were entered into) would have adopted HKFRS 16. Under HKFRS 16 and in the consolidated statement of financial position of our Group, our Group as the lessee shall recognise the leases as right-of-use assets and lease liabilities. The right-of-use assets represents its right to use the underlying leases over the lease term and the lease liabilities represents its obligation to make lease payments (i.e. the rental payment), measured at present value and discounted using the incremental borrowing rate. The rental payments to be made by our Group under the Leases are capital in nature and will be recognised, among others, as assets of our Group at the commencement dates of the Leases.

Implication under the GEM Listing Rules

Having taken into account the abovementioned accounting treatment, the Leases will not be regarded as continuing connected transactions of our Group upon the Listing. Nevertheless, solely for the purpose of (i) illustrating the implications of the GEM Listing Rules on the Leases should they be entered into after the Listing; and (ii) allowing our potential investors to anticipate such transactions which were entered into by us prior to the Listing, set forth below are the GEM Listing Rules requirements applicable to such transactions should they be entered into after the Listing.

As each of the Leases were entered into between Hengsheng Toys and Hengsheng Animation within a 12-month period, the transactions contemplated under the Leases are required to be aggregated pursuant to Rule 20.79 of the GEM Listing Rules. As the aggregated value of the right-of-use of the properties under the Leases was less than HK$3,000,000 and each of the applicable ratios (other than profits ratio) (as defined in the GEM Listing Rules) was less than 5%, the relevant transactions would constitute de minimis connected transactions under Rule 20.74(1)(c) of the GEM Listing Rules and would be fully exempt from the reporting, annual review, announcement, circular and independent shareholder's approval requirements under Chapter 20 of the GEM Listing Rules should our Company be listed on the Stock Exchange at the time of the relevant transactions.

Other Transactions with Hengsheng Toys and/or its subsidiaries during the Track Record Period

During the years ended 31 December 2017 and 2018, Hengsheng Animation was granted with the right to use two trademarks owned by Jazz Rabbit Apparels from Hengsheng Toys, a licensee of such trademarks, under a trademark licensing agreement at the consideration of RMB2.0 million per year. In June 2018, such trademarks were transferred from Jazz Rabbit Apparels to Hengsheng Animation pursuant to a trademark transfer agreement at the consideration of approximately RMB10.0 million (which is inclusive of value-added tax of approximately RMB0.5 million). As Hengsheng Animation had paid the trademark licensing fee of RMB2.0 million prior to the execution of the trademark transfer agreement, RMB1.0 million (being the trademark licensing fee for the second half year in 2018) was off-set from the aforementioned consideration for the transfer of trademarks, leading to the final consideration being approximately RMB9.0 million. As the trademark licensing agreement had been terminated as at the Latest Practicable Date and the transaction contemplated under the trademark transfer agreement was a one-off transaction, such transactions would not be continued upon the Listing.

In June 2018, Hengsheng Animation and Hengsheng Toys entered into a fixed asset transfer agreement pursuant to which Hengsheng Toys transferred certain machinery and equipment to Hengsheng Animation at the consideration of approximately RMB13.7 million (which is inclusive of value-added tax of approximately RMB1.9 million). As the transaction contemplated under the fixed asset transfer agreement was a one-off transaction, such transaction would not be continued upon the Listing.

Prior to the abovementioned machinery and equipment were transferred to Hengsheng Animation, such machinery and equipment were leased to our Group by Hengsheng Toys during the years ended 31 December 2017 and 2018 where our Group incurred for the water and electricity expenses at approximately RMB2.9 million and RMB1.5 million, respectively, to Hengsheng Toys which were generated from the use of such machinery and equipment. Once such machinery and equipment were transferred to Hengsheng Animation and that Hengsheng Animation opened its own account for the payment of water and electricity expenses, Hengsheng Animation has no longer paid water and electricity expenses to Hengsheng Toys and such transaction would not be continued upon the Listing.

OPERATIONAL INDEPENDENCE FROM OUR CONNECTED PERSON

During the Track Record Period, we have leased certain properties from Hengsheng Toys (the "**Landlord**"), a connected person of our Company following the Listing, pursuant to the Leases. We were still renting these properties as at the Latest Practicable Date and will continue to rent these properties after the Listing.

For the purpose of minimising the effect of our reliance on Hengsheng Toys with respect to the Leases, the following terms were incorporated:

(i) our Group is granted with the right of renewal of each of the Leases upon their respective expiries (the "**Renewal of Leases**") where the terms and conditions of each of the Leases shall remain the same save for the adjustment of the yearly rental fee which shall be comparable to the prevailing market rates as at the date of the Renewal of Leases;

(ii) during the term of the Leases, our Group is entitled to terminate the Leases by giving at least three months' advance notice in writing to the Landlord, but the Landlord is not entitled to early terminate the Leases; and

(iii) if the Landlord decides to dispose of any of the properties under the Leases, the Landlord shall give our Group 12 months' advance notice in writing, and that our Group shall have the right of first refusal to purchase the relevant property under the same conditions.

In addition to the above, we have sought the following irrevocable and unconditional undertakings from the Landlord:

(i) the Landlord undertook that it will not dispose of any of the properties under the Leases within ten years from 21 June 2020;

(ii) in the event that we are required to relocate from any of the properties under the Leases for whatever reasons other than early termination of the Leases by us, the Landlord shall (i) compensate us for all losses and expenses in relation to our relocation; (ii) assist us in locating an alternative site which is comparable to the respective properties and provide us with all reasonable assistance required for our relocation; and (iii) allow us to occupy and use the relevant properties until our relocation is completed and our operation in the new premises has commenced; and

(iii) if any of the properties under the Leases is disposed to a third party, the Landlord shall procure such third party to continue to lease such property to our Group and observe the terms and conditions under the Leases.

Our Directors believe that the abovementioned irrevocable and unconditional undertakings from the Landlord will allow us to have sufficient time to relocate from the properties under the Leases without material disruption to our operations. Having taken into account such undertakings and the terms of the Leases which our Directors are of the opinion to be fair and reasonable and in the interest of our Group and our Shareholders as a whole, our Directors do not consider any material reliance by our Group on Hengsheng Toys.

Save for the Leases, our Directors confirmed that our Group will not enter into any transaction with our connected persons and their close associates after the Listing.

In light of the foregoing, our Directors are of the view that our Group is capable of operating our business independently from our connected persons and their close associates after the Listing.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Our Board currently consists of six Directors, comprising three executive Directors and three independent non-executive Directors. The following table sets forth certain information of our Directors:

Name	Age	Present position	Date of appointment as Director	Date of joining our Group	Roles and responsibilities	Relationship with other Directors and senior management
Executive Directors						
Mr. Xu Youjiang (許有獎)	53	Chairman and executive Director	13 December 2018	March 2011	Overall management, strategic development and decision-making of our Group	Spouse of Ms. Xu Liping
Ms. Xu Liping (許麗萍)	49	Chief executive officer and executive Director	18 March 2019	28 January 2019	Business development and overseeing daily administration and operations	Spouse of Mr. Xu Youjiang
Mr. Zhang Yuansheng (張緣生)	33	Executive Director	18 March 2019	6 May 2014	Overseeing daily operations and financial management	Nil
Independent non-executive Directors						
Mr. Li Danny Fui Lung (李魁隆)	67	Independent non-executive Director	19 June 2020	19 June 2020	Supervision and provision of independent judgment to our Board	Nil
Mr. Liu Dajin (劉大進)	54	Independent non-executive Director	19 June 2020	19 June 2020	Supervision and provision of independent judgment to our Board	Nil
Mr. Deng Zhihuang (鄧志煌)	50	Independent non-executive Director	19 June 2020	19 June 2020	Supervision and provision of independent judgment to our Board	Nil

The following table sets forth certain information of our senior management members:

Name	Age	Present position	Date of appointment as senior management	Date of joining our Group	Roles and responsibilities	Relationship with other Directors and senior management
Mr. Yeung Tsz Kit Alban (楊子傑)	41	Chief financial officer and company secretary	11 March 2019	11 March 2019	Daily accounting operation and financial management	Nil
Ms. Shi Yaya (施雅雅)	30	Procurement manager	31 December 2013	31 December 2013	Overseeing the administration and coordination of the procurement process and cost control	Nil

DIRECTORS

Executive Directors

Mr. Xu Youjiang (許有獎), aged 53, is the chairman of our Company and our executive Director. Mr. Xu was appointed as our Director on 13 December 2018 and was re-designated as our executive Director on 9 May 2019. Mr. Xu is primarily responsible for the overall management, strategic development and decision-making of our Group. Mr. Xu is also the chairman of our Risk Management Committee and a member of our Nomination Committee.

Mr. Xu has over 28 years of experience in the production of plastic products. In March 1992, Mr. Xu joined Hengsheng Toys, a company that engages in the manufacturing of toys, toy accessories, electronic games, plastic products and daily household appliances etc., as the deputy general manager, where he was responsible for overseeing the daily operations of the factory. He was appointed as the vice chairman in November 1998. From August 2002 to March 2019, he was the general manager and was responsible for making major operational decisions of the company.

From July 2011 to March 2019, Mr. Xu was the general manager of Quanzhou Jazz Apparel Co., Ltd.* (泉州爵士兔服飾有限公司), a company that engages in the manufacturing of children apparels and accessories under the "JAZZIT" brand, where he was responsible for managing and overseeing the business operations. Mr. Xu was also the executive director of Quanzhou Jazz Apparel Co., Ltd* (泉州爵士兔服飾有限公司) from July 2011 to July 2014.

Since March 2011, Mr. Xu has been the executive director and general manager of Hengsheng Animation.

Mr. Xu was appointed as a director of the Quanzhou Bags Association in January 2011, a member of the executive committee of Jinjiang Federation of Industry and Commerce (General Chamber of Commerce) in December 2011, the vice chairman of the Jinjiang Association of Enterprises with Foreign Investment* (晉江外商投資企業協會) in April 2012, a director of the Jinjiang Longhu Chamber of Commerce and Foreign Investment Enterprise Association* (晉江市龍湖商會暨外商投資企業協會) in October 2012 and a director of the Jinjiang Federation of Enterprises and Entrepreneurs* (晉江市企業與企業家聯合會) in June 2017.

Mr. Xu obtained his specialist diploma in marine engineering management from Jimei Navigation College* (集美航海專科學校) in the PRC in July 1989. He completed the executive training programme for Jinjiang entrepreneurs at the School of Professional and Continuing Education of the University of Hong Kong in June 2012. He then completed a business administration advanced seminar for senior executives at Huaqiao University in August 2014.

Mr. Xu was a director of Heng Sheng Holding Group Limited (900270:KS) from July 2015 until his resignation in March 2019 after his careful consideration so as to focus on and fully devote his time as the chairman and executive director for the management, strategic development and business operations of our Group in the manufacturing of disposable plastic food storage containers. Save as disclosed above, Mr. Xu does not have any current or past directorships in any listed companies in the last three years prior to the Latest Practicable Date.

Ms. Xu Liping (許麗萍), aged 49, is our executive Director. Ms. Xu joined our Group on 2 January 2019 as the vice chairman of Hengsheng Animation. She was appointed as our Director on 18 March 2019 and re-designated as our chief executive officer and executive Director on 9 May 2019. Ms. Xu is primarily responsible for the business development and overseeing daily administration and operations of our Group. Ms. Xu is also a member of our Risk Management Committee.

Ms. Xu has over 29 years of experience in the production of plastic products. From September 1990 to December 2000, Ms. Xu worked as the packaging executive at Jinjiang Longhu Xiuheng Plastic Toy Accessories Co., Ltd.* (晉江市龍湖秀恒塑料玩具配件有限公司), a company that engages in the production of plastic toy accessories, where she was responsible for overseeing the daily management of the packaging department. From January 2001 to March 2012, she worked as the production supervisor at Jinjiang Henghui Packaging Co., Ltd.* (晉江恒輝箱包有限公司), a company that engages in the production of bags and luggages, where she was responsible for monitoring the operations of the production unit. From April 2012 to July 2014, she worked as the supervisor at Jazz Rabbit Apparels, a company that engages in the manufacturing of children apparels and accessories under the "JAZZIT" brand, where she was responsible for overseeing the business operations of the Company. From August 2014 to December 2018, she rejoined Jinjiang Henghui Packaging Co. Ltd.* (晉江恒輝箱包有限公司) as the deputy general manager and was responsible for the management and daily operations of the Company.

Ms. Xu completed her secondary education in Shishi Shiguang Secondary School* (石獅石光中學) in July 1990.

Ms. Xu does not have any current or past directorships in any listed companies in the last three years prior to the Latest Practicable Date.

Mr. Zhang Yuansheng (張緣生), aged 33, is our executive Director. Mr. Zhang joined our Group on 6 May 2014 as a manager of the finance department of Hengsheng Animation. He was appointed as our Director on 18 March 2019 and was re-designated as our executive Director on 9 May 2019. Mr. Zhang is primarily responsible for overseeing the daily operations and financial management of our Group. Mr. Zhang is also a member of our Remuneration Committee and Risk Management Committee.

Mr. Zhang has over 11 years of experience in the accounting and finance industry. From January 2009 to September 2010, he worked as an audit assistant at Dongguan Jinzheng Accountancy* (東莞市金正會計師事務所). From October 2010 to February 2012, he worked as an accountant at Xiamen Canxing Travel Services Ltd.* (廈門燦星國際旅行社有限公司). From February 2012 to April 2014, he worked as an accounting supervisor at Hengsheng Toys.

Mr. Zhang obtained a bachelor's degree in management and completed a four-year accounting specialist programme in Putian University in July 2009.

Mr. Zhang does not have any current or past directorships in any listed companies in the last three years prior to the Latest Practicable Date.

Independent non-executive Directors

Mr. Li Danny Fui Lung (李魁隆), aged 67, was appointed as our independent non-executive Director on 19 June 2020. He is also the chairman of our Audit Committee and a member of our Remuneration Committee and Nomination Committee.

Mr. Li has over 39 years of experience in the accounting and audit field and worked in various companies with details set out as follows:

Name of company	Principal business activities of the company	Period of service	Last position	Role and responsibilities
Ernst & Young, London, United Kingdom (formerly known as Ernst & Whinney)	Provision of tax, audit and assurance and advisory services	October 1980 to October 1981	Senior accountant	Conducting audit field work as senior-in-charge
Swire & Maclaine Ltd. (a subsidiary of the Swire Group in Hong Kong)	Garment trading	February 1982 to February 1984	Accountant	Finance and accounting of one of Swire & Maclaine Ltd.'s major subsidiary Companies

Name of company	Principal business activities of the company	Period of service	Last position	Role and responsibilities
Alliott Tanner, Australia	Provision of tax, audit and assurance and advisory services	April 1984 to October 1987	Senior accountant	Controlling and conducting audit, tax and accounting work
Ho and Ho & Company	Provision of tax, audit and assurance and advisory services	November 1987 to June 1989	Audit manager	Controlling and conducting audit, tax and accounting work
Albert Chin, Chow Him & Co.	Provision of tax, audit and assurance and advisory services	July 1989 to February 1990	Audit manager	Controlling and conducting audit, tax and accounting work
Kredietbank NV (Hong Kong branch)	Provision of banking services	March 1990 to December 1990	Financial controller	Overseeing the company's accounting department and preparing financial statements
UPS Parcel Delivery Service Ltd.	Provision of parcel delivery services	February 1991 to May 1995	Internal auditor	Conducting internal audit for the Asia-Pacific region
Hong Kong Institute of Certified Public Accountants	Registration and regulation of certified public accountants in Hong Kong, and development and promulgation of financial reporting, auditing and ethical standards and guidelines	May 1995 to June 2001	Assistant director (professional compliance)	Conducting practice review of accounting firms and related regulated assignment
Danny Li & Company	A sole proprietorship offering auditing, accounting, tax and other related services	Since August 2001	Founder	Managing the firm and providing audit and accounting-related services

In July 2013, Mr. Li was appointed as a member of the internal audit committee of the Scout Association of Hong Kong.

Mr. Li graduated from the University of Hong Kong with a bachelor's degree in science in November 1975. He obtained a certificate in accountancy from the University of Stirling, Scotland in June 1977, and was admitted as a member of the Institute of Chartered Accountants of Scotland, the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) and the Institute of Chartered Accountants in Australia in October 1980, March 1982 and September 1984, respectively.

Mr. Li was a director of the following companies incorporated in Hong Kong prior to their respective dissolutions:

Name of company	Date of dissolution	Means of dissolution	Business nature
Scott Investments Limited	12 November 2010	s.291AA deregistration	Property investment
Success Chance Limited	14 June 2013	s.291AA deregistration	Accountancy

Mr. Li confirmed that the companies as set out in the list above were solvent as at the date of their respective dissolutions. Mr. Li also confirmed that there was no wrongful act on his part leading to the dissolution of the companies set out in the list above, and he is not aware of any actual or potential claim which had been or will be made against him as a result of the dissolution.

Mr. Li was an independent non-executive director of Emperor Culture Group Limited (formerly known as See Corporation Limited) (HKEx: 491) from October 2001 to November 2016. He was also an independent non-executive director of Centraland Limited (formerly listed on the Singapore Stock Exchange then delisted on 11 November 2011) from February 2008 to November 2011. Save as disclosed above, Mr. Li does not have any current or past directorships in any listed companies in the last three years prior to the Latest Practicable Date.

Mr. Liu Dajin (劉大進), aged 54, was appointed as our independent non-executive Director on 19 June 2020. He is also the chairman of our Nomination Committee and a member of our Audit Committee, Remuneration Committee and Risk Management Committee.

Mr. Liu has over 30 years of experience in the accounting and audit field. After obtaining his bachelor's degree in accounting in June 1989, he worked as a teaching assistant at the College of Finance, Jimei University (then known as Jimei Finance and Economics Institute* (集美財經學校)). From July 1989 to August 1995, he was the deputy head and lecturer at the College of Finance, Jimei University (then known as Jimei Finance College* (集美財政專科學校)). From September 1995 to May 2001, he was the deputy head and lecturer of the Faculty of Accounting, College of Finance, Jimei University, during which he was also a registered accountant at the Xiamen Jiyou Accounting firm* (廈門集友會計師事務所) from June 1995 to May 1999. From June 2001 to October 2002, he was an assistant professor and head of training at the Faculty of Business Management, Jimei University. From October 2002 to February 2015, he was an assistant professor and associate dean of the Overseas Education College, Jimei University. From March 2015 to August 2015, he was an associate professor at the Faculty of Accounting, Jimei University. From September 2015 to August 2018, he was an associate professor at Chengyi College, Jimei University, then was promoted as a professor in September 2019. Since September 2015, he has been the head of the Faculty of Business Management, Chengyi College, Jimei University.

Since August 2008 and August 2013, Mr. Liu has been a consultant and a director of the Association of Management Consulting Xiamen and the Xiamen Association of Accounting, respectively.

Mr. Liu graduated from Central University of Finance and Economics* (中央財經大學) (formerly known as Central Finance College* (中央財政金融學院)) with a bachelor's degree in accounting in June 1989. He also attended a postgraduate programme in accounting in the Graduate School of Xiamen University in August 1992. Since 1996, Mr. Liu has been a member of the Chinese Institute of Certified Public Accountants.

Mr. Liu has been an independent non-executive director of Mobile Internet (China) Holdings Limited (HKEx: 1439) and China Shanghai Food Holdings Company Limited (HKEx: 1676) since July 2013 and December 2013, respectively. Save as disclosed above, Mr. Liu does not have any current or past directorships in any listed companies in the last three years prior to the Latest Practicable Date.

Deng Zhihuang (鄧志煌), aged 50, was appointed as our independent non-executive Director on 19 June 2020. He is also the chairman of our Remuneration Committee and a member of our Audit Committee and Nomination Committee.

Mr. Deng has over 25 years of experience in practising law in the PRC. From April 1995 to March 2005, Mr. Deng worked as a cadre of Fuzhou People's Procuratorate, Fujian* (福建省福州市人民檢察院), where he was responsible for civil administrative work. He then worked as an associate at Fujian Hua Wei Law Firm* (福建華巍律師事務所) from April 2005 to October 2005. In October 2005, he founded Fujian Zhixinheng Law Firm and serves as its senior partner since then.

Mr. Deng obtained his bachelor's degree in laws at the Fujian Normal University, the PRC, in June 1992.

Mr. Deng does not have any current or past directorships in any listed companies in the last three years prior to the Latest Practicable Date.

Other Disclosure Pursuant to Rule 17.50(2) of the GEM Listing Rules

Save as disclosed in this section, each of our Directors confirmed with respect to himself/herself that there are no other matters concerning our Directors' appointment that need to be brought to the attention of our Shareholders and the Stock Exchange or shall be disclosed pursuant to rule 17.50(2) of the GEM Listing Rules.

SENIOR MANAGEMENT

Mr. Yeung Tsz Kit Alban (楊子傑), aged 41, joined our Group on 11 March 2019 as our chief financial officer and company secretary and is primarily responsible for the daily accounting operation and financial management of our Group.

Mr. Yeung has over 15 years of experience in the finance and accounting field and worked in various companies with details set out as follows:

Name of company	Principal business activities of the company	Period of service	Last position	Role and responsibilities
Chan and Chan Certified Public Accountants	Provision of taxation, audit and accounting services	March 2005 to March 2007	Intermediate audit clerk	Providing full spectrum of services including accounting, audit and taxation service in relation to small and medium enterprise clients
Hodgson Impey Cheng Limited	Provision of audit and assurance and advisory services	March 2007 to December 2014	Manager	Providing audit, assurance and advisory services in relation to clients' IPO projects and preparing financial reports for listed companies in Hong Kong and overseas
Magico Group Limited	Real estate development in the PRC	December 2014 to January 2016	Assistant accounting manager	Managing the Group's accounts, preparing financial statements and improving the financial reporting process and internal control policies
Chinasing Investment Holdings Limited	Sales and manufacturing of consumer electronic products and component and the provision of consultancy service software	January 2016 to March 2018	Financial controller and joint company secretary	Overseeing the company's finance department, managing the company's accounts and preparing financial statements
Innovative Information Solutions Ltd.	Provision of one-stop information technology business solutions	March 2018 to November 2018	Financial controller	Overseeing the company's finance department, managing the company's accounts and improving the Group's financial reporting process and internal control policies

Name of company	Principal business activities of the company	Period of service	Last position	Role and responsibilities
Lee & Man Management Co. Ltd.	Sales and manufacturing of handbags and sales and production of wet pulp, bamboo pulp and paper	December 2018 to February 2019	Assistant financial controller	Overseeing the company's finance department and managing the company's accounts

Mr. Yeung obtained his bachelor's degree in accounting at the University of New South Wales, Australia in May 2004. He also obtained a master's degree in corporate governance at the Open University of Hong Kong in November 2018.

Mr. Yeung was admitted as an associate of the Chartered Institute of Management Accountants and certified as a Certified Professional Forensic Accountant in December 2015 and July 2018, respectively. He has also been a fellow member of the CPA Australia and the Taxation Institute of Hong Kong since June 2016 and July 2016, respectively. In March 2019, he was admitted as an associate of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

Mr. Yeung was an independent non-executive director of G Nepture Berhad (KLSE:GNB) from August 2017 to February 2018. Save as disclosed above, Mr. Yeung does not have any current or past directorships in any listed companies in the last three years prior to the Latest Practicable Date.

Ms. Shi Yaya (施雅雅), aged 30, is the procurement manager of our Group since December 2013 and is primarily responsible for overseeing the administration and coordination of the procurement process.

Ms. Shi has over 6 years of experience in handling procurement matters and managing cost control policies. Since joining our Group in December 2013, Ms. Shi has been the procurement manager and is primarily responsible for formulating procurement and cost control policies, and liaising and maintaining relationships with suppliers.

Ms. Shi completed a specialist diploma in English at the Anglo-Chinese College in Fuzhou, China in July 2011.

COMPANY SECRETARY

Mr. Yeung Tsz Kit Alban (楊子傑), aged 41, joined our Group as our company secretary on 11 March 2019. Please refer to the paragraph headed "Senior management" in this section for his biography.

BOARD COMMITTEES

Audit Committee

We have established an audit committee with written terms of reference in compliance with rule 5.28 of the GEM Listing Rules and paragraph C.3 of the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules. Our Audit Committee consists of three members, comprising all the independent non-executive Directors, namely Mr. Li Danny Fui Lung, Mr. Liu Dajin and Mr. Deng Zhihuang. Mr. Li Danny Fui Lung is the chairman of our Audit Committee.

The primary duties of the Audit Committee are mainly (i) to review and supervise the financial reporting process and to oversee the audit process of our Group; (ii) to oversee internal control procedures and corporate governance of our Group; (iii) to supervise internal control systems of our Group; and (iv) and to monitor any continuing connected transactions.

Remuneration Committee

We have established a remuneration committee with written terms of reference in compliance with rule 5.34 of the GEM Listing Rules and paragraph B.1.2 of the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules. Our Remuneration Committee consists of four members, namely Mr. Deng Zhihuang, Mr. Li Danny Fui Lung, Mr. Liu Dajin and Mr. Zhang Yuansheng. Mr. Deng Zhihuang is the chairman of our Remuneration Committee.

The primary duties of the Remuneration Committee are mainly (i) to develop a transparent policy in relation to remuneration; (ii) to review the remuneration policy and the structure relating to all Directors and senior management of our Group; (iii) to review the remuneration of our Directors and senior management of our Group based on their performance; and (iv) to make recommendations on other remuneration-related arrangement, such as, housing allowance and bonuses payable to Directors and senior management of our Group.

Nomination Committee

We have established a nomination committee with written terms of reference in compliance with paragraph A.5.2 of the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules. Our Nomination Committee consists of four members, namely Mr. Liu Dajin, Mr. Deng Zhihuang, Mr. Li Danny Fui Lung and Mr. Xu Youjiang. Mr. Liu Dajin is the chairman of our nomination committee.

The primary duties of the Nomination Committee are (i) to review the structure, size and composition of our Board on a regular basis; (ii) to make recommendations to our Board relating to the appointment and removal of Directors; (iii) to identify individuals suitably qualified to become members of our Board; and (iv) to assess the independence of our independent non-executive Directors.

Risk Management Committee

We have established a risk management committee with written terms of reference in compliance with paragraph C.2 of the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules. Our Risk Management Committee consists of four members, namely Mr. Xu Youjiang, Ms. Xu Liping, Mr. Zhang Yuansheng and Mr. Liu Dajin. Mr. Xu Youjiang is the chairman of our risk management committee.

The primary duties of the Risk Management Committee are (i) to regularly identify existing and emerging risks in our business operations; (ii) to review and assess the risk management strategies of our Company and make recommendations; and (iii) to establish precautionary risk management and internal control systems and provide mitigating solutions.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

For each of the three years ended 31 December 2017, 2018 and 2019, the total remuneration (including salaries, allowances and benefits in kind, discretionary bonus and retirement scheme contributions) paid by us to our Directors amounted to approximately RMB0.43 million, RMB0.46 million and RMB0.79 million, respectively. Our Group's five highest paid individuals for each of the three years ended 31 December 2017, 2018 and 2019 included one, two and three Directors, respectively, and the aggregate emoluments (including salaries, allowances and benefits in kind, discretionary bonus and retirement scheme contributions) of the remaining individuals were RMB0.74 million, RMB0.63 million and RMB0.76 million, respectively.

Under the arrangements currently in force, the aggregate remuneration (including benefits in kind but excluding any commission or discretionary bonus) to be paid by us to our Directors for the year ending 31 December 2020 is estimated to be approximately RMB1.04 million.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Company. No compensation was paid by us, or receivable by, our Directors, former Directors, or the five highest paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Company.

Save as disclosed in this above, no other payments had been made, or are payable, by any member of our Group to our Directors during the Track Record Period.

None of our Directors had waived or agreed to waive any remuneration during the Track Record Period.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of director fees, salaries, allowances and benefits in kind, discretionary bonuses and/or retirement scheme contributions with reference to those paid by comparable companies, time commitment and the performance of our Group. Our Group also reimburses our Directors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to our Group or executing their functions in relation to the operations of our Group. We regularly review and determine the remuneration and compensation packages of our Directors and senior management, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of our Directors and the performance of our Group. Our Directors confirmed that we have no plan to change our remuneration policy upon the Listing.

BOARD DIVERSITY POLICY

We have adopted a board diversity policy which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of our Board that are relevant to our business growth. Pursuant to our board diversity policy, selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. With regards to gender diversity of our Board, our board diversity policy further provides that our Board shall take opportunity to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments so as to achieve an appropriate balance of gender diversity with reference to stakeholders' expectation and international and local recommended best practices, with the ultimate goal of bringing our Board to gender parity. The ultimate decision will be based on merit and contribution that the selected candidates will bring to our Board. Our Directors have a balanced mix of knowledge and skills, including knowledge and experience in the areas of business operations and management, accounting and finance and the provision of legal services.

Our nomination committee is responsible for ensuring the diversity of our Board. After the Listing, our nomination committee will review our board diversity policy from time to time to ensure its continued effectiveness and we will disclose the implementation of our board diversity policy in our corporate governance report on an annual basis.

CORPORATE GOVERNANCE

Our Company intends to comply with all the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules after the Listing. Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the "comply or explain" principle in our corporate governance report, which will be included in our annual reports subsequent to the Listing.

COMPLIANCE OFFICER

Mr. Xu Youjiang has been appointed as the compliance officer of our Company on 9 May 2019. Please refer to the paragraph headed "Executive Directors" in this section for his biography.

COMPLIANCE ADVISER

We have appointed Grand Moore Capital Limited as our compliance adviser in accordance with rule 6A.19 of the GEM Listing Rules. The term of appointment shall commence on the Listing Date and end on the date on which we comply with rule 18.03 in respect of our financial results for the second full financial year after the Listing.

Pursuant to rule 6A.23 of the GEM Listing Rules and the terms of the agreement with our compliance adviser, we will consult with and, if necessary, seek advice from our compliance adviser in the following circumstances:

(i) before the publication of any regulatory announcement, circular or financial report;

(ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues or share repurchase;

(iii) where we propose to use the net proceeds from the Share Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and

(iv) where the Stock Exchange makes an inquiry to our Company under rule 17.11 of the GEM Listing Rules.

SHARE CAPITAL

The following is a description of the share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately after the Share Offer and the Capitalisation Issue (without taking into account of any Share which may be issued upon exercise of the Offer Size Adjustment Option):

Authorised share capital		*HK$*
5,000,000,000	Shares of par value HK$0.01 each	50,000,000

Issued and to be issued, fully paid or credited as fully paid upon completion of the Share Offer and the Capitalisation Issue		*HK$*
10,000	Shares in issue immediately prior to the Share Offer	100
449,990,000	Shares to be issued under the Capitalisation Issue	4,499,900
150,000,000	Shares to be issued under the Share Offer	1,500,000
600,000,000	Total	6,000,000

Note: If the Offer Size Adjustment Option is exercised in full, then 22,500,000 additional Shares will be issued resulting in a total issued share capital of 622,500,000 Shares with an aggregate nominal value of HK$6,225,000.

Assumptions

The above table assumes that the Share Offer has become unconditional and the issue of Offer Shares pursuant thereto is made as described herein. It does not take into account: (i) any Share which may be allotted and issued pursuant to the issuing mandate (as described below); or (ii) any Share which may be repurchased by our Company pursuant to the repurchase mandate (as described below).

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at least 25% of the total issued share capital of our Company must at all times be held by the public. The 150,000,000 Offer Shares represent 25% of the issued share capital of our Company upon the Listing.

RANKING

The Offer Shares will rank *pari passu* in all respects with all of the Shares now in issue or to be issued as mentioned in this prospectus, and in particular, will rank in full for all dividends or other distributions hereafter declared, made or paid on the Shares on or after the date on which they are issued, save for any entitlement to the Capitalisation Issue.

CAPITALISATION ISSUE

Pursuant to the written resolutions of our Shareholders passed on 19 June 2020 and subject to the conditions set out therein, our Directors were authorised to allot and issue a total of 449,990,000 Shares credited as fully paid to the Shareholders whose names appear on the register of members of our Company at the close of business on 19 June 2020 by way of capitalisation of an amount of HK$4,499,900 standing to the credit of the share premium account of our Company. The Shares so allotted and issued shall rank *pari passu* in all respects with the existing issued Shares. For further details, please see the paragraph headed "A. Further information about our Group — 4. Written resolutions of our Shareholders passed on 19 June 2020" in Appendix IV to this prospectus.

ISSUING MANDATE

Subject to the Share Offer becoming unconditional, our Directors have been granted a general and unconditional mandate to allot, issue and deal with Shares with a total number not exceeding:

(i) 20% of the number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (not including any Share which may be allotted and issued pursuant to the Offer Size Adjustment Option); and

(ii) the aggregate number of Shares repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares as described below.

Our Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in the Shares pursuant to a rights issue, exercise of subscription rights attaching to any warrants of our Company, scrip dividends or similar arrangements or the exercise of subscription rights attaching to share options under any share option scheme or similar arrangement for the time being adopted.

The issuing mandate will expire at the earliest of:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which our Company is required by the Articles or any applicable law to hold our next annual general meeting; or

(iii) the passing of an ordinary resolution by our Shareholders at a general meeting revoking, varying or renewing such mandate.

Further details of this issuing mandate are contained in the paragraph headed "A. Further information about our Group — 4. Written resolutions of our Shareholders passed on 19 June 2020" in Appendix IV to this prospectus.

REPURCHASE MANDATE

Subject to the Share Offer becoming unconditional, our Directors have been granted a general and unconditional mandate to exercise all the powers of our Company to repurchase Shares on the Stock Exchange with a total number not more than 10% of the number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (not including any Share which may be allotted and issued pursuant to the Offer Size Adjustment Option).

This mandate only relates to repurchases made on the Stock Exchange and such repurchases shall be made in accordance with the requirements of the GEM Listing Rules, the Articles and all applicable laws, regulations and rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed "A. Further information about our Group — 7. Repurchase by our Company of our own securities" in Appendix IV to this prospectus.

The repurchase mandate will expire at the earliest of:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which our Company is required by the Articles or any applicable law to hold our next annual general meeting; or

(iii) the passing of an ordinary resolution by our Shareholders at a general meeting revoking, varying or renewing such mandate.

Further details of this repurchase mandate are contained in the paragraph headed "A. Further information about our Group — 4. Written resolutions of our Shareholders passed on 19 June 2020" and "A. Further information about our Group — 7. Repurchase by our Company of our own securities" in Appendix IV to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

The circumstances under which general meeting and class meeting are required are provided in the Articles of Association. For details, please refer to Appendix III to this prospectus.

So far as our Directors are aware, the following persons or entities will, immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account of any Share which may be issued upon exercise of the Offer Size Adjustment Option), have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

			As at the date of submission of the application proof prospectus		Upon completion of the Share Offer and the Capitalisation Issue *(Note 1)*	
Name	**Our Group company concerned**	**Capacity**	**Class and number of securities held** *(Note 2)*	**Approximate percentage of the company concerned**	**Class and number of securities held** *(Note 2)*	**Approximate percentage of the company concerned**
Prize Investment	Our Company	Beneficial owner	6,700 (L)	67%	301,500,000 (L)	50.25%
Mr. Xu	Our Company	Interest of controlled corporation *(Note 3)*	6,700 (L)	67%	301,500,000 (L)	50.25%
Ms. Xu Liping	Our Company	Interest of spouse *(Note 4)*	6,700 (L)	67%	301,500,000 (L)	50.25%
Merit Winner	Our Company	Beneficial owner	1,500 (L)	15%	67,500,000 (L)	11.25%
Mr. Hui	Our Company	Interest of controlled corporation *(Note 5)*	1,500 (L)	15%	67,500,000 (L)	11.25%
Ms. Hui Mei Nga	Our Company	Interest of spouse *(Note 6)*	1,500 (L)	15%	67,500,000 (L)	11.25%
Sun Kong	Our Company	Beneficial owner	1,200 (L)	12%	54,000,000 (L)	9%
Mr. Wong Hing Nam	Our Company	Interest of controlled corporation *(Note 7)*	1,200 (L)	12%	54,000,000 (L)	9%
Ms. Chan Lai Yin	Our Company	Interest of spouse *(Note 8)*	1,200 (L)	12%	54,000,000 (L)	9%

Notes:

1. Without taking into account of any Share which may be issued upon exercise of the Offer Size Adjustment Option.

2. The letter "L" denotes the entity/person's long position (as defined under Part XV of the SFO) in the Shares, and all the securities mentioned in the table above represent ordinary shares.

3. As at the Latest Practicable Date, the entire issued share capital of Prize Investment was held by Mr. Xu. Accordingly, Mr. Xu is deemed to be interested in the Shares held by Prize Investment under the SFO.

4. Ms. Xu Liping is the spouse of Mr. Xu and is therefore deemed to be interested in the Shares in which Mr. Xu is interested under the SFO.

5. As at the Latest Practicable Date, the entire issued share capital of Merit Winner was held by Mr. Hui. Accordingly, Mr. Hui is deemed to be interested in the Shares held by Merit Winner under the SFO.

6. Ms. Hui Mei Nga is the spouse of Mr. Hui and is therefore deemed to be interested in the Shares in which Mr. Hui is interested under the SFO.

7. As at the Latest Practicable Date, the entire issued share capital of Sun Kong was held by Mr. Wong Hing Nam. Accordingly, Mr. Wong Hing Nam is deemed to be interested in the Shares by Sun Kong under the SFO.

8. Ms. Chan Lai Yin is the spouse of Mr. Wong Hing Nam and is therefore deemed to be interested in the Shares in which Mr. Wong Hing Nam is interested under the SFO.

Save as disclosed in the paragraph above, our Directors are not aware of any person who will, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account of any Share which may be issued upon exercise of the Offer Size Adjustment Option), have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

You should read the following discussion and analysis in conjunction with our consolidated financial information as at and for the three years ended 31 December 2019 and together with the accompanying notes thereto set forth in the Accountants' Report included as Appendix I to this prospectus. Our consolidated financial information has been prepared in accordance with HKFRSs issued by Hong Kong Institute of Certified Public Accountants. Our financial information and the discussion and analysis below assume that our current structure had been in existence throughout the Track Record Period. For further information in relation to our Group's structure, please refer to the section headed "History, Reorganisation and corporate structure" in this prospectus.

The following discussion and analysis contain certain forward-looking statements that reflect our current views with respect to future events and our financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. Please refer to the sections headed "Risk factors" and "Forward-looking statements" for discussions of those risks and uncertainties.

OVERVIEW

Our Group engages in the design and development, manufacturing and sales of plastic container products mainly for food and drinks storage. We produce and sell a comprehensive range of plastic container products. As at the Latest Practicable Date, we offered over 400 models of products with various colours, sizes, shapes and features. Our products are sold either under our "JAZZIT" brand or on a non-branded basis.

According to the F&S Report, revenue of disposable plastic food storage container products in the PRC increased from approximately RMB3.5 billion in 2014 to RMB9.6 billion in 2019, representing a CAGR of 22.0%. It is anticipated that the plastic food storage container products in the PRC will continue to grow at a CAGR of 11.8% from RMB9.6 billion in 2019 to around RMB16.7 billion in 2024. Our group ranked fourth in the disposable plastic food storage container products industry in PRC, as mentioned in the F&S Report, and took a market share of approximately 2.2% in terms of sale revenue in 2019.

Our revenue increased from approximately RMB166.1 million for the year ended 31 December 2017 to approximately RMB192.5 million for the year ended 31 December 2018. Our revenue generated from products under "JAZZIT" brand increased from approximately RMB151.1 million for the year ended 31 December 2017 to approximately RMB176.8 million for the year ended 31 December 2018, representing an increase of approximately 17.0%. Our revenue generated from non-branded products increased from approximately RMB15.0 million for the year ended 31 December 2017 to approximately RMB15.7 million for the year ended 31 December 2018, representing an increase of approximately 4.5%. Our profit for the year (excluded the Listing expenses) increased from approximately RMB22.7 million for the year ended 31 December 2017 to approximately RMB25.4 million for the year ended 31 December 2018.

Our revenue increased from approximately RMB192.5 million for the year ended 31 December 2018 to approximately RMB212.8 million for the year ended 31 December 2019. Our revenue generated from products under "JAZZIT" brand increased from approximately RMB176.8 million for the year ended 31 December 2018 to approximately RMB191.5 million for the year ended 31 December 2019, representing an increase of approximately 8.3%. Our revenue generated from non-branded products increased from approximately RMB15.7 million for the year ended 31 December 2018 to approximately RMB21.3 million for the year ended 31 December 2019, representing an increase of approximately 35.9%. Our profit for the year (excluded the Listing expenses) increased from approximately RMB25.4 million for the year ended 31 December 2018 to approximately RMB25.5 million for the year ended 31 December 2019.

BASIS OF PRESENTATION AND PREPARATION

Basis of presentation

Our Company was incorporated in the Cayman Islands as an exempted company on 13 December 2018 in preparation for a listing of our Shares. Pursuant to the Reorganisation as more fully described in the section headed "History, Reorganisation and corporate structure" in this prospectus, our Company was owned by the Controlling Shareholders and our Company became the holding company of the companies now comprising our Group on 31 May 2019. Our Group comprising our Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of our Group for the Track Record Period and the consolidated statements of financial position of our Group as at 31 December 2017, 2018 and 2019 have been prepared as if the current group structure had been in existence throughout the Track Record Period, or since the respective dates of incorporation of the relevant entity, where there is a shorter period. Further details on the basis of presentation are set out in note 1 in the Accountants' Report.

Accordingly, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of our Group for the Track Record Period including the financial performance, changes in equity and cash flows of all companies now comprising our Group from the earliest date presented. The historical financial information have been prepared using the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. The consolidated statements of financial position of our Group as at 31 December 2017, 2018 and 2019 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates taking into account the respective dates of incorporation, where applicable.

Basis of preparation

The historical financial information has been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA. All HKFRSs effective for accounting period commencing from 1 January 2019, together with the relevant transitional provisions, have been early adopted by our Group in the preparation of the Historical Financial Information throughout the Track Record Period except that the Group adopted HKFRS 16 "Leases" from 1 January 2019. The early adoption has no material impact to the results or financial position of our Group during the Track Record Period. Specifically, HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" which are effective for accounting period beginning on or after 1 January 2018 have been early adopted by the Group and consistently applied throughout the Track Record Period. HKFRS 9 and HKFRS 15 replace the provisions of HKAS 39 "Financial Instruments: Recognition and Measurement", and HKAS 18 "Revenue" and HKAS 11 "Constructions Contracts" respectively. The adoptions of HKFRS 9 and HKFRS 15 do not have any significant impacts on the financial positions or results of the Group during the Track Record Period as compared to the provisions of HKAS 39 and HKAS 18. The accounting policies for leases under HKFRS 16 are set out in note 2.14 in Appendix I. The impact of adoption of HKFRS 16 is set out in note 2.2 in Appendix I and the Reporting Accountants advise that the adoption has no material impact on the results or the net assets of our Group as compared to HKAS 17 because, due to the adoption of HKFRS 16, rental payment of all leases with a lease term of more than 12 months are capitalized as "right-of-use assets" using a discount rate with a corresponding lease liability.

The historical financial information also complies with the applicable disclosure provisions of the GEM Listing Rules. The significant accounting policies that have been used in the preparation of this historical financial information are summarised below. These policies have been consistently applied to all the periods presented in the historical financial information.

It should be noted that accounting estimates and assumptions are used in preparation of the historical financial information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in note 3 in Appendix I.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are initially recognised at acquisition cost or manufacturing cost, including any cost directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the Group's management. They are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful life, using the straight-line method, at the following rates per annum.

Building	over the lease term
Plant and machinery	10%-33.33%
Mould	33.33%
Furniture and equipment	20%
Leasehold improvement	10%-20%, or over the lease term, whichever is shorter

Estimated residual values and useful life are reviewed, and adjusted if appropriate, at each reporting date.

Gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Construction in progress represents mould under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives of 5 years. Amortisation commences when the intangible assets are available for use.

Intangible assets with indefinite useful lives are carried at cost less any subsequent impairment losses. The assets' amortisation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described below in note 2.10 in the Accountants' Report set out in Appendix I.

Inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. For raw material, cost is calculated using the weighted average method and in case of finished goods, comprise direct materials, direct labour and an appropriate portion of overheads.

Revenue recognition

Revenue arises mainly from the sales of disposable plastic food storage containers:

To determine whether to recognise revenue, our Group follows a 5-step process:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) our Group satisfies performance obligations by transferring the promised goods or services to its customers.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to our Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

Further details of the Group's revenue and other income recognition policies are as follows:

Sales of disposable plastic food storage containers

Revenue from the sales of disposable plastic food storage containers for a fixed fee is recognised when our Group transfers control of the assets to the customer in which the control is transferred at the point in time the customer takes undisputed delivery of the goods. Our Group does not provide any sales-related warranties. Revenue from sale of disposable plastic food storage containers excludes value added tax or other sales taxes.

Related parties

For the purposes of this Historical Financial Information, a party is considered to be related to our Group if:

(a) the party is a person or a close member of that person's family and if that person:

(i) has control or joint control over of our Group;

(ii) has significant influence over our Group; or

(iii) is a member of the key management personnel of our Group or of a parent of our Group.

(b) the party is an entity and if any of the following conditions applies:

(i) the entity and our Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) the entity and our Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either our Group or an entity related to our Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to our Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Group's historical financial information requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation of uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the reporting period during the Track Record Period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of property, plant and equipment and intangible assets

Items of property, plant and equipment and intangible assets are tested for impairment if there is any indication that the carrying amounts of these assets may not be recoverable and the assets are subject to an impairment loss. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated statements of profit or loss and other comprehensive income. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Net realisable value of inventories

Net realisable value of inventories is based on estimated selling price less any estimated costs to be incurred to completion and disposal with reference to prevailing market information. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market conditions. Our Group reassesses the estimation at the end of each reporting period.

Estimation of impairment of trade and other receivables

Our Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. Our Group makes estimates based on the aging of its trade receivable balances, customers' creditworthiness, and historical write-off experience adjusted for forward-looking factors specific to the economic environment. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, our Group would be required to revise the basis of making the allowance. Details of trade receivables are set out in note 17 in the Accountants' Report set out in Appendix I. For the years ended 31 December 2017, 2018 and 2019, no impairment loss was recognised on trade receivables.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Market conditions in the PRC

While the PRC economy has grown significantly in the past 30 years, the growth has been uneven, both geographically and among various sectors of the economy. The Chinese Government has implemented various measures to encourage economic growth and guide the allocation of resources.

Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and operating results may be adversely and materially affected by government control over capital investments or changes in tax regulations that may be applicable to us.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. However, the Chinese Government still exercises significant control over the economic growth of China through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Furthermore, as the PRC economy has become increasingly linked with the global economy, China is affected in various respects by downturns and recessions of major economies around the world. Any adverse change in the economic conditions in China, in policies of the Chinese Government or in laws and regulations in China, could have an adverse effect on the overall economic growth of China and market demand for our products and our competitive position.

Operation in a highly competitive and fragmented market

The disposable plastic food storage container products industry is highly competitive and fragmented. There are a significant number of industry players who provide similar products to ours, which include a number of small to medium size enterprises. Some of these enterprises may have greater access to capital, longer operating histories, longer or more established relationships with their customers, better distribution network and greater marketing and other resources than we do. New participants who possess appropriate skills, local experiences, necessary machinery and equipment, capital and are eligible for the grant of the requisite licences by the relevant regulatory bodies may enter the industry and compete with our Group. Intense competition may result in lower operating margins and loss of market shares, which may adversely affect our profitability and operating results.

Our Group took a market share of approximately 2.2% in terms of total revenue in the disposable plastic food storage container industry in the PRC in 2019. If the competition intensifies, we may be under pressure to reduce sale price, which would have an adverse impact on our profitability and operating results. We cannot guarantee that we can cope with the enhanced competition in the future or that we can maintain our current position in the industry.

Supply of raw material

We are subject to the price fluctuation in raw materials used in our manufacturing process. These include polypropylene resins, a key raw material, as well as packaging, and other ancillary materials such as silicon rings and other consumable materials.

Any significant fluctuations in the supply volume of our raw materials, especially polypropylene resins, may affect the selling prices. Supplies of raw materials may also be subject to a variety of factors that are beyond our control, including governmental control and policy, and overall economic conditions, all of which may have an impact on their market prices from time to time.

We will continue our efforts to pass our material cost increases on to our customers by determining the selling price of our products on a cost-plus basis, with reference to the costs of the raw materials, the expected margins etc. However, competition and market pressures may limit our ability to do so, and may prevent us from doing so in the future. Even when we are able to pass price increases on to our customers, in some cases there is a delay before we are able to do so effectively because there is a time gap between when we obtain quotation or purchase the raw materials and when we produce and deliver the products to our customers. Our inability to pass on or a delay in passing on price increases to our customers could adversely affect our operating margins and cash flows, resulting in a lower operating income and profitability. We cannot assure you that fluctuations in our material prices will not have a material adverse effect on our business, operating results and financial condition, or cause significant fluctuations in our operating results from period to period.

SENSITIVITY ANALYSIS

Staff cost

Staff cost (including directors' emoluments) of our Group increased by 27.5% from approximately RMB8.0 million for the year ended 31 December 2017 to approximately RMB10.2 million for the year ended 31 December 2018.

Staff cost (including directors' emoluments) of our Group increased by 26.0% from approximately RMB10.2 million for the year ended 31 December 2018 to approximately RMB12.9 million for the year ended 31 December 2019.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in staff costs on our profit before tax during the Track Record Period. Fluctuations are assumed to be approximately 10%, 20% and 30% for each of the three years ended 31 December 2017, 2018 and 2019.

Hypothetical fluctuations	**+/- 10%**	**+/- 20%**	**+/- 30%**
	RMB'000	*RMB'000*	*RMB'000*
Change in staff cost			
For the year ended 31 December 2017	803	1,607	2,410
For the year ended 31 December 2018	1,024	2,049	3,073
For the year ended 31 December 2019	1,290	2,581	3,871
Change in profit before tax			
For the year ended 31 December 2017	803	1,607	2,410
For the year ended 31 December 2018	1,024	2,049	3,073
For the year ended 31 December 2019	1,290	2,581	3,871

Cost of raw material

Cost of raw material of our Group increased by 15.9% from approximately RMB105.2 million for the year ended 31 December 2017 to approximately RMB122.0 million for the year ended 31 December 2018.

Cost of raw material of our Group increased by 10.2% from approximately RMB122.0 million for the year ended 31 December 2018 to approximately RMB134.4 million for the year ended 31 December 2019.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in cost of raw material on our profit before tax during the Track Record Period. Fluctuations are assumed to be approximately 10%, 20% and 30% for each of the three years ended 31 December 2017, 2018 and 2019.

Hypothetical fluctuations	**+/- 10%**	**+/- 20%**	**+/- 30%**
	RMB'000	*RMB'000*	*RMB'000*
Change in cost of raw material			
For the year ended 31 December 2017	10,521	21,042	31,563
For the year ended 31 December 2018	12,196	24,391	36,587
For the year ended 31 December 2019	13,439	26,877	40,316
Change in profit before tax			
For the year ended 31 December 2017	10,521	21,042	31,563
For the year ended 31 December 2018	12,196	24,391	36,587
For the year ended 31 December 2019	13,439	26,877	40,316

RESULTS OF OPERATION

The following is a summary of the consolidated statements of profit or loss and other comprehensive income of our Group for the three years ended 31 December 2017, 2018 and 2019 respectively, as extracted from the Accountants' Report set out in Appendix I to this prospectus. This summary should be read in conjunction with the Accountants' Report as set out in Appendix I to this prospectus.

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	166,117	192,458	212,795
Cost of sales	(118,326)	(137,571)	(152,375)
Gross profit	47,791	54,887	60,420
Other income	47	45	59
Selling expenses	(9,160)	(9,872)	(11,019)
Administrative and other operating expenses	(8,321)	(14,061)	(20,042)
Profit from operation	30,357	30,999	29,418
Finance costs	—	—	(226)
Profit before income tax	30,357	30,999	29,192
Income tax expense	(7,693)	(8,419)	(8,427)
Profit for the year	22,664	22,580	20,765
Other comprehensive income, net of tax:			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operation recognised	—	—	(96)
Total comprehensive income for the year	22,664	22,580	20,669

	Year ended 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year attributable to:			
Equity holders of the Company	22,664	22,414	20,501
Non-controlling interests	—	166	264
	22,664	22,580	20,765
Total comprehensive income for the year attributable to:			
Equity holders of the Company	22,664	22,414	20,405
Non-controlling interests	—	166	264
	22,664	22,580	20,669

DESCRIPTION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

Revenue

We produce and sell a comprehensive range of plastic container products. Our revenue increased, by approximately RMB26.4 million or approximately 15.9%, from approximately RMB166.1 million for the year ended 31 December 2017 to approximately RMB192.5 million for the year ended 31 December 2018.

Our revenue increased, by approximately RMB20.3 million or approximately 10.6%, from approximately RMB192.5 million for the year ended 31 December 2018 to approximately RMB212.8 million for the year ended 31 December 2019.

Revenue breakdown by geographical locations

The table below sets forth the breakdown of our revenue by geographical locations:

	Year ended 31 December					
	2017		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
PRC	164,712	99.2	190,423	98.9	209,991	98.7
Overseas *(Note)*	1,405	0.8	2,035	1.1	2,804	1.3
Total	**166,117**	**100.0**	**192,458**	**100.0**	**212,795**	**100.0**

Note: The overseas countries include United States, Australia, Saudi Arabia and the Republic of Trinidad and Tobago.

For the three years ended 31 December 2017, 2018 and 2019, approximately 99.2%, 98.9% and 98.7% of our total revenue were generated from PRC, respectively, as majority of our customers are based and operate their business in the PRC.

Revenue breakdown by branded and non-branded products

The table below sets forth the breakdown of our revenue of sales of products under our "JAZZIT" brand and non-branded products for the years/periods indicated:

	Year ended 31 December					
	2017		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Products under "JAZZIT" brand	151,136	91.0	176,798	91.9	191,518	90.0
Non-branded products	14,981	9.0	15,660	8.1	21,277	10.0
Total	**166,117**	**100.0**	**192,458**	**100.0**	**212,795**	**100.0**

Our products are sold either under our "JAZZIT" brand or as non-branded products. For the three years ended 31 December 2019, approximately 91.0%, 91.9% and 90.0% of our total revenue were derived from sales of products under our "JAZZIT" brand, respectively, and approximately 9.0%, 8.1% and 10.0% of our total revenue were derived from non-branded products, respectively.

The following table sets out the breakdowns of our sales volume and average selling prices of our "JAZZIT" branded products and non-branded products for the year indicated:

	Year ended 31 December					
	2017		2018		2019	
	Sales volume *(Note 1)*	Average selling price	Sales volume *(Note 1)*	Average selling price	Sales volume *(Note 1)*	Average selling price
	Tonnes	*RMB per tonne*	*Tonnes*	*RMB per tonne*	*Tonnes*	*RMB per tonne*
Products under "JAZZIT" brand	11,017	13,718	11,994	14,741	12,510	15,309
Non-branded products	1,189	12,600	1,143	13,701	1,469	14,484
Total	12,206		13,137		13,979	

Note:

1. Our annual sales volume refers to the amount of products sold during the respective financial year. The sales volumes of our products are different from our actual production volume because not all products are sold in the same year of production.

The revenue of our products under "JAZZIT" brand increased, by approximately RMB25.7 million or approximately 17.0% from approximately RMB151.1 million for the year ended 31 December 2017 to approximately RMB176.8 million for the year ended 31 December 2018.

The revenue of our products under "JAZZIT" brand increased by approximately RMB14.7 million from approximately RMB176.8 million for the year ended 31 December 2018 to approximately RMB191.5 million for the year ended 31 December 2019.

The revenue of our non-branded products increased by approximately RMB0.7 million from approximately RMB15.0 million for the year ended 31 December 2017 to approximately RMB15.7 million for the year ended 31 December 2018.

The revenue of our non-branded products increased by approximately RMB5.6 million from approximately RMB15.7 million for the year ended 31 December 2018 to approximately RMB21.3 million for the year ended 31 December 2019.

The continuous growth in revenue from sales of our "JAZZIT" brand products during the Track Record Period was primarily due to our effort in enhancing the recognition of the "JAZZIT" brand in terms of our product design and quality. According to the F&S Report, key success factors for industry players in the disposable plastic food storage container market in the PRC is personalised branding, good corporate reputation and brand awareness. A successful brand image is able to attract a wider variety of consumers and is reported to be a crucial promotional strategy to drive up demand for products. Moreover, F&S Report also mentioned that with an enhanced brand awareness among the customers, customers' loyalty to both the brand and the industry player will increase, which allows market players such as our Group to maintain a solid customer base and appeal to potential business partners.

Revenue breakdown by product types

The table below sets forth the breakdown of our revenue of sales of products under our regular, customised and other products for the years/periods indicated:

	Year ended 31 December					
	2017		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Regular products	131,238	79.0	152,494	79.2	168,681	79.3
Customised products	32,133	19.3	38,526	20.0	42,108	19.8
Others	2,746	1.7	1,438	0.8	2,006	0.9
Total	**166,117**	**100.0**	**192,458**	**100.0**	**212,795**	**100.0**

We also categorise our products into three major categories, namely (i) regular products, (ii) customised products and (iii) other products. Our regular products are of more simplistic design and features with only one compartment; and our customised products are of enhanced design features and higher degree of functionality, which generally allow our customers to store various kinds of food and beverage with our multi-compartment disposable plastic food storage containers. We also offer other products including drinkware and removable trays which can be placed within other plastic food storage containers as additional interior compartment trays.

For the three years ended 31 December 2019, approximately 79.0%, 79.2% and 79.3% of our total revenue were derived from regular products, approximately 19.3%, 20.0% and 19.8% of our total revenue were derived from customised products, and approximately 1.7%, 0.8% and 0.9% of our total revenue were derived from other products, respectively.

The following table sets out the breakdowns of our sales volume and average selling prices by products under our regular, customized and other products category for the year indicated:

	Year ended 31 December					
	2017		2018		2019	
	Sales volume *(Note 1)*	**Average selling price**	**Sales volume** *(Note 1)*	**Average selling price**	**Sales volume** *(Note 1)*	**Average selling price**
	Tonnes	*RMB per tonne*	*Tonnes*	*RMB per tonne*	*Tonnes*	*RMB per tonne*
Regular products	9,557	13,732	10,294	14,814	11,037	15,328
Customised products	2,431	13,218	2,735	14,086	2,838	14,836
Others	218	12,596	108	13,315	104	14,564
Total	12,206		13,137		13,979	

Note:

1. Our annual sales volume refers to the amount of products sold during the respective financial year. The sales volumes of our products are different from our actual production volume because not all products are sold in the same year of production.

Revenue generated from regular products increased, by approximately RMB21.3 million or approximately 16.2%, from approximately RMB131.2 million for the year ended 31 December 2017 to approximately RMB152.5 million for the year ended 31 December 2018.

Revenue generated from regular products increased, by approximately RMB16.2 million or approximately 10.6%, from approximately RMB152.5 million for the year ended 31 December 2018 to approximately RMB168.7 million for the year ended 31 December 2019.

The following table summarises our revenue by branded product and product types during the Track Record Period:

	Year ended 31 December					
	2017		**2018**		**2019**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Product under "JAZZIT" brand						
Regular products	120,602	72.6	141,258	73.4	152,995	71.9
Customised products	29,620	17.8	34,828	18.1	37,588	17.7
Others	914	0.6	712	0.4	935	0.4
Sub-total	**151,136**	**91.0**	**176,798**	**91.9**	**191,518**	**90.0**
Non-branded products						
Regular products	10,635	6.4	11,236	5.8	15,686	7.4
Customised products	2,514	1.5	3,698	1.9	4,520	2.1
Others	1,832	1.1	726	0.4	1,071	0.5
Sub-total	**14,981**	**9.0**	**15,660**	**8.1**	**21,277**	**10.0**
Total	**166,117**		**192,458**		**212,795**	

Pursuant to the above breakdowns, approximately 72.6%, 73.4% and 71.9% of our total revenue were derived from regular products with our "JAZZIT" brand during the Track Record Period, respectively. Whereas, customised products with our "JAZZIT" brand accounted for approximately 17.8%, 18.1% and 17.7% of our total revenue during the Track Record Period, respectively.

The growth of our revenue during the Track Record Period are mainly because of the following reasons:

1. *More new models of plastic container products sold*

Our Group launched a total of 133 and 92 new models of plastic containers for the two years ended 31 December 2018 and 2019, respectively. These new models of products mainly relate to (i) products with enhanced design and more compartments, and (ii) existing products with new design. We sold the new models of our plastic containers products to 45 and 25 customers for the two years ended 31 December 2018 and 2019, respectively. These new models of plastic containers contributed to our Group's revenue of approximately RMB5.5 million and RMB3.9 million for the two years ended 31 December 2018 and 2019, respectively.

2. *Increase in general order sizes of our customers*

Several reasons are attributable to the increase in general orders sizes of our customers:

(i) Brand awareness and product design

The revenue of our products under "JAZZIT" brand increased, by approximately RMB25.7 million or approximately 17.0% from approximately RMB151.1 million for the year ended 31 December 2017 to approximately RMB176.8 million for the year ended 31 December 2018. The continuous growth in revenue from sales of our "JAZZIT" brand products during the Track Record Period was primarily due to our effort in enhancing the recognition of the "JAZZIT" brand in terms of our product design and quality. 22 of our customers for the year ended 31 December 2017 shifted from our non-branded products to buy more of our "JAZZIT" brand products for the year ended 31 December 2018. As a result, the said 22 customers had net increase in their orders of products under "JAZZIT" brand by approximately RMB11.1 million for the year ended 31 December 2018.

The 22 customers reduced their purchase of our Group's non-branded products by approximately RMB3.3 million and increased their purchase of our Group's branded products by approximately RMB14.5 million over the two years ended 31 December 2017 and 2018 with a net increase of approximately RMB11.1 million.

The revenue of our products under "JAZZIT" brand increased by approximately RMB14.7 million from approximately RMB176.8 million for the year ended 31 December 2018 to approximately RMB191.5 million for the year ended 31 December 2019 mainly due to (i) 11 of our customers for the year ended 31 December 2018 shifted from our non-branded products to buy more of our "JAZZIT" brand products for the year ended 31 December 2019, resulting in net increase in sales of "JAZZIT" brand products by approximately RMB6.3 million for the year ended 31 December 2019; and (ii) the increase in sales of products under "JAZZIT" brand to Customer A and Customer B by approximately RMB0.7 million and RMB1.3 million for the year ended 31 December 2019, respectively.

The 11 customers reduced their purchase of our Group's non-branded products by approximately RMB4.0 million and increased their purchase of our Group's branded products by approximately RMB10.3 million for the year ended 31 December 2019 as compared to the year ended 31 December in 2018, respectively with a net increase of approximately RMB6.3 million.

By categorising these customers by their industries, 13 and five of these customers relate to industries such as hotel, retail chained stores and supermarket/department stores for the two years ended 31 December 2018 and 2019, respectively. All of these 18 customers directly sold products or provide services with the use of disposable plastic food storage containers to the end consumers. Therefore, our Directors believe that these customers have increasing awareness of the importance of product quality and safety standards of disposable plastic food storage container, which would help enhance their reputation and respond to the increasing public awareness of food safety. For the nine and six other customers for the two years ended 31 December 2018 and 2019, respectively, most of them mainly engaged in trading household consumable products. Our Directors believe that changes in eating habits, shifting from EPS plastic food storage containers to PP plastic food storage containers due to environmental awareness also caused these trading companies to purchase more disposable plastic food storage containers with good quality. Our Group's "JAZZIT" brand products are widely recognised by its customers in the market in terms of its product design and quality. Therefore, the 22 and 11 customers had shifted from non-branded products to purchase more of the Group's "JAZZIT" branded products for the two years ended 31 December 2018 and 2019, respectively.

According to the F&S Report, regarding products related to food safety, consumers have strong loyalty to recognized brands, accordingly brand promotion is one of the key success factors for disposable plastic food storage container.

For non-branded product, the slight increase in revenue from approximately RMB15.0 million for the year ended 31 December 2017 to approximately RMB15.7 million for the year ended 31 December 2018 was mainly due to the increase in sales to Customer C and Customer E but partly offset by the decrease of sales of non-branded product to some customers, who shifted to purchase more of our "JAZZIT" brand products as mentioned above.

The revenue of our non-branded products increased by approximately RMB5.6 million from approximately RMB15.7 million for the year ended 31 December 2018 to approximately RMB21.3 million for the year ended 31 December 2019 mainly due to the increase in sales of non-branded products to Customer A, Customer B, Customer D, three new customers and three overseas customers by approximately RMB1.0 million, RMB0.5 million, RMB0.3 million, RMB0.2 million and RMB2.0 million for the year ended 31 December 2019 respectively.

As shown in the above breakdown, our regular products under our "JAZZIT" brand contributed to approximately 72.6%, 73.4% and 71.9% during the Track Record Period, respectively. Revenue derived from regular products under our "JAZZIT" brand increased from approximately RMB120.6 million for the year ended 31 December 2017 to approximately RMB141.3 million for the year ended 31 December 2018, and further increased to approximately RMB153.0 million for the year ended 31 December 2019, representing an increase of approximately 17.1% and 8.3% respectively. Regular products remained to be the most popular plastic food container in the market due to customers' preference to purchase large amounts of regular product with simplistic design as their inventory reserves. According to the F&S Report, most storage containers consumed are regular ones. As the wide application of regular containers, customers usually purchase large amounts of regular containers as inventory reserves. Due to our brand reputation and popularity of our regular product, our Group was able to achieve continuous growth in revenue of our branded products during the Track Record Period.

(ii) Change of eating habits in the PRC and increasing public awareness of food safety

Whether it is under our "JAZZIT" brand or non-branded products, the revenue of all our regular or customised products generally increased during the Track Record Period. The monthly average revenue of approximately RMB266,000 per customer for the year ended 31 December 2017 increased to approximately RMB297,000 per customer for the year ended 31 December 2018 and further increased to approximately RMB322,000 per customer for the year ended 31 December 2019. Our Directors believe that the increase in general order size of our customers during the Track Record Period was also attributable to (i) the change of eating habits and population growth in the PRC, resulting more people to prefer takeaway food for their daily meal, afternoon tea and night snacks, which in turn facilitates online food delivery services and (ii) the increase in general public awareness environmental protection.

According to the F&S Report, due to the change of eating habits, online food delivery is the referable way to have daily meals, afternoon tea and night snacks, which generating large demand for disposable plastic food storage containers. With high chemical stability, heat resistance and anticorrosion effect, PP plastic food storage container can be suitable for almost all foods and beverages. Meanwhile, as Chinese government is actively improving people's awareness of environmental protection, general customers' preference of using disposable plastic food containers is shifting from EPS plastic food storage containers to PP plastic food storage containers, which is easy to recycle and the decomposition of which can be accelerated by adding some degradable materials during the production of containers, causing a general increase in demand of PP plastic food storage container. The F&S Report stated that the sales revenue of EPS plastic food storage container increased from RMB1.68 billion in 2017 to RMB1.78 billion in 2018, representing an increase of 6.0%, which was far lower than that of PP plastic food storage container of 18.4% increased from RMB4.13 billion in 2017 to RMB4.89 billion in 2018.

3. Increase in average selling price

Pursuant to the above breakdowns, the average selling price for our "JAZZIT" brand product increased from approximately RMB13,718 per tonne for the year ended 31 December 2017 to approximately RMB14,741 per tonne for the year ended 31 December 2018 and further increased to approximately RMB15,309 per tonne for the year ended 31 December 2019. The average selling price for non-branded products increased from approximately RMB12,600 per tonne for the year ended 31 December 2017 to approximately RMB13,701 per tonne for the year ended 31 December 2018 and further increased to approximately RMB14,484 per tonne for the year ended 31 December 2019. Moreover, the average selling price for our regular and customised products also slightly increased during the Track Record Period. The average selling price for our regular product increase from approximately RMB13,732 per tonne for the year ended 31 December 2017 to approximately RMB14,814 per tonne for the year ended 31 December 2018 and further increase to approximately RMB15,328 per tonne for the year ended 31 December 2019. The average selling price for our customised product increase from approximately RMB13,218 per tonne for the year ended 31 December 2017 to approximately RMB14,086 per tonne for the year ended 31 December 2018 and further increase to approximately RMB14,836 per tonne for the year ended 31 December 2019. According to the F&S Report, the unit price of polypropylene resins increased from RMB8,865.6 per tonne in 2017 to RMB9,705.5 per tonne in 2018 due to the recovery of crude oil price. Material, such as polypropylene resins, contributes to most of our costs. Nevertheless, we are able to pass on the increase in purchase costs of raw material to our customers, resulting in increase in average selling price for our products. During the Track Record Period, we determined the selling price of our products using the cost-plus approach. For details, please refer to the section headed "Business — Pricing strategy and policy".

Cost of sales

	Year ended 31 December					
	2017		**2018**		**2019**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Material costs	105,210	88.9	121,957	88.7	134,387	88.2
Direct labour	3,844	3.3	5,112	3.7	5,968	3.9
Utilities expenses	3,645	3.1	4,184	3.0	4,810	3.2
Rental expenses	2,056	1.7	1,378	1.0	74	0.0
Depreciation on plant and machinery	1,104	0.9	2,034	1.5	3,602	2.4
Others	2,467	2.1	2,906	2.1	3,534	2.3
Total	**118,326**	**100.0**	**137,571**	**100.0**	**152,375**	**100.0**

Material costs

Material costs represent the largest component of our cost of sales and mainly consist of polypropylene resins and other materials such as pre-coloured resin, packaging and other ancillary material, while polypropylene resins contributed to most of our material costs. Our material costs increased from approximately RMB105.2 million for the year ended 31 December 2017 to approximately RMB122.0 million for the year ended 31 December 2018 mainly due to the combined effect of (i) the increase in unit price of polypropylene resins and (ii) increase in volume of material purchased so as to cater the increased demand in 2018 which was in line with the increase of our revenue, causing the average purchase costs to increase. The average purchase costs of our material costs per tonne were approximately RMB8,619.7 and RMB9,283.2 for the two years ended 31 December 2018, respectively. According to the F&S Report, the unit price of polypropylene resins increased from RMB8,865.6 per tonne in 2017 to RMB9,705.5 per tonne in 2018 due to the recovery of crude oil price and the pressure of environmental protection. The change in price of polypropylene resins was in line with the fluctuation in the prices of crude oil as the raw materials of polypropylene resins are derived from crude oil.

Our material costs increased from approximately RMB122.0 million for the year ended 31 December 2018 to approximately RMB134.4 million for the year ended 31 December 2019 mainly due to (i) increase in volume of material purchased so as to cater the increased demand in 2019 and (ii) higher average purchase price of polypropylene resins, which increased our material costs. The average purchase costs of our material costs per tonne were approximately RMB9,283.2 and RMB9,613.4 for the two years ended 31 December 2018 and 2019, respectively.

Direct labour

Direct labour under cost of sales represented wages for production staff. Our direct labour under cost of sales increased from approximately RMB3.8 million for the year ended 31 December 2017 to approximately RMB5.1 million for the year ended 31 December 2018 mainly due to the increase in number of production staff for the year ended 31 December 2018. The monthly average number of production staff increased from 47 for the year ended 31 December 2017 to 66 for the year ended 31 December 2018 in order to facilitate the production process, such as changing mould, transiting raw material and packaging, for the increase in demand of our products.

Our direct labour under cost of sales increased from approximately RMB5.1 million to approximately RMB6.0 million for the two years ended 31 December 2018 and 2019, respectively, mainly due to (i) the increase in average monthly salary for the year ended 31 December 2019 as a result of salary adjustment and (ii) the slight increase in average monthly number of production staff from 66 for the year ended 31 December 2018 to 67 for the year ended 31 December 2019.

Utilities expenses

Utilities expenses mainly represented the expenses for water and electricity for our production. Our utilities expenses increased from approximately RMB3.6 million for the year ended 31 December 2017 to approximately RMB4.2 million for the year ended 31 December 2018 mainly due to the increase in usage of water and electricity in production as a result of increase in purchase orders from customers during the year ended 31 December 2018, which was in line with the increase in revenue for the year ended 31 December 2018.

Our utilities expenses increased, by approximately RMB0.6 million or 15.0%, from RMB4.2 million for the year ended 31 December 2018 to approximately RMB4.8 million for the year ended 31 December 2019 mainly due to the increase in usage of water and electricity in production as a result of increase in purchase orders from customers during the year ended 31 December 2019, which was in line with the increase in revenue for the year ended 31 December 2019.

Rental expenses

Rental expenses represented the rental expenses we paid to our lessors of properties and machinery for our production. During the year ended 31 December 2017, the machinery used for our production were leased from Hengsheng Toys with rental expenses of approximately RMB1.7 million. We acquired all these machines from Hengsheng Toys in June 2018 and no rental expense was incurred for our production machinery since then. As a result, our rental expenses decreased from approximately RMB2.1 million for the year ended 31 December 2017 to approximately RMB1.4 million for the year ended 31 December 2018 because the machinery used for our production were acquired by our Group in June 2018.

Our rental expenses decreased from approximately RMB1.4 million for the year ended 31 December 2018 to approximately RMB74,000 for the year ended 31 December 2019 mainly due to (i) the acquisition in June 2018 of production machines, which were previously leased from Hengsheng Toys, resulting in the decrease of rental expenses by approximately RMB0.8 million for the year ended 31 December 2019; and (ii) the adoption of HKFRS 16 "Leases" which took effective for accounting period beginning on 1 January 2019. Since 1 January 2019, due to the adoption of HKFRS 16, rental payments of all leases with a lease term of more than 12 months are required to be capitalised as "right-of-use assets" using a discount rate with a corresponding lease liability. Rental payments of leases with a lease term of 12 months or less continue to be recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Therefore, rental expenses in respect of properties for the year ended 31 December 2019 decreased as compared to that for the year ended 31 December 2018 because leases with lease term of more than 12 months were capitalised and transferred to the Consolidated Statement of Profit or Loss and Other Comprehensive Income by way of depreciation (which also include the interest element when applying the discounting of rental payments into "right-of-use assets") according to the requirements of HKFRS 16. As a result of the adoption of HKFRS 16, the depreciation of the right-of-use assets of the Group, which amounted to approximately RMB663,000 were reflected in the "Depreciation on plant and machinery" instead of the "Rental expenses".

Depreciation on plant and machinery

Depreciation on plant and machinery under cost of sales represented the depreciation expenses on our plant and machinery for production. Our depreciation on plant and machinery increased from approximately RMB1.1 million for the year ended 31 December 2017 to approximately RMB2.0 million for the year ended 31 December 2018 because, as mentioned above, machinery used for our production were previously leased from Hengsheng Toys and until our Group acquired the machines from Hengsheng Toys in June 2018, resulting in increase of depreciation on plant and machinery.

Our depreciation on plant and machinery increased from approximately RMB2.0 million for the year ended 31 December 2018 to approximately RMB3.6 million for the year ended 31 December 2019 mainly due to the combined effect of (i) the acquisition of machinery for production by our Group in June 2018 and (ii) the adoption of HKFRS 16 "Leases" which took effective for accounting period beginning on 1 January 2019 as mentioned above.

Others

Others represented manufacturing overheads such as repair and maintenance, tools consumed and business tax and surcharges. Others under cost of sales increased from approximately RMB2.5 million for the year ended 31 December 2017 to approximately RMB2.9 million for the year ended 31 December 2018 mainly due to the increase in repair and maintenance expenses and tools consumed costs by approximately RMB0.2 million and RMB0.2 million, respectively. Repair and maintenance expenses represented the expense of repair and maintenance for our production plant and machinery. Repair and maintenance expenses increased by RMB0.2 million for the year ended 31 December 2018 mainly due to more wear and tear of our production plant and machinery as a result of the increased production volume for the year ended 31 December 2018. Tool consumed costs represented storage tools and transitional tools used in the production. Tools consumed costs increased by RMB0.2 million for the year ended 31 December 2018 mainly due to the increased production volume for the year ended 31 December 2018.

Others under cost of sales increased from approximately RMB2.9 million for the year ended 31 December 2018 to approximately RMB3.5 million for the year ended 31 December 2019 mainly due to the increase in tool consumed costs by approximately RMB0.5 million as a result of the increased production volume for the year ended 31 December 2019.

Overall fluctuation on cost of sales

Overall, our cost of sales increased from approximately RMB118.3 million for the year ended 31 December 2017 to approximately RMB137.6 million for the year ended 31 December 2018, representing an increase of approximately RMB19.3 million or 16.3%. Such increase was mainly due to (i) increase in material costs by approximately RMB16.7 million as a result of higher material price as our average purchase price of polypropylene resins increased and (ii) increase in direct labour costs by approximately RMB1.3 million because more production staff was hired to facilitate the production process.

Our cost of sales increased from approximately RMB137.6 million for the year ended 31 December 2018 to approximately RMB152.4 million for the year ended 31 December 2019, representing an increase of approximately RMB14.8 million or 10.8%. Such increase was mainly due to increase in material costs by approximately RMB12.4 million due to (i) increase in volume purchased and (ii) higher average purchase price of polypropylene resins, which increased our material costs.

Gross profit and gross profit margin

Our gross profit for the three years ended 31 December 2017, 2018 and 2019 amounted to approximately RMB47.8 million, RMB54.9 million and RMB60.4 million, representing gross profit margin of approximately 28.8%, 28.5% and 28.4%, respectively.

The table below sets forth the breakdown of our gross profit and gross profit margin of products under our "JAZZIT" brand and non-branded products for the years indicated:

	Year ended 31 December					
	2017		**2018**		**2019**	
	Gross profit RMB'000	*Gross profit margin %*	*Gross profit RMB'000*	*Gross profit margin %*	*Gross profit RMB'000*	*Gross profit margin %*
Products under "JAZZIT" brand	44,188	29.2	51,140	28.9	55,066	28.8
Non-branded products	3,603	24.1	3,747	23.9	5,354	25.2
Total	**47,791**	**28.8**	**54,887**	**28.5**	**60,420**	**28.4**

Our gross profit margin for products under "JAZZIT" brand maintained at a stable level at approximately 29.2%, 28.9% and 28.8%, whereas the gross profit margin for non-branded products also maintained at a stable level of approximately 24.1%, 23.9% and 25.2% for the three years ended 31 December 2017, 2018 and 2019, respectively. Our Directors confirmed it is our Group's pricing strategy to adopt a cost-plus basis and adjust the selling price of our products based on the change of our variable components within the cost of sales, such as material costs and direct labour costs, so as to maintain stable gross profit margins of our products. The slight variances of gross profit margins in our products in different years/ periods were mainly due to the change of fixed costs, such as depreciation on plant and machinery and rental expenses which are relatively immaterial to our total cost of sales. Our Directors also confirmed that there were some slight variances in unit cost of same type of products sold to various customers depending on order sizes and other elements, resulting in the slight variance of gross profit margin.

Set forth below are the breakdown of our Group's gross profit by product types during the Track Record Period:

	Year ended 31 December					
	2017		2018		2019	
	Gross profit	*Gross profit margin*	*Gross profit*	*Gross profit margin*	*Gross profit*	*Gross profit margin*
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Regular products	38,131	29.1	44,053	28.9	48,651	28.8
Customised products	9,050	28.2	10,519	27.3	11,290	26.8
Others	610	22.2	315	21.9	479	23.9
Total	**47,791**	**28.8**	**54,887**	**28.5**	**60,420**	**28.4**

Our gross profit margin for regular products maintained at a stable level at approximately 29.1%, 28.9% and 28.8%, whereas the gross profit margin for customised products maintained at a stable level at approximately 28.2%, 27.3% and 26.8% for the three years ended 31 December 2017, 2018 and 2019, respectively. Our gross profit margin for other products maintained at a stable level at approximately 22.2%, 21.9% and 23.9% for the corresponding periods. Our Directors confirmed it is our Group's pricing strategy to adopt a cost-plus basis and adjust the selling price of our products based on the change of our variable components within the cost of sales, such as material costs and direct labour costs, so as to maintain stable gross profit margins of our products. Other than the slight change of fixed costs, such as depreciation on plant and machinery and rental expenses which are relatively immaterial to our total cost of sales, our Directors confirm that the gross profit margin for our Group's regular products was slightly higher than that of customised products notwithstanding that the latter are generally of enhanced design because (i) the average cost for the manufacture of our Group's regular products or customised products is almost the same in general, but the selling prices for regular products during the Track Record Period were, on average, slightly higher than that of the customised products as the regular products remain the most popular products; and (ii) the selling price of a product, whether it is a regular product or customised product, is driven by the Group's pricing policy from time to time, whereby the price of individual products under different purchase orders will vary depending on the prevailing price of the raw materials, labour costs, market demand, anticipated market trend, historical sales data and the price offered by the Group's competitors, instead of whether it is a regular product or customised products.

Given that material costs represent the largest component of the cost of sales (more than 88% of total cost of sales during the Track Record Period) and polypropylene resins contributed to most of the material costs, the major difference of the production process for the regular products and the customised products is the product mould. Therefore, the average product costs are very close and the difference ranged from 0.1% to 2.9% and the slight variances was due to other factors such as order sizes and other elements, for instance, the product specifications of the products in a purchase order, regardless they are regular products or customised products. It is noted that the costs for making the moulds for customised products was not included in the cost thereof as it formed part of our Group's development cost.

During the Track Record Period, the average selling price of regular products was generally higher than that of customised products mainly because our Group's regular products remained to be a popular plastic food container in the market. Therefore, our Group can charge slightly higher selling price for our products. Our Directors also confirm that the current market demand for customised products is not as much as that of our Group's regular products. However, in order to satisfy the varying demands of our customers and provide a full range of products to them, our Group still offers customised products but the selling price shall be within the similar range or slightly lower of that of our regular products so as to maintain competitiveness, causing the gross profit margin for regular products slightly higher than that of our customised products.

As advised by Frost & Sullivan, although customised disposable plastic food storage containers have become increasingly popular, most storage containers consumed are regular ones. The revenue generated from customised disposable plastic food containers only accounts for a small part of manufacturers' total revenue. As the wide application of regular containers, the demand for those containers is huge, downstream customers usually purchase large amounts of regular containers as inventory reserves in case of the delay in delivery. Therefore, the demand for regular products is in general higher than that of customized products. Frost & Sullivan also advised that the prices of regular containers with good brand image are usually higher than other similar products. Even if the demand for customised containers is temporarily much less than that of the regular containers, some manufacturers are willing to sell the customised containers with a relative low price in order to develop new customers, retaining customer loyalty and provide a comprehensive product range for their customers. Thus, the prices of customized containers in some companies may lower than that of regular containers.

Other income

Our other income mainly represented the bank interest income. Our other income remained stable for the two years ended 31 December 2017 and 2018. Our bank interest income increased from approximately RMB23,000 for the year ended 31 December 2017 to RMB45,000 the year ended 31 December 2018 mainly due to the increase in monthly average balance of cash and cash equivalent in 2018.

Our other income remained stable for the two years ended 31 December 2018 and 2019, which solely included interest income for the years.

Selling expenses

	Year ended 31 December					
	2017		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Staff cost	1,223	13.4	1,351	13.7	1,602	14.5
Transportation cost	6,613	72.2	7,100	71.9	7,727	70.1
Exhibition fee	627	6.8	679	6.9	828	7.5
Others	697	7.6	742	7.5	862	7.9
Total	**9,160**	**100.0**	**9,872**	**100.0**	**11,019**	**100.0**

Staff cost

Staff cost under selling expenses represented salaries for sales department. Our staff cost under selling expenses increased from approximately RMB1.2 million for the year ended 31 December 2017 to approximately RMB1.4 million for the year ended 31 December 2018 mainly due to the increase in sales commission for staff under sales department as a result of the increase in revenue as mentioned above.

Our staff cost under selling expenses increased from approximately RMB1.4 million for the year ended 31 December 2018 to approximately RMB1.6 million for the year ended 31 December 2019 mainly due to the increase in sales commission for staff under sales department as a result of the increase in revenue as mentioned above.

Transportation cost

Transportation cost represented expenses paid to logistics companies for the service of distributing goods to customers. Our transportation cost increased from approximately RMB6.6 million for the year ended 31 December 2017 to approximately RMB7.1 million for the year ended 31 December 2018 mainly due to more demands for delivery services as a result of the increase in number of customers which is in line with our increased revenue as mentioned above.

Our transportation cost increased from approximately RMB7.1 million for year ended 31 December 2018 to approximately RMB7.7 million for the year ended 31 December 2019 mainly due to increase in general order size of our customers resulting in more demands for delivery services.

Exhibition fee

Exhibition fee represented a fees paid in order to participate in exhibitions so as to promote our products to potential customers. Our exhibition fee remained stable at approximately RMB0.6 million and RMB0.7 million because we participated same number of exhibitions for the two years ended 31 December 2018, respectively. The Group participated in 4 and 4 exhibitions for the two years ended 31 December 2018, respectively, in Shanghai and Guangzhou.

Our exhibition fee remained stable at approximately RMB0.7 million and RMB0.8 million for the two years ended 31 December 2018 and 2019, respectively. The Group participated in 4 exhibitions and 5 exhibitions, in Shanghai and Guangzhou, for the two years ended 31 December 2018 and 2019, respectively.

Others

Others under selling expenses included expenses such as travelling and accommodation expenses, entertainment expenses, etc. Others under selling expenses remained stable at approximately RMB0.7 million for the two years ended 31 December 2017 and 2018. Travelling expenses and entertainment expenses were major items of other expenses under selling expenses, which amounted to approximately RMB0.3 million and RMB0.3 million for the year ended 31 December 2017 and approximately RMB0.3 million and RMB0.3 million for the year ended 31 December 2018, respectively. Our Directors confirmed that the frequency of business trip and other business activities was similar for the two years ended 31 December 2017 and 2018.

Others under selling expenses remained stable at approximately RMB0.7 million and RMB0.9 million for the two years ended 31 December 2018 and 2019. Others remained stable over the years as the frequency of business trip and other business activities under sales department was similar for the two years ended 31 December 2018 and 2019.

Administrative and other operating expenses

	Year ended 31 December					
	2017		**2018**		**2019**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Staff cost	2,313	27.8	2,529	18.0	3,835	19.1
Research and development cost	2,664	32.0	4,963	35.3	7,437	37.1
Registration fee	2,000	24.0	1,026	7.3	2	0.0
Amortization expenses on intangible assets	—	—	1,000	7.1	2,006	10.0
Listing expenses	—	—	2,861	20.3	4,790	23.9
Others	1,344	16.2	1,682	12.0	1,972	9.9
	8,321	**100.0**	**14,061**	**100.0**	**20,042**	**100.0**

Staff cost

Staff cost under administrative and other operating expenses included a directors' emoluments and salaries to staff under finance, procurement and administrative departments. Our staff cost under administrative and other operating expenses increased from approximately RMB2.3 million for the year ended 31 December 2017 to approximately RMB2.5 million for the year ended 31 December 2018 mainly due to (i) the increase in monthly average number of staff of the above departments from 21 for the year ended 31 December 2017 to 22 for the year ended 31 December 2018 and (ii) the increase in bonus payment for the year ended 31 December 2018 as an incentive to reward our staff.

Our staff cost under administrative and other operating expenses increased from approximately RMB2.5 million for the year ended 31 December 2018 to approximately RMB3.8 million for the year ended 31 December 2019 mainly due to the increase in monthly average number of staff of the above departments from 22 for the year ended 31 December 2018 to 26 for the year ended 31 December 2019, including the employment of our chief financial officer in Hong Kong.

Research and development cost

Research and development cost represented (i) staff cost under research and development department, (ii) expenses incurred in improving quality of plastic container products and developing new plastic container products and (iii) depreciation expenses of equipments allocated for research and development purpose and moulds. Our research and development cost increased from approximately RMB2.7 million for the year ended 31 December 2017 to approximately RMB5.0 million for the year ended 31 December 2018 mainly due to the combined effect of (i) the increase in monthly average number of staff under research and development department from six for the year ended 31 December 2017 to 14 for the year ended 31 December 2018 for mould development and (ii) the development of more moulds and patents in 2018.

Our research and development cost increased from approximately RMB5.0 million for the year ended 31 December 2018 to approximately RMB7.4 million for the year ended 31 December 2019 mainly due to the combined effect of (i) the increase in monthly average number of staff under research and development department from 14 for the year ended 31 December 2018 to 21 for the year ended 31 December 2019, (ii) the development of moulds and patents during the year ended 31 December 2019 and (iii) the increase in depreciation expenses incurred for research and development department for the year ended 31 December 2019 as a result of the acquisition of machinery by our Group in June 2018 and more moulds developed.

Registration fee

Registration fee represented the licensing fee for the trademark "JAZZIT" and application fee of patents. The trademark licensing fee is fully allocated to the manufacturing business of our Group since the trademark registered is solely for the "JAZZIT" logo which is for the disposable plastic food storage containers. It is unrelated to the animation business of our Group. Thus, no trademark licensing fee is allocated to the animation business before the corporate division in December 2018. Our registration fee decreased from approximately RMB2.0 million for the year ended 31 December 2017 to approximately RMB1.0 million for the year ended 31 December 2018 because we entered into a trademark transfer agreement with Jazz Rabbit Apparels for the trademark "JAZZIT" and had fully settled the payment pursuant to the agreement in June 2018. On 9 October 2018, in order to complete the registration of new owner of the trademarks pursuant to the requirement of the relevant rules and regulation in relation to the transfer of trademarks in the PRC, Hengsheng Animation and Jazz Rabbit Apparels entered into two additional trademark transfer agreements as supplemental agreements to the trademark agreement entered in June 2018 to include the terms of transfer. In February 2019, we received the official approval of the registration of the aforesaid trademarks from the Trademark Office of National Intellectual Property Administration, the PRC (國家知識產權局商標局). As confirmed with the Reporting Accountants, taking into consideration that expected future economic benefits that are attributable to the trademarks flow to us without further consideration upon entered the trademark transfer agreement on 28 June 2018, the trademarks are recognised intangible assets in June 2018.

Our registration fee decreased from approximately RMB1.0 million for the year ended 31 December 2018 to approximately RMB2,000 for the year ended 31 December 2019 because of the aforementioned transfer of the trademark "JAZZIT" in June 2018. The registration fee of approximately RMB2,000 for the year ended 31 December 2019 represented the expenses regarding a previous patent application.

Amortization expenses on intangible assets

Amortization expenses on intangible assets represented the amortization expenses on the trademark "JAZZIT" entered into the trademark transfer agreement with Jazz Rabbit Apparels in June 2018 as discussed above. Amortization expenses on intangible assets were nil, RMB1.0 million and RMB2.0 million for the three years ended 31 December 2019, respectively.

Listing expenses

Listing expenses of nil, approximately RMB2.9 million and RMB4.8 million were incurred during the three years ended 31 December 2017, 2018 and 2019, respectively. Expenses in relation to the Listing are non-recurring. For details of the Listing expenses, please refer to the paragraph headed "Impact of non-recurring expenses" in this section.

Others

Others under administrative and other operating expenses included expenses such as loss on disposal, office expenses, rental, etc. Our others under administrative and other operating expenses increased from approximately RMB1.3 million for the year ended 31 December 2017 to approximately RMB1.7 million for the year ended 31 December 2018 mainly due to (i) the incur of loss on disposal of approximately 0.1 million for the year ended 31 December 2018 which was absent for the year ended 31 December 2017 and (ii) the increase in rental by approximately 0.1 million for the year ended 31 December 2018.

Our others under administrative and other operating expenses increased from approximately RMB1.7 million for the year ended 31 December 2018 to approximately RMB2.0 million for the year ended 31 December 2019 mainly due to (i) the increase in loss on disposal of approximately RMB41,000 for the year ended 31 December 2019, (ii) the increase in entertainment expenses by approximately RMB0.1 million for the year ended 31 December 2019.

Income tax expenses

No provision for profits tax has been provided by the Company as the Company had no assessable profits subject to taxation in any jurisdiction. No provision for Hong Kong profits tax has been provided as our Group had no assessable profits arising from Hong Kong during the Track Record Period.

The provision for the PRC enterprise income tax has been provided at the applicable tax rate of 25% on the assessable profits of our Group.

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Current tax			
- Provision for PRC enterprise income tax	7,559	8,209	7,717
- Under provision in prior year	134	210	710
	7,693	8,419	8,427

The increase in our taxation for the two years ended 31 December 2018 was mainly due to the increase in profit before income tax for the year during the same year. The taxation for the two years ended 31 December 2018 and 2019 remained stable.

The effective tax rates of our Group were 25.3%, 27.2% and 28.9% for the three years ended 31 December 2017, 2018 and 2019, respectively. The fluctuations of the Group's effective tax rate during the Track Record Period were mainly due to (i) the non-deductible expenses, such as listing expenses incurred for the years ended 31 December 2018 and 2019 and (ii) under provision in prior year as a result of overstated deductible expenses in prior years.

Profit for the year

In view of the foregoing, our Group's profit for the year maintained at a similar level of approximately RMB22.7 million and RMB22.6 million for the years ended 31 December 2017 and 2018. If Listing expenses are excluded, there would be profit of approximately RMB22.7 million and RMB25.4 million for the two years ended 31 December 2017 and 2018 respectively.

In view of the foregoing, our Group's profit for the year decreased from approximately RMB22.6 million for the year ended 31 December 2018 to approximately RMB20.7 million for the year ended 31 December 2019. If Listing expenses are excluded, there would be profit of approximately RMB25.4 million and RMB25.5 million for the two years ended 31 December 2018 and 2019 respectively.

DESCRIPTION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS AND LIABILITIES

Property, plant and equipment

Our property, plant and equipment consisted of (i) plant and machinery, (ii) furniture and equipment, (iii) mould, (iv) leasehold improvement and (v) construction in progress. The table below sets out a breakdown of our property, plant and equipment for the respective dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount at the beginning of the year	11,946	13,055	25,433
Additions	4,049	17,059	3,933
Depreciation during the year	(2,940)	(4,115)	(6,290)
Disposals	—	(751)	(460)
Written back on disposals	—	185	286
Adjustment on transition to HKFRS 16	—	—	5,175
Carrying amount at the end of the year	13,055	25,433	28,077

The increase in carrying amount of property, plant and equipment for the year ended 31 December 2017 was mainly due to the addition to mould of approximately RMB4.0 million, partially offset by the depreciation charge during the year of approximately RMB2.9 million.

The increase in carrying amount of property, plant and equipment for the year ended 31 December 2018 was mainly due to the addition to plant and machinery and mould of approximately RMB14.0 million, of which certain plant and machinery with costs amounted to approximately RMB11.8 million was acquired from Hengsheng Toys in June 2018, and RMB2.8 million, respectively, partially offset by the depreciation charge during the year ended 31 December 2018 of approximately RMB4.1 million. There was no increase in the Group's production capacity after the addition of plant and machinery and mould acquired from Hengsheng Toys in June 2018 because the said machinery had all along been in use by the Group since 2014 for the production of products pursuant to a series of fixed asset leasing agreements. In June 2018, our Group and Hengsheng Toys entered into a fixed asset transfer agreement to transfer the leased machinery to us. After the completion of transfer, the machinery is owned by the Group and has remained in use for the production of the Group's products.

The increase in carrying amount of property, plant and equipment for the year ended 31 December 2019 was due to the adoption of HKFRS 16 "Leases" which is effective for accounting period beginning on 1 January 2019 and the addition of approximately RMB3.9 million, partially offset by the depreciation charge of approximately RMB6.3 million. For details of the adoption of HKFRS 16, please refer to the paragraph headed "2.2 Adoption of HKFRS 16 "Leases"" under Appendix I of this prospectus.

Intangible assets

Our intangible assets solely consisted of trademark of "JAZZIT". The table below sets out a breakdown of our intangible assets for the respective dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trademark			
Carrying amount at the beginning of the year	—	—	8,500
Addition	—	9,500	—
Amortisation during the year	—	(1,000)	(2,000)
Carrying amount at the end of the year	—	8,500	6,500

In June 2018, we have acquired two "JAZZIT" trademarks in the consideration of approximately RMB10.1 million and after deducting the VAT, the amount paid by us was RMB9.5 million. Our Directors confirm that the basis for the purchase consideration of the trademarks "JAZZIT" was determined with reference to (i) the remaining period of the expected economic useful lives of the trademarks; and (ii) the annual licensing fee for the trademarks before the acquisition of the trademarks. One of the "JAZZIT" trademarks was initially registered in 2012 and the registration is valid for 10 years. When the trademark transfer agreement was entered into in June 2018, the Directors took the view that the remaining of economic useful life was estimated to be around five years from the first registration of the "JAZZIT" trademark and its first appearance in the market. The carrying amount of trademark as at 31 December 2018 and 31 December 2019 was approximately

RMB8.5 million and RMB6.5 million, respectively. Our Directors have assessed the impairment indicators of the trademarks, such as any significant change from external business environment or operational plan in our Group with an adverse effect on the trademarks, any indication that the trademarks' value has declined more than expected as a result of passage of time, any indication of obsolescence of the trademarks and any indication that the economic performance of the trademarks are, or will be, worse than expected. Our Directors confirm that no impairment indicator was identified during the Track Record Period, and hence, no impairment testing was performed during the Track Record Period.

Inventories

The table below sets out a breakdown of our inventories for the respective dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	6,783	2,884	3,038
Finished goods	3,577	3,032	3,352
	10,360	5,916	6,390

Our inventories as at 31 December 2017, 2018 and 2019 consisted of materials such as polypropylene resins, pre-coloured resin and packaging, and finished good of various types of plastic container. Our inventories decreased from approximately RMB10.4 million as at 31 December 2017 to approximately RMB5.9 million as at 31 December 2018 because our Group had enhanced our inventory management during the financial year 2018 to purchase raw material in a more timely manner so as to minimize the inventory level and better utilize our working capital. Our inventories increased from approximately RMB5.9 million as at 31 December 2018 to approximately RMB6.4 million as at 31 December 2019 mainly due to the increase in finished goods as at 31 December 2019 for the preparation of the holiday week of Chinese New Year in January 2020. As at the Latest Practicable Date, 100%, 100% and 100% of our inventory as at 31 December 2017, 2018 and 2019 were subsequently used or sold. For the three years ended 31 December 2017, 2018 and 2019, our inventory turnover days (based on average inventories divided by cost of sales times 365 days for full financial year) were approximately 28, 22 and 15 days. The decrease in our inventory turnover days for the year ended 31 December 2018 was mainly due to the decrease in average balance of inventory in 2018. The average balances of inventory decreased from approximately RMB9.2 million for the year ended 31 December 2017 to RMB8.2 million for the year ended 31 December 2018, causing the inventory turnover days to decrease. The decrease in our inventory turnover days for the year ended 31 December 2019 was mainly due to (i) the decrease in average balance of inventory in year ended 31 December 2019 and (ii) the increase in cost of sales. The average balances of inventory decrease from approximately RMB8.2 million for the year ended 31 December 2018 to RMB6.2 million for the year ended 31 December 2019 causing the inventory turnover days to decrease.

Trade and other receivables

The following table sets forth our trade and other receivables as at the indicated dates:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
- From third parties	30,244	30,574	35,442
Prepayments and other receivables			
Prepayments	110	1,679	2,928
Other receivables	51	51	—
	30,405	32,304	38,370

Trade and other receivables increased by approximately 6.2% from approximately RMB30.4 million as at 31 December 2017 to approximately RMB32.3 million as at 31 December 2018.

Trade and other receivables increased by approximately 18.8% from approximately RMB32.3 million as at 31 December 2018 to approximately RMB38.4 million as at 31 December 2019.

Trade receivables

Despite the increased sales in November and December 2018, our trade receivables maintained at a similar level of approximately RMB30.2 million and RMB30.6 million as at 31 December 2017 and 2018 mainly due to the settlement of the outstanding balance from some of our major customers before the deadline of credit periods granted. Our trade receivables increased from approximately RMB30.6 million as at 31 December 2018 to approximately RMB35.4 million as at 31 December 2019 mainly due to the increased sales in November and December 2019, comparing with that in November and December 2018.

Before accepting any new customer, our Group applies an internal credit assessment policy to assess the potential customer's credit quality. The credit period is generally for a period of 40 days. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest bearing.

The aging analysis of the trade receivables at the end of each of the reporting period, based on the invoice date and net of impairment, was as follows:

	As at 31 December 2017	Subsequent settlement up to the LPD	As at 31 December 2018	Subsequent settlement up to the LPD	As at 31 December 2019	Subsequent Settlement up to the LPD
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	15,641	15,641	17,985	17,985	19,229	19,229
31 days to 60 days	14,603	14,603	12,589	12,589	16,213	16,213
	30,244	30,244	30,574	30,574	35,442	35,442

All trade receivables are denominated in RMB. Our Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. As at 31 December 2017, 2018 and 2019, all trade receivables were not past due. During the years ended 31 December 2017, 2018 and 2019, no written off was made against the trade receivables.

Generally, the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base. As at 31 December 2017, 2018 and 2019, there has not been any significant change in the gross amounts of trade receivables that has affected the estimation of the loss allowance during the Track Record Period.

The average trade receivable turnover days maintained at a similar level of approximately 57, 58 and 57 days for the three years ended 31 December 2017, 2018 and 2019, respectively mainly due to our devoted collection efforts. Up to the Latest Practicable Date, all the trade receivables outstanding balance as at 31 December 2017, 2018 and 2019 had been fully settled.

Prepayment

Our prepayment mainly included prepayment of listing expenses, rental and research costs. Our prepayment increased from approximately RMB0.1 million as at 31 December 2017 to RMB1.7 million as at 31 December 2018 mainly due to the prepayment of the listing expenses of approximately RMB1.0 million.

Our prepayment increased from approximately RMB1.7 million as at 31 December 2018 to approximately RMB2.9 million as at 31 December 2019 mainly due to the increase in prepayment of the listing expenses by approximately RMB1.6 million.

Trade and other payables

The following table sets forth our trade and other payables as at the indicated dates:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
- To third parties	14,187	17,476	22,541
Accrued charges and other payables			
Other tax payable	643	751	436
Accrued salaries	729	923	1,060
Accrued listing expenses	—	2,670	676
Payable for purchase of property, plant and equipment	348	213	—
Other payables and accruals*(note)*	252	306	1,396
	1,972	4,863	3,568
	16,159	22,339	26,109

Note: The amounts of contract liabilities (deposits received from customers) at the end of each Track Record Period were insignificant.

All trade payables are denominated in RMB. All amounts are short term and hence the carrying values of trade and other payables are considered to be a reasonable approximation of their fair values.

Trade payables

Our Group is granted by its suppliers a credit period of 30 to 60 days. An aging analysis of the trade payables as at each reporting date, based on the invoice date, is as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	9,783	11,553	12,963
31 days to 90 days	4,404	5,923	9,578
	14,187	17,476	22,541

Our trade payables increased by approximately RMB3.3 million from approximately RMB14.2 million as at 31 December 2017 to approximately RMB17.5 million as at 31 December 2018 mainly because the trade balance due to polypropylene resins supplier as at 31 December 2018 increased mainly due to (1) the increased in price of polypropylene resins as mentioned in the sub-section headed "Material costs" in this section and (2) the increase in quantity purchased to cater the increased demand in the end of 2018.

Our trade payables increased by approximately RMB5.0 million from approximately RMB17.5 million as at 31 December 2018 to approximately RMB22.5 million as at 31 December 2019. Our Directors confirmed that such increase was mainly due to the increase in purchase of raw materials before the year ended 31 December 2019 as a result of the purchase of more raw material in December 2019 for the preparation of the holiday week of Chinese New Year in January 2020.

The average trade payable turnover days (based on average trade payables divided by cost of sales times 365 days for full financial year) increased from approximately 36 days for the year ended 31 December 2017 to 42 days for the year ended 31 December 2018 and to 48 days for the year ended 31 December 2019, respectively, which, in general, is within the range of credit terms granted by our suppliers. The increase from approximately 36 days for the year ended 31 December 2017 to approximately 42 days for the year ended 31 December 2018 was mainly due to the increase in total purchase close to the year-end of 31 December 2018 as a result of (i) the increased price of polypropylene resins and (ii) the increase in quantity purchased to cater for production needs in the coming month, resulting in the increase in trade payables as at 31 December 2018 and causing the average trade payable turnover days to increase.

The increase from approximately 42 days for the year ended 31 December 2018 to approximately 48 days for the year ended 31 December 2019 was mainly because of the increase in quantity purchase of raw materials before the year ended 31 December 2019 as mentioned above, resulting in the increase in trade payables as at 31 December 2019 and causing the average trade payable turnover days to increase.

As at the Latest Practicable Date, the entire balances of our trade payables that were outstanding as at 31 December 2017, 2018 and 2019 were subsequently settled.

Accrued charges and other payables

Our accrued charges and other payables included accruals of other tax payable, salary and listing expenses. Our accrued charges and other payables increased from approximately RMB2.0 million as at 31 December 2017 to RMB4.9 million as at 31 December 2018 mainly due to the accruals of listing expenses of approximately RMB2.7 million.

Our accrued charges and other payables decreased from approximately RMB4.9 million as at 31 December 2018 to approximately RMB3.6 million as at 31 December 2019 mainly due to the decrease in accruals of the Listing expenses by approximately RMB2.0 million, partially offset by the increase of other payables and accruals of approximately RMB1.1 million.

Amount due from/ to a related company and a shareholder

The following table sets forth a breakdown of our amounts due from and due to a related company as of the dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Amount due from a related company			
- Fujian Renyue	18,176	24,214	—
Amount due from a shareholder			
- Mr. Xu	—	—	6,018
Amount due to a related company			
- Hengsheng Toys	2,257	—	—

The amount due from a related company as at 31 December 2017, 2018 and 2019 mainly represented the rental, utilities expenses, staff cost and strategic consultancy and technical support services fee paid to Hengsheng Toys by our Group on behalf of the Excluded Business before the separation of Excluded Business from the Group. As disclosed in the section headed " History Reorganisation and corporate structure" of this prospectus, a strategic consultancy service agreement, technical support service agreement and trademark licensing agreement were also entered into between Hengsheng Toys and Hengsheng Animation in April 2013 where Hengsheng Toys would, among others, provide Hengsheng Animation with comprehensive strategic consultancy and technical support services in relation to the development and operation of the animation business in Hengsheng Animation. After the separation of animation business from the Group, the animation business, i.e., the Excluded Business, is held by Fujian Renyue. As such, these expenses should be borne by Fujian Renyue and liable to the Group. The relevant agreement in relation to such consultancy and technical support services provided by Hengsheng Toys was terminated in June 2018.

The amount due to a related company as at 31 December 2017 mainly represented the rental and utilities expenses payable to Hengsheng Toys for the leased properties. For details of the amount due to a related company, please refer to the note 18 in the Accountants' Report set out in the Appendix I.

The amount due from a shareholder as at 31 December 2019 represented the amount due from Fujian Renyue which transferred to Mr. Xu, partially offset by the dividend paid to Mr. Xu of RMB22.9 million.

The amount due from and due to a related company and a shareholder were unsecured, interest-free and repayable on demand. The outstanding amount due from a shareholder will be settled prior to the listing date.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the Track Record Period, our working capital requirements were principally satisfied by cash generated from our operations.

Cash flows

The following table sets forth a summary of our cash flows during the Track Record Period:

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Operating cash flow before working capital changes	33,274	36,183	37,803
Change in working capital	(6,878)	8,860	(7,554)
Interest paid and/or tax paid	(4,238)	(6,338)	(8,375)
Net cash generated from operating activities	22,158	38,705	21,874
Net cash used in investing activities	(13,962)	(35,706)	(4,067)
Net cash used in financing activities	—	(5,333)	(584)
Net increase / (decrease) in cash and cash equivalents	8,196	(2,334)	17,223
Cash and cash equivalents at beginning of year	3,182	11,378	9,044
Effect of foreign exchange rate changes	—	—	(96)
Cash and cash equivalents at the end of year	11,378	9,044	26,171

Cash flows from operating activities

Cash flows from operating activities for the years are adjusted for items such as amortisation of intangible assets, interest income, depreciation, and loss on disposal of property, plant and equipment; and the effect of cashflow arising from movement in inventories, trade and other receivables and trade and other payables.

Net cash flows generated from operating activities for the year ended 31 December 2017 were approximately RMB22.2 million while our profit before tax was approximately RMB30.4 million. The net cash generated from operating activities was mainly the result of operating cash flows before movements in working capital of approximately RMB33.3 million, adjusted for (i) the increase in inventories of approximately RMB2.4 million, (ii) the increase in trade and other payables of approximately RMB4.0 million and (iii) the increase in trade and other receivables of approximately RMB8.5 million. For details of movement of (1) trade and other receivables and (2) trade and other payables, please refer to paragraph "Description of selected items in consolidated statements of financial position — Assets and liabilities" in this section.

Net cash flows generated from operating activities for the year ended 31 December 2018 were approximately RMB38.7 million while our profit before tax was approximately RMB31.0 million. The net cash generated from operating activities was mainly the result of operating cash flows before movements in working capital of approximately RMB36.2 million, adjusted for (i) the decrease in inventories of approximately RMB4.4 million, (ii) the increase in trade and other payables of approximately RMB6.3 million and (iii) the increase in trade and other receivables of approximately RMB1.9 million. For details of movement of (1) trade and other receivables and (2) trade and other payables, please refer to the paragraph headed "Description of selected items in consolidated statements of financial position — Assets and liabilities" in this section.

Net cash flows generated from operating activities for the year ended 31 December 2019 were approximately RMB21.9 million while our profit before tax was approximately RMB29.2 million. The net cash generated from operating activities was mainly the result of operating cash flows before movements in working capital of approximately RMB37.8 million, adjusted for (i) the increase in inventories of approximately RMB0.5 million, (ii) the decrease in trade and other payables of approximately RMB0.7 million and (iii) the increase in trade and other receivables of approximately RMB6.4 million. For details of movement of (1) trade and other receivables and (2) trade and other payables, please refer to the paragraph headed "Description of selected items in consolidated statements of financial position — Assets and liabilities" in this section.

Cash flows from investing activities

Our investing activities during the Track Record Period primarily included interest received, purchase of property, plant and equipment, increase in amount due from related companies, proceeds from disposal of property, plant and equipment and purchase of intangible assets.

Net cash used in investing activities for the year ended 31 December 2017 amounted to approximately RMB14.0 million mainly attributable to purchase of property, plant and equipment of approximately RMB3.8 million and increase in amount due from related companies of approximately RMB10.2 million.

Net cash used in investing activities for the year ended 31 December 2018 amounted to approximately RMB35.7 million mainly attributable to purchase of property, plant and equipment of approximately RMB17.2 million, increase in amount due from related companies of approximately RMB9.5 million and purchase of intangible assets of approximately RMB9.5 million, but partially offset by proceeds from disposal of property, plant and equipment of approximately RMB0.5 million.

Net cash used in investing activities for the year ended 31 December 2019 amounted to approximately RMB4.1 million mainly attributable to purchase of property, plant and equipment of approximately RMB4.1 million during the year ended 31 December 2019.

Cash flows from financing activities

Our financing activities during the Track Record Period solely related to dividends paid.

Net cash used in financing activities for the year ended 31 December 2017 was nil.

Net cash used in financing activities for the year ended 31 December 2018 was approximately RMB5.3 million mainly attributable to dividends paid of RMB5.3 million.

Net cash used in financing activities for the year ended 31 December 2019 was approximately RMB0.6 million mainly attributable to payment lease liabilities contributed by the adoption of HKFRS 16 "Lease". For details of the adoption of HKFRS 16, please refer to the paragraph headed "2.2 Adoption of HKFRS 16 "Leases"" under Appendix I of this prospectus.

Capital expenditures

During the Track Record Period, our group had capital expenditures as follows:

	For the year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Plant and Machinery	14	13,965	1,926
Furniture and equipment	—	19	—
Mould	4,035	2,775	620
Leasehold improvement	—	300	—
Construction in progress	—	—	1,387
Intangible assets	—	9,500	—
	4,049	26,559	3,933

Apart from the expected capital expenditures stated in the section "Future plans and use of proceeds" in this prospectus, our group has no other expected capital expenditure as at the Latest Practicable Date. The expected capital expenditures according to our future plans were approximately RMB18.2 million and RMB18.1 million for the two years ending 31 December 2020 and 2021, respectively.

CONTRACTUAL COMMITMENTS

Operating lease commitments

During the Track Record Period, our Group had commitments for future minimum lease payments in respect of rented premises and office equipment under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,785	897	—
In the second to fifth years	1,776	3,350	—
Over fifth years	989	2,486	—
	4,550	6,733	—

Our Group is the lessee in respect of premises and office equipment under operating leases. The leases typically run for an initial period of one year to thirteen years. The leases do not include contingent rentals.

During the year ended 31 December 2017, the machinery used for our production was leased from Hengsheng Toys with rental expenses of approximately RMB1.7 million. We acquired all these machines from Hengsheng Toys in June 2018 and no rental expenses were incurred for our production machinery since then.

The Reporting Accountants advise that the lease arrangements for the machinery had initial lease term of one year without renewal option and were negotiated for renewal annually. The leases did not provide our Group the option to purchase nor entitle the Group to obtain the ownership of the leased machinery and equipment at the end of lease term. The Directors are of the view that the lease arrangements did not transfer substantially all risks and rewards incidental to ownership of the leased machinery to the Group and thus classified them as operating leases. The Reporting Accountants are of the view that the classification of these leases is properly applied in accordance with HKAS 17.

WORKING CAPITAL

The table below sets out our current assets, current liabilities and net current assets as at the respective dates indicated:

	As at 31 December			As at 30 April
	2017	**2018**	**2019**	**2020**
				(unaudited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets				
Inventories	10,360	5,916	6,390	6,907
Trade and other receivables	30,405	32,304	38,370	34,064
Amount due from the ultimate holding company *(Note)*	—	1	1	1
Amount due from a related company	18,176	24,214	—	—
Amount due from a shareholder *(Note)*	—	—	6,018	6,018
Cash and cash equivalents	11,378	9,044	26,171	34,659
	70,319	71,479	76,950	81,649
Current liabilities				
Trade and other payables	16,159	22,339	26,109	25,068
Amount due to a related company	2,257	—	—	—
Income tax payable	1,122	1,989	2,267	1,097
Lease liabilities	—	—	595	604
	19,538	24,328	28,971	26,769
Net current assets	**50,781**	**47,151**	**47,979**	**54,880**

Note: Our Directors confirm that the outstanding amount from the ultimate holding company and amount due from a shareholder will be settled by declaration of dividends prior to Listing.

Our net current assets decreased from approximately RMB50.8 million as at 31 December 2017 to approximately RMB47.2 million as at 31 December 2018 primarily due to (i) the decrease in inventories of approximately RMB4.4 million, (ii) the decrease in cash and cash equivalents of approximately RMB2.3 million, (iii) the increase in trade and other payables of approximately RMB6.2 million and (iv) the increase in income tax payable of approximately RMB0.9 million, offset by the increase in trade and other receivables of approximately RMB1.9 million, the decrease in amount due to a related company of approximately RMB2.3 million, and the increase in amount due from a related company of approximately RMB6.0 million. For details of movement of balance sheet items, please refer to paragraph "Description of selected items in consolidated statements of financial position — Assets and liabilities" in this section.

Our net current assets increased from approximately RMB47.2 million as at 31 December 2018 to approximately RMB48.0 million as at 31 December 2019 primarily due to (i) the increase in the cash and cash equivalents of approximately RMB17.1 million because our Group acquired plant and machinery of approximately RMB11.8 million and trademark "JAZZIT" of approximately RMB9.5 million from Hengsheng Toys during the year ended 31 December 2018 but there was no major acquisition for the year ended 31 December 2019, (ii) the increase in trade and other receivables of approximately RMB6.1 million, (iii) the increase in amount due from a shareholder of approximately RMB6.0 million, offset by (i) the decrease in amount due from a related company of approximately RMB24.2 million, (ii) the increase in trade and other payables of approximately RMB3.8 million, and (iii) the increase in lease liabilities of approximately RMB0.6 million. For details of movement of balance sheet items, please refer to paragraph "Description of selected items in consolidated statements of financial position — Assets and liabilities" in this section.

Our net current assets increased from approximately RMB48.0 million as at 31 December 2019 to approximately RMB54.9 million as at 30 April 2020 primarily due to (i) the increase in cash and cash equipment of approximately RMB8.5 million, (ii) the decrease in income tax payable of approximately RMB1.2 million, and (iii) the decrease in trade and other payables of approximately RMB1.0 million, offset by the decrease in trade and other receivables of approximately RMB4.3 million.

Major components in the net current assets

As at 31 December 2017, our Group had net current assets of approximately RMB50.8 million comprising current assets of approximately RMB70.3 million and current liabilities of approximately RMB19.5 million. The current assets as at 31 December 2017 were made up of inventories of approximately RMB10.3 million, trade and other receivables of approximately RMB30.4 million, amount due from a related company of approximately RMB18.2 million and cash and cash equivalents of approximately RMB11.4 million. The current liabilities were made up of trade and other payables of approximately RMB16.2 million amount due to a related company of approximately RMB2.3 million and income tax payable of approximately RMB1.1 million.

As at 31 December 2018, our Group had net current assets of approximately RMB47.2 million comprising current assets of approximately RMB71.5 million and current liabilities of approximately RMB24.3 million. The current assets as at 31 December 2018 were made up of inventories of approximately RMB5.9 million, trade and other receivables of approximately RMB32.3 million, amount due from ultimate holding company of approximately RMB1,000, amount due from a related company of approximately RMB24.2 million and cash and cash equivalents of approximately RMB9.0 million. The current liabilities were made up of trade and other payables of approximately RMB22.3 million and income tax payable of approximately RMB2.0 million.

As at 31 December 2019, our Group had net current assets of approximately RMB48.0 million comprising current assets of approximately RMB77.0 million and current liabilities of approximately RMB29.0 million. The current assets as at 31 December 2019 were made up of inventories of approximately RMB6.4 million, trade and other receivables of approximately RMB38.4 million, amount due from ultimate holding company of approximately RMB1,000, amount due from a shareholder of approximately RMB6.0 million and cash and cash equivalents of approximately RMB26.2 million. The current liabilities were made up of trade and other payables of approximately RMB26.1 million, lease liabilities of approximately RMB0.6 million and income tax payable of approximately RMB2.3 million.

As at 30 April 2020, our Group had net current assets of approximately RMB54.9 million comprising current assets of approximately RMB81.6 million and current liabilities of approximately RMB26.8 million. The current assets as at 30 April 2020 were made up of inventories of approximately RMB6.9 million, trade and other receivables of approximately RMB34.1 million, amount due from ultimate holding company of approximately RMB1,000, amount due from a shareholder of approximately RMB6.0 million and cash and cash equivalents of approximately RMB34.7 million. The current liabilities were made up of trade and other payables of approximately RMB25.1 million, income tax payable of approximately RMB1.1 million and lease liabilities of approximately RMB0.6 million.

WORKING CAPITAL CONFIRMATION

Taking into account our cash and cash equivalents, our cash generated from operating activities and the net proceeds we expect to receive from the Share Offer, our Directors are of the opinion and the Sole Sponsor concurred that we will have available sufficient working capital for our operations at least for the 12 months following the date of this prospectus.

Further, our Directors confirmed that we had no material defaults in payment of our trade and other payables during the Track Record Period.

We currently do not expect any significant changes in the mix and the relative costs of our capital resources. As at the date of this prospectus, save for the proposed Listing, we do not have any definitive external financing plan.

INDEBTEDNESS

Upon the initial adoption of the HKFRS 16 "Leases" on 1 January 2019, our Group recognize right-of-use assets and the corresponding liabilities in respect of all leases, except for short-term leases at initial application date. For further details, please refer to the paragraph headed "Adoption of HKFRS 16 "Leases"" under the Appendix I of this prospectus. As at 30 April 2020, the Group had lease liabilities of approximately RMB4.1 million. As at 30 April 2020, our Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities as at 30 April 2020. Our Directors have confirmed that (i) we had not defaulted or delayed in any payment or breach of financial covenants during the Track Record Period and up to the Latest Practicable Date, (ii) there are no material covenants relating to our outstanding debts (if any) and (iii) up to the Latest Practicable Date, there has been no material change in indebtedness and contingent liabilities of our Group since 30 April 2020.

As at the Latest Practicable Date, our Group did not have any utilised banking facilities.

KEY FINANCIAL RATIOS

The following table summarises our key financial ratios as at the respective dates for the purpose indicated:

	As at/For the year ended 31 December		
	2017	**2018**	**2019**
Current ratio [(1)]	3.6	2.9	2.7
Quick ratio [(2)]	3.1	2.7	2.4
Gearing ratio [(3)]	28.8%	27.6%	38.6%
Debt to equity ratio [(4)]	11.0%	16.4%	5.4%
Return on equity [(5)]	35.5%	27.8%	26.3%
Return on total assets [(6)]	27.2%	21.4%	18.6%

Notes:

(1) Current ratio is calculated based on the total current assets (including assets classified as held for sale/distribution) divided by the total current liabilities (including liabilities directly associated with assets classified as held for sale/distribution) as at the respective date.

(2) Quick ratio is calculated based on current assets (excluding inventories) divided by current liabilities as at the respective date.

(3) Gearing ratio is calculated based on debts divided by total equity as at the respective date and multiplied by 100%. Debt is defined as the sum of trade and other payables, lease liabilities and amount due a related company for the Group to monitor its capital structure.

(4) Debt to equity ratio is calculated based on net debts divided by total equity as at the respective date and multiplied by 100%. Debt is defined as the sum of trade and other payables, lease liabilities and amount due a related company for the Group to monitor its capital structure. For details, please refer the paragraph headed "Capital management" in the note 28 in Appendix I.

(5) Return on equity is calculated based on the profit of the year divided by the total equity at the end of the respective period and multiplied by 100%.

(6) Return on total assets is calculated based on the profit of the year divided by the total assets at the end of the respective period and multiplied by 100%.

DISCUSSION OF KEY FINANCIAL RATIOS

Return on equity

Our return on equity was approximately 35.5%, 27.8% and 26.3% for the three years ended 31 December 2017, 2018 and 2019, respectively. The decrease in return on equity for the year ended 31 December 2018 was mainly due to (i) the listing expenses incurred for the year ended 31 December 2018; and (ii) our high equity base in current year, contributed by a larger increment of retained profit in 2017 in spite of the increase in net profit for the year ended 31 December 2018. The decrease in return on equity for the year ended 31 December 2019 was mainly due to the listing expenses incurred for the year ended 31 December 2019, partially offset by the decrease in equity as at 31 December 2019 as a result of dividend declared of approximately RMB22.9 million during the year ended 31 December 2019.

Return on total assets

Our return on total assets was approximately 27.2%, 21.4% and 18.6% for the three years ended 31 December 2017, 2018 and 2019, respectively. The decrease in return on total assets for the year ended 31 December 2018 compared to that for the year ended 31 December 2017 was mainly due to (i) the listing expenses incurred for the year ended 31 December 2018; and (ii) the increase in the balance of property, plant and equipment and intangible assets as at 31 December 2018 as discussed above. The decrease in return on total assets for the year ended 31 December 2019 compared to that for the year ended 31 December 2018 was mainly due to (i) the listing expenses incurred for the year ended 31 December 2019; and (ii) the increase in the balance of cash and cash equivalents as at 31 December 2019 as discussed above.

Current ratio

Our current ratio was approximately 3.6, 2.9 and 2.7 as at 31 December 2017, 2018 and 2019, respectively. The decline of current ratio as at 31 December 2018 compared to 31 December 2017 was due to the increase in trade and other payables as discussed above. The decrease in current ratio as at 31 December 2019 was mainly due to the decrease in the sum of amount due from a related company and a shareholder of approximately RMB18.2 million. For details of movement of amount due from a related company and a shareholder, please refer to paragraph "Description of selected items in consolidated statements of financial position — Assets and liabilities — Amount due from/ to a related company and a shareholder" in this section.

Quick ratio

Our quick ratio was approximately 3.1, 2.7 and 2.4 as at 31 December 2017, 2018 and 2019, respectively. The decrease in our quick ratio as at 31 December 2018 was due to the increase in trade and other payables as discussed above. The decrease in quick ratio as at 31 December 2019 was mainly due to the decrease in the sum of amount due from a related company and a shareholder of approximately RMB18.2 million. For details of movement of amount due from a related company and a shareholder, please refer to paragraph "Description of selected items in consolidated statements of financial position — Assets and liabilities — Amount due from/ to a related company and a shareholder" in this section.

Gearing ratio and debt to equity ratio

Our gearing ratio remained at a similar level at approximately 28.8% and 27.6% as at 31 December 2017 and 2018, respectively. Our debt to equity ratio increased from approximately 11.0% as at 31 December 2017 to approximately 16.4% as at 31 December 2018 mainly due to the decrease in balance of cash and cash equivalent by RMB2.3 million as at 31 December 2018. For details of movement of cash and cash equivalent, please refer to paragraph "Liquidity and capital resources — Cash Flow" in this section.

The gearing ratio increased from 27.6% as at 31 December 2018 to 38.6% as at 31 December 2019 mainly due to (i) the increase in trade and other payable by RMB3.8 million and (ii) the lease liabilities of approximately RMB4.3 million contributed by the adoption of HKFRS 16 "Leases". For details of the adoption, please refer to paragraph headed "Adoption of HKFRS 16 "Leases"" under Appendix I of this prospectus. The debt to equity ratio decreased from 16.4% as at 31 December 2018 to 5.4% as at 31 December 2019 mainly due to the increase in cash and cash equivalent by approximately RMB17.1 million.

TRANSACTIONS WITH RELATED PARTIES

For discussion of our related party transactions, please refer to note 25 in Appendix I to this prospectus. With respect to the related party transactions set forth in note 25 in Appendix I to this prospectus, our Directors have confirmed that these transactions were conducted on an arm's length basis, normal commercial terms and/or terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole and would not distort our results of operations during the Track Record Period or make the results of operations not reflective of our future performance.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation and cause a financial loss to our Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

Our Group is exposed to credit risk in relation to its bank deposits, trade and other receivables, amount due from a related company and amount due from the ultimate holding company. The Group's maximum exposure to credit risk in relation to financial assets is limited to the carrying amount at the reporting dates as summarised in note 27.1 in Appendix I.

To manage this risk, bank deposits are mainly placed with state-owned financial institutions and reputable banks which are all high-credit-quality financial institutions. The management does not expect that there will be any significant losses from non-performance by these counterparties.

The Group's policy is to deal only with credit worthy counterparties. Credit terms are granted to new customers after a credit worthiness assessment by the management. Where available at reasonable cost, external credit ratings and/or reports on customers are obtained and used. Payment record of customers is closely monitored. It is not the Group's policy to request collateral from its customers.

Our Group is exposed to concentration of credit risk as at 31 December 2017, 2018 and 2019 on trade receivables from the Group's five largest debtors which accounted for 43%, 44% and 51% of the Group's total trade receivables respectively. The management reviews the recoverable amount of each individual receivable regularly to ensure that follow up actions is taken to recover overdue debts and adequate impairment losses, if any, are recognised for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

As at 31 December 2017, 2018 and 2019, the credit rating of other receivables and amounts due from a related company and ultimate holding company were performing. Our Group assessed that the expected credit losses for these receivables and amounts due from a related company and ultimate holding company are not material under the 12 months expected credit losses method. Thus, no loss allowance provision was recognised during the Track Record Period.

The expected credit loss rates are summarised as below.

	As at 31 December		
	2017	**2018**	**2019**
Trade receivables			
- Current	0.1%	0.1%	0.1%
Other receivables and amounts due from the ultimate holding company, a related company and a shareholder	0.1%	0.1%	0.1%

Liquidity risk

Liquidity risk relates to the risk that our Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Our Group is exposed to liquidity risk in respect of settlement of trade and other payables and amount due to a related company, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when our Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which our Group is committed to pay.

The analysis set out the remaining contractual maturity based on undiscounted cash flows of the Group's financial liabilities at the reporting date.

	Within one year or on demand	One to two years	Two to five years	After five years	Total undiscounted amount	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	
As at 31 December 2017						
Trade and other payables	15,439	—	—	—	15,439	15,439
Amount due to a related company	2,257	—	—	—	2,257	2,257
Total	17,696	—	—	—	17,696	17,696
As at 31 December 2018						
Trade and other payables	21,545	—	—	—	21,545	21,545
As at 31 December 2019						
Trade and other payables	25,608	—	—	—	25,608	25,608
Lease liabilities	793	793	2,622	891	5,099	4,298
Total	26,401	793	2,622	891	30,707	29,906

DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

IMPACT OF NON-RECURRING EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Listing.

Listing expenses in relation to the Listing to be borne by our Company is estimated to be approximately RMB31.7 million, which account for approximately 49.1% of the gross proceeds from the Share Offer, based on the Offer Price of HK$0.5 per Offer Share (being the mid-point of the indicative range of the Offer Price). Approximately RMB15.8 million of the Listing expense is directly attributable to the issue of new Shares to the public and will be accounted for as a deduction from equity, and approximately RMB15.9 million had been or is expected to be reflected in our consolidated statements of profit or loss and other comprehensive income. Listing expenses of approximately RMB7.7 million had been reflected in the consolidated statements of profit or loss and other comprehensive income of our Group for the Track Record Period, and approximately RMB8.2 million is expected to be reflected in the consolidated statements of profit or loss and other comprehensive income of our Group after the Track Record Period. The estimated listing expenses are the latest best estimate and are for reference only.

DIVIDEND

During the Track Record Period, we declared dividends of nil, RMB5.3 million and RMB22.9 million for the three years ended 31 December 2017, 2018 and 2019, respectively.

As at 30 April 2020, the outstanding amounts due from the ultimate holding company and a shareholder amounted to approximately RMB6.0 million. Our Directors confirm that the outstanding amount due from the ultimate holding company and amount due from a shareholder will be settled by declaration of dividends prior to Listing.

After the Listing, subject to our constitutional documents and the Companies Law, our Shareholders may declare, at a general meeting, dividends not exceeding the amount recommended by our Directors. Our Company does not have a fixed dividend policy. The amount of dividends recommended by our Directors is under the absolute discretion of our Directors, including the discretion to not to recommend any dividends.

Our Directors shall decide and recommend the amount of dividends (or decide not to recommend any dividend) based on our earnings, cash flows, financial condition, capital requirements, future plans of our Group and any other conditions that our Directors deem relevant at such time.

The foregoing, including our dividend distribution record, should not be viewed as a reference or basis to determine the level of dividends that may be declared or paid by us in the future. There is no guarantee or representation or indication that our Directors must or will recommend and that our Group must or will pay dividends or declare and pay dividends at all.

THE EXCLUDED BUSINESS

Prior to its corporate division, Hengsheng Animation had been operating its business under two different business segments, namely the Excluded Business and the disposable plastic food storage containers business. Hengsheng Animation underwent and completed its corporate division in December 2018 to clearly delineate the Excluded Business from its disposable plastic food storage containers manufacturing business in preparation for the Listing. The major operation of the Excluded Business mainly included the production animation movie and animation TV program. Since 2012, the Excluded Business commenced the production of its first animation TV program (the "**1st Animation TV Program**") which was launched in the market in February 2014. The Excluded Business commenced the production of its second animation TV program in 2014 (the "**2nd Animation TV Program**"), which is still under production. The Excluded Business has registered the intellectual property rights for the animation characters appearing in these TV programmes.

Set out below are the unaudited operating results for the three years ended 31 December 2014, 2015 and 2016 and the audited operating results for the two years ended 31 December 2017 and 2018 of the Excluded Business.

	For the year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	←	*(unaudited)*	→	*(audited)*	*(audited)*
Revenue	19,463	—	—	—	4,522
Gross profit	18,587	—	—	—	3,386
Other income	—	14	—	200	—
Selling expenses	3,962	—	—	—	—
Administrative expenses	2,093	4,458	10,515	12,102	7,790
Net profit/(loss)	11,482	(3,464)	(8,920)	(8,927)	(3,190)

Analysis on the major changes to these key financial items:

Revenue

The revenue generated from the Excluded Business for the year ended 31 December 2014 solely represented the royalty income from four customers for using the animation characters in the 1st Animation TV Program in their products for not more than 11 months till the end of 2014. The Excluded Business did not generate any revenue from the broadcasting of the 1st Animation TV Program because the Excluded Business, through a marketing and promotion agent, allowed the China Central Television and other TV stations to broadcast the 1st Animation TV Program through their TV channels so as to gain market popularity.

There was no revenue generated for the Excluded Business from the years ended 31 December 2015, 2016 and 2017 because (i) the four customers who were licensed to use certain animation characters in 2014 did not renew the relevant agreements; and (ii) the Excluded Business did not receive any fee from showing the 1st Animation TV Program on China Central Television and other TV stations to gain market popularity for the animation characters of its animation program.

Moreover, the production of the 2nd Animation TV Program was still under progress during the five years ended 31 December 2018.

The 2nd Animation TV Program was finally completed in first quarter in 2017 but pending the approval by the National Radio and Television Administration (國家廣播電視總局).

The revenue of generated from the Excluded Business for the year ended 31 December 2018 mainly represented (i) the royalty income of approximately RMB2.8 million from two customers for using animation characters in the 1st Animation TV Program in their products for a period from June 2018 to June 2021 and from August 2018 to July 2021, respectively, and (ii) the box-office income of approximately RMB1.7 million of an animation movie, namely "Dinosaur King", which was launched in the last quarter 2018 in the PRC. The "Dinosaur King" animation movie was produced by Hengsheng Toys in South Korea. Since foreign companies are restricted to operate animation business in the PRC and Hengsheng Toys was considered as a foreign company at that time, Hengsheng Toys granted the exclusive distribution right to the Excluded Business to launch and show the Animation Movie produced by Hengsheng Toys in cinemas in the PRC from March 2018 so as to test the market acceptance. According to the agreement between Hengsheng Toys and the Excluded Business, the Excluded Business would be responsible for all marketing costs and related productions costs such as translation costs, dubbing and editing for compliance of broadcasting requirements in the PRC. If the box-office income generated from the showing of the Dinosaur King animation movie exceeds RMB3.0 million, Hengsheng Toys would charge a licence fee at 50% of the portion of box-office income exceeding RMB3.0 million. Otherwise, the Excluded Business would take up all box-office income by showing the Dinosaur King animation movie in cinemas in the PRC for the year ended 31 December 2018. To the best knowledge and belief of the Directors, Hengsheng Toys had such arrangement because, other than leveraging on the Group's experience on the launch of its 1st Animation TV Program in the PRC, Hengsheng Toys would not need to incur much promotion and marketing costs if the "Dinosaur King" animation movie would not be well accepted by the PRC market while Hengsheng Toys would still be able to share the profit if the box-office income generated by Hengsheng Animation exceeding RMB3.0 million.

Gross profit

Gross profits are calculated on the revenue after deduction of amortisation expenses of capitalized production cost of the respective animation TV program and business tax. Production costs of approximately RMB8.6 million was capitalised for the 1st Animation TV Program and classified as intangible assets. According to the accounting policy of the Excluded business, the intangible assets are amortised over 10 years. When there was any income generated from the relevant animation TV program, the amortisation expenses would be recognized and classified as cost of sales. If no revenue is recognised in the year, the relevant amortisation of intangible assets for the relevant animation TV program will be recognised and classified as administrative expenses. The gross profit for the year ended 31 December 2014 mainly represented the royalty income as discussed above after deducting the corresponding amortisation expenses on the intangible asset and amounted to approximately RMB0.8 million of the 1st Animation TV Program and relevant business tax for the year ended 31 December 2014.

As mentioned above, there was no revenue generated from the Excluded Business for the years ended 31 December 2015, 2016 and 2017 and no amortisation of intangible assets was recognised. Therefore, no gross profit was recognised.

The gross profit for the year ended 31 December 2018 mainly represented (i) the royalty income after deducting the corresponding amortisation expenses on the intangible asset of the 1st Animation TV Program for the year ended 31 December 2018; and (ii) the box-office income from showing the "Dinosaur King" animation movie in the PRC as discussed above after deducting the additional post production cost.

Other income

Other income during the respective years ended 31 December 2015 and 31 December 2017 represented government grants from local government to encourage the production of movie or TV programs. However, the government grants was not on a recurring basis.

Selling expenses

Selling expenses represented costs incurred for the marketing and promotion activities for the launch of the animation business. The Excluded Business paid approximately RMB4.0 million for the marketing and promotion activities for its 1st Animation TV Program launched in 2014. There was no selling expenses for the years ended 31 December 2015, 2016, 2017 and 2018 as there was no new animation TV program launched and the marketing and promotion activities for the showing of the Dinosaur King animation movie was responsible by the cinemas showing the animation movie.

Administrative expenses

Administrative expenses mainly include staff costs, amortization expenses on intangible assets (i.e. capitalisation of production costs of animation TV programs), services and consultancy fee paid to Hengsheng Toys for technical support on the animation business, travelling expenses, utilities expenses, travelling expenses and entertainment expenses. Set out below is a breakdown of the major items of the administrative expense:

	For the year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	←	*(unaudited)*	→	*(audited)*	*(audited)*
Staff costs	1,111	1,367	1,358	1,418	1,486
Amortisation of intangible assets	—	1,491	1,718	1,718	909
Services and consultancy fee	—	413	6,380	7,820	4,120
Travelling and Entertainment	373	396	466	579	627
Others	609	791	593	567	648
Total	2,093	4,458	10,515	12,102	7,790

Staff costs remained stable for the five years because there was no material change to the number of staff for the animation business.

Amortisation of intangible assets for 2014 and 2018 were nil and RMB0.9 million, respectively because (i) amortization expenses were classified as cost of sales as there were revenue recognised for the year ended 31 December 2014 in accordance with the accounting policy of the Excluded Business and (ii) the amortisation expenses for the year ended 31 December 2018 only represents the amortisation expenses for the 2nd Animation TV Program which had not been launched at that time.

Services and consultancy fee represented fee paid to Hengsheng Toys for Hengsheng Toys' provision of technical support to the Excluded Business. No services and consultancy fee were paid to Hengsheng Toys for the year ended 31 December 2014 because the Excluded Business was still under the "Structural Contracts" arrangement as mentioned in the section headed "History, Reorganisation and corporate structure". The Structural Contracts were terminated in November 2015. Since then, the services and consultancy fee was calculated based on 5% of the revenue of Hengsheng Animation. In June 2018, Hengsheng Animation terminated the strategic consultancy service agreement and the technical support service agreement with Hengsheng Toys. Therefore, the service and consultancy fee paid to Hengsheng Toys substantially decreased.

The travelling and entertainment expenses increased over the years because the Excluded Business commenced the production of the 2nd Animation TV Program in 2014 and was engaged by Hengsheng Toys to launch a new animation movie produced by Hengsheng Toys.

Others included trademark registration fee, depreciation expenses, courier fee, office supplies, etc. There was no material change to the "Others" expenses over the years.

Net profit/(loss)

The Excluded Business recorded a net profit of approximately RMB11.5 million for the year ended 31 December 2014 but turned into net losses of approximately RMB3.5 million for the year ended 31 December 2015 mainly because (1) the Excluded Business did not generate any revenue for the year ended 31 December 2015 due to the reasons discussed above and (2) the increase in administrative expenses of approximately RMB2.4 million as a result of (i) the recognition of amortization expenses on intangible assets under the administrative expenses amounted to approximately RMB1.5 million with additional amortization expenses amounted to approximately RMB0.7 million (on a proportional basis and less than a year) from the capitalised production costs of the 2nd Animation TV Program and (ii) the payment of strategic consultancy and technical support services fee to Hengsheng Toys in the sum of approximately RMB0.4 million for the year ended 31 December 2015.

The net loss of the Excluded Business increased by approximately RMB5.4 million from approximately RMB3.5 million for the year ended 31 December 2015 to approximately RMB8.9 million for the year ended 31 December 2016 mainly due to the increase in the strategic consultancy and technical support services fee of approximately RMB6.0 million payable to Hengsheng Toys for the year ended 31 December 2016 because the service and consultancy fee was calculated based on 5% of the total revenue of Hengsheng Animation, which was partially offset by the increase in income tax credit of approximately RMB0.6 million as a result of tax loss from previous years.

The net loss the Excluded Business remained at a similar level of approximately RMB8.9 million for the two years ended 31 December 2016 and 2017, respectively mainly due to the change of administrative expenses. The increase in administrative expenses of approximately RMB1.6 million for the year ended 31 December 2017 was partially offset by a non-recurring government grants of RMB0.2 million and the increase in income tax credit of approximately RMB1.4 million (as a result of tax loss from previous years) for the year ended 31 December 2017.

The net loss of the Excluded Business decreased by approximately RMB5.7 million from approximately RMB8.9 million for the year ended 31 December 2017 to approximately RMB3.2 million for the year ended 31 December 2018 mainly due to (i) the recognition of royalty fee and box-office income of approximately RMB4.5 million as discussed above, (ii) the decrease in the service and consultancy fee by approximately RMB3.7 million as the relevant agreement was terminated in June 2018, partially offset by the decrease in income tax credit of approximately RMB1.8 million and the absence of government grants of RMB0.2 million.

Set out below are the key financial items in the financial position of the Excluded Business as at 31 December 2014, 2015, 2016, 2017 and 2018.

	As at 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	←	*(unaudited)*	→	*(audited)*	*(audited)*
Total assets	11,068	14,630	12,909	11,187	11,953
Total liabilities	(188)	(1,140)	(11,829)	(19,034)	(25,656)
Net assets/(liabilities)	10,880	13,490	1,080	(7,847)	(13,703)

Total assets

Total assets mainly included intangible assets which were capitalised production costs of the animation TV programs, account receivables from the royalty fee and immaterial amount of fixed assets, such as office equipment used by the animation business.

The total assets as at the year ended 31 December 2014 mainly included intangible assets of approximately RMB7.1 million and prepaid production costs of approximately RMB4.0 million for the 2nd Animation TV Program. The total assets increased by approximately RMB3.5 million from approximately RMB11.1 million as at 31 December 2014 to approximately RMB14.6 million as at 31 December 2015 mainly due to the increase in the intangible assets as a result of the capitalisation of the production cost of the 2nd Animation TV Program.

The total assets decreased from approximately RMB14.6 million as at 31 December 2015 to approximately RMB12.9 million as at 31 December 2016 and further decreased to approximately RMB11.2 million as at 31 December 2017, which was mainly due to the amortization expenses on the intangible assets of the two animation TV programmes amounted to approximately RMB1.7 million and RMB1.7 million for the two years ended 31 December 2016 and 2017, respectively.

The total assets slightly increased by approximately RMB0.8 million from approximately RMB11.2 million as at 31 December 2017 to approximately RMB12.0 million as at 31 December 2018, which was mainly due to the increase in trade receivables of approximately RMB2.3 million as a result of the royalty income and the box-office income as discussed above, partially offset by the amortization expenses of approximately RMB1.7 million for the year ended 31 December 2018.

Total liabilities

Total liabilities mainly include trade payables for the production costs of the animation TV programmes, accrued charges for staff salaries, receipt in advance from customers for royalty fee and amount due to the disposable plastics food container business.

The total liabilities as at 31 December 2014 mainly included trade payables of approximately RMB20,000 for accrued entertainment expenses and accrued staff salaries of approximately RMB163,000. The total liabilities increased by approximately RMB0.9 million from approximately RMB0.2 million as at 31 December 2014 to approximately RMB1.1 million as at 31 December 2015 mainly due to the increase in the trade payables of approximately RMB1.0 million for the billing of production cost for the 2nd Animation TV Program.

The total liabilities increased by approximately RMB10.7 million from approximately RMB1.1 million as at 31 December 2015 to approximately RMB11.8 million as at 31 December 2016 mainly due to the increase in the amounts due to the disposable plastic food storage containers business by approximately RMB10.7 million. The amounts due to the disposable plastic food storage containers business mainly represented the rental fee, utilities expenses, staff cost and services and consultancy fee paid to Hengsheng Toys on behalf of the Excluded Business prior the corporate division of Hengsheng Animation.

The total liabilities increased by approximately RMB7.2 million from approximately RMB11.8 million as at 31 December 2016 to approximately RMB19.0 million as at 31 December 2017 mainly due to the increase in the amounts due to the disposable plastic food storage containers business by approximately RMB7.5 million, partially offset by payment of outstanding production costs for the animation TV program of approximately RMB0.3 million.

The total liabilities increased by approximately RMB6.7 million from approximately RMB19.0 million as at 31 December 2017 to approximately RMB25.7 million as at 31 December 2018 mainly due to the increase in the amounts due to the disposable plastic food storage containers business by approximately RMB6.0 million and the receipt of prepaid royalty from customer of approximately RMB0.4 million.

Net assets/(liabilities)

The net assets increased by approximately RMB2.6 million from approximately RMB10.9 million as at 31 December 2014 to approximately RMB13.5 million as at 31 December 2015 mainly due to the increase in the intangible assets, partially offset by the increase in trade payable as discussed above.

The net assets decreased by approximately RMB12.4 million from approximately RMB13.5 million as at 31 December 2015 to approximately RMB1.1 million as at 31 December 2016 mainly due to the increase in the amounts due to the plastic food storage containers business as discussed above.

The net assets of approximately RMB1.1 million as at 31 December 2016 turned into net liabilities of approximately RMB7.8 million as at 31 December 2017 and further increased to approximately RMB13.7 million, which was mainly due to the increase in the amounts due to the plastic food storage containers business as discussed above.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 13 December 2018 and has not yet commenced any business or operation since its incorporation other than the Reorganisation, therefore there were no distributable reserves as at 31 December 2018 and 31 December 2019.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please refer to Appendix II to this prospectus for details.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Our Directors confirm that subsequent to the Track Record Period and up to the date of this prospectus, there had been no significant change to our principal business, business model, service offerings and pricing policy and there had been no material adverse change in our financial or trading position. Based on our unaudited management account for the four months ended 30 April 2020, we experienced an increase in revenue by approximately 6.6% as compared with the respective period in 2019 mainly due to the increase in demand for take-away of food by the general public whereby the demand for our products also increased correspondingly although we were affected by the outbreak of COVID-19 in both January and February 2020, during which, there was temporary transportation restrictions imposed by several cities in PRC.

It is noticed that the number of new confirmed cases of COVID-19 in the PRC has become steady since late March 2020 in the PRC, which was attributable to the effectiveness of the prompt draconian measures taken by the PRC Government to combat further spread of COVID-19 in the community and thus, social and economic activities have been steadily resumed in an orderly way in the PRC although dozen of new confirmed cases have been reported in Beijing recently. To prevent a second wave of coronavirus, Beijing has reintroduced strict lockdown measures whereby the situation shall be under control. Considering that our production base is in Fujian and a majority of our customers and suppliers are located outside Beijing, our Directors consider that there is no material impact to our business operations.

Our profit for the year ending 31 December 2020 is likely to be lower than that of 2019 primarily due to the Listing Expenses as disclosed in the section headed "Financial information — Description of selected items in consolidated statements of profit or loss and comprehensive income — Administrative and other operating expenses — Listing expenses" in this prospectus.

Impact of recent outbreak of COVID-19 on our business and operation

Both our Group's head office and our Production Facilities are located in Longhu Town, Jinjiang City, Quanzhou District, Fujian Province, China. As at the Latest Practicable Date, according to the Fujian Provincial Health Committee* (福建省衛生健康委員會), there has been a total of 66 confirmed cases of COVID-19 in Quanzhou District which our Production Facilities are located. Since 25 February 2020 and up to the Latest Practicable Date, save for 19 imported cases from overseas, there is no new confirmed case of COVID-19 in Quanzhou District.

Our business operation had encountered adverse impact in January and February 2020 in the following aspects: (i) our business operation had been temporarily suspended; (ii) some of our employees had been unable to report to work due to the travel restrictions imposed across different regions in the PRC after the Chinese New Year holidays; and (iii) impact on our customers and suppliers.

Following the outbreak of COVID-19, on 29 January 2020, the Fujian Provincial People's Government (福建省人民政府) issued a notice (the "**Notice**") to announce that the operation of all non-essential businesses in the Fujian Province had to be temporarily suspended until 9 February 2020 inclusive. In compliance with the Notice, the operation of our Production Facilities had temporarily suspended until 9 February 2020 inclusive. Our Production Facilities resumed operation gradually since 10 February 2020. The actual production output of our Production Facilities reached 95% of its operation by the end of March 2020 and our Directors confirm that our production machines had resumed full operation in early April 2020. Our Directors confirm that as of the Latest Practicable Date, we had not dismissed any employees due to COVID-19 epidemic, and all the employees (including the eight employees who had been unable to return to work due to transportation restriction and/or quarantine measures after Chinese New Year holidays and the additional eight employees who were hired to replenish the resultant shortage of workforce) were working for us. In this connection, we hired additional eight employees to maintain the same level of workforce. Thus, our Directors consider that the Group has resumed full operation.

Our Directors are of the view that even in case that our Group has to completely suspend all our production activities when COVID-19 epidemic intensifies, based on our cash and cash equivalent balance and any banking facilities as at the Latest Practicable Date, we still have sufficient cash to sustain our business for around 30 months and remain solvent, assuming that our Group is required to completely suspend our production and selling operations without being able to generate revenue and we are still required to pay all fixed expenses, such as rental fee, wages, office expense, water and electricity, etc. to maintain minimun level of our operation. Considering that the number of reported new confirmed cases in the PRC has been reduced, particularly, locally transmitted case, the number of recovery cases is increasing and the increasing public awareness of epidemic precaution, our Directors are of the view that the chance of full suspension of our production activities due to outbreak of COVID-19 epidemic in the future is not high. Please refer to the section headed "Risk factors — Risks relating to our business" in this prospectus for further details of the risks relating to the continuing spread and prolonged occurrence of COVID-19.

According to Frost & Sullivan, as most people in the PRC resorted to dining at home in late January and early February 2020, the demand for disposable plastic food storage containers during this period had decreased substantially. However, with an increasing number of people returned to work and many restaurants re-opened in late February and early March 2020, and most restaurants only offer take-away food in response to the governments' propaganda to minimize communal meals and social contacts, the demand for disposable plastic food storage containers increased during this period as compared with the demand in late January and early February 2020 due to the increase in demand for take-away of food by the general public. The sales and confirmed orders for our products have shown an increase in March and April 2020 compared to the same months in 2019.

Concerning COVID-19's impact on our sourcing of raw materials, our Directors take the view that it has not had any material impact on our supply chain. Firstly, most of our major suppliers are located in proximity to our Production Facilities, for instance, Supplier A and Supplier B have sales offices in Fujian Province, which is relatively less affected by COVID-19. To the best knowledge and belief of our Directors, most of our suppliers have resumed their operation in early February 2020. Our Group had made new purchase of raw materials amounting to approximately RMB8.3 million and RMB11.7 million, respectively in February and March 2020 with comparable unit price before the outbreak of COVID-19 and all purchase of these raw materials had been delivered to our Group as scheduled. As the supply of raw materials to our Group remained stable with no material fluctuation in price and our major suppliers are in proximity to our Production Facilities, our Directors are of the view that there is no urgent need for us to stock up inventory of raw materials for production of our products. Assuming the hypothetical case that there is a delay in delivery of raw materials from our suppliers and our Group does not have sufficient stocks, our Directors consider that there is no material impact from such delay as we generally maintain a list of suppliers and our Group will be able to source raw materials from alternative suppliers that have the required capacity and capability to supply the amount of relevant raw materials to us. Furthermore, we did not enter into any long-term agreements with any suppliers and thus, we are not bound to purchase raw materials from any one or few suppliers.

Concerning the impact of COVID-19 on our relationship with our customers, our Directors confirmed that save for the two customers located in Wuhan city, the city at the epicentre of COVID-19 epidemic and subject to lockdown, all our customers had been in operation, though may not be full capacity as at the Latest Practicable Date. Save for these two customers in Wuhan city, to the best knowledge of our Directors, none of our major customers for the Track Record Period has experienced any major disruptions in operations up to the Latest Practicable Date. The revenue generated from these customers in Wuhan city accounted for approximately 6.5%, 6.9% and 6.7% of our Group's total revenue for the three years ended 31 December 2019, respectively. The PRC Government announced that it would lift the lockdown on Wuhan city on 8 April 2020. While the lockdown of Wuhan City was lifted on 8 April 2020, our Group had successfully delivered the outstanding orders amounted to approximately RMB1.2 million (including VAT) to the two customers in Wuhan City by April 2020. As of the Latest Practicable Date, our two customers in Wuhan City have placed their sales orders with us, with an aggregate amount (including VAT) of RMB1.4 million and 1.2 million, respectively, and the products under the orders of these two customers would be delivered by the end of April and May 2020, respectively. Our Directors confirm that the total purchase orders placed to us in April 2020 generated a similar revenue as to that generated by the purchase orders placed by these two customers in April 2019. On the other hand, significant portion of our Group's revenue generated from customers in Fujian Province, Heilongjiang Province, Zhejiang Province, Henan Province and Guangdong Province, representing approximately 81.7%, 80.8% and 80.6% for the three years ended 31 December 2019, respectively. Our Directors confirmed that all of our customers had been in operation, though may not be in full capacity.

Based on the above, our Directors confirmed that the outbreak of the COVID-19 epidemic did not have any material adverse impact on our Group's operations and supply chain. In this connection, our Directors are of the view that it is feasible for our Group to follow our expansion plan in case of prolonged outbreak of COVID-19 epidemic, in particular, and it is unlikely for our Group to use the Listing proceeds for other purposes other than on our Group's expansion plans.

For the four months ended 30 April 2020, the Group recorded a growth in revenue of approximately 6.6%, as compared with that for the four months ended 30 April 2019, despite the negative impacts caused by the COVID-19 on the Group's operation during January and February 2020, mainly due to the increase in demand for take-away of food by the general public whereby the demand for our products also increased correspondingly. On the other hand, the increase in the cost of sales by approximately 9.0% outweighed the increase in revenue for the four months ended 30 April 2020 mainly due to expenses, such as salary and depreciation, incurred during the temporary suspension of operation of our Production Facilities from 29 January 2020 to 9 February 2020 imposed by the Fujian Provincial People's Government (福建省人民政府) due to the outbreak of COVID-19, resulting in a lower gross profit margin by approximately 1.6% for the four months ended 30 April 2020, as compared with that for the four months ended 30 April 2019. The increase in salary expenses for the four months ended 30 April 2020 was mainly due to (i) the increase in average monthly salary as a result of salary increment of some employees in December 2019; and (ii) the increase in average number of production staff from 66 for the four months ended 30 April 2019 to 74 for the four months ended 30 April 2020. The increase in depreciation expenses for the four months ended 30 April 2020 was mainly due to the acquisition of three plastic injection moulding machines during the last quarter of 2019.

The gross profit margin slightly decreased by approximately 1.6% for the four months ended 30 April 2020 as compared with that in the same period in 2019 because our Group did not generate any revenue during the temporary suspension due to the COVID-19 but we still needed to pay salary to our production staff.

The profit after tax however increased for the four months ended 30 April 2020, as compared with that for the four months ended 30 April 2019, mainly due to the decrease in the Listing expense, partially offset by the increase in taxation.

As at the Latest Practicable Date, all trade receivables as at 30 April 2020 were fully settled by our customers and no written off or bad debt was made against the trade receivables.

As of the Latest Practicable Date, we obtained confirmed orders (with VAT excluded) placed to us, the outstanding backlog amount of which were approximately RMB20.2 million, RMB20.3 million and RMB21.0 million for March, April and May 2020, respectively; whereas our Group had confirmed orders (with VAT excluded), which were fully delivered, amounted to approximately RMB16.1 million, RMB17.9 million and RMB19.2 million for March, April and May 2019, respectively. On the other hand, we delivered all confirmed orders placed to us by our customers for March to May 2020. As of the Latest Practicable Date, we still have backlog orders (including the outstanding confirmed orders placed but yet to be delivered as of the Latest Practicable Date and confirmed orders for June 2020) of amount of approximately RMB9.7 million (which is equivalent to approximately 615 tonnes).

Our Directors have confirmed that, after performing all due diligence work which our Directors consider appropriate, save for expenses aforesaid as far as we are aware, there had been no material adverse change in our financial, operational or trading position or prospects since 31 December 2019 and up to the date of this prospectus. There has been no event since 31 December 2019 which would materially affect the information shown in the accountants' report, the text of which is set out in Appendix I to this prospectus.

As far as our Directors are aware, there was no material adverse change in the market condition or the industry and environment in which we operate that materially and adversely affect our financial or operating position or prospects of our Group from 31 December 2019 and up to the date of this prospectus.

NO MATERIAL ADVERSE CHANGE

Save for the recent development disclosed above and the Listing fees of approximately RMB24.1 million estimated to be incurred in connection with the Listing, our Directors confirmed that there has been no material adverse change in the operation, financial or trading position or prospects of our Group since the end of the Track Record Period and up to the date of this prospectus, and there is no event since the end of the Track Record Period and up to the date of this prospectus which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

BUSINESS OBJECTIVES AND STRATEGIES

Please refer to the paragraph headed "Business — Our business strategies" in this prospectus for details of our business objectives and strategies.

USE OF PROCEEDS

For the period from the Listing Date to 31 December 2022, our net proceeds from the Share Offer will be used as follows:

	From the Listing Date to 31 December 2020	From 1 January 2021 to 30 June 2021	From 1 July 2021 to 31 December 2021	From 1 January 2022 to 30 June 2022	From 1 July 2022 to 31 December 2022	Total amount of proceeds to be expended
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Expand our production capacity and enhance our production efficiency by purchasing new machinery	15,460	—	10,644	—	—	26,104
Setting up a second production facility to cope with our business expansion	1,180	180	1,180	180	—	2,720
Strengthen our research and development capabilities in our mould and product design and production, and production techniques	1,730	180	1,430	180	—	3,520
Continue to expand our Group's sales and marketing team	125	125	125	125	—	500
	18,495	485	13,379	485	—	32,844

Based on the Offer Price of HK$0.50 per Offer Share, being the mid-point of the indicative Offer Price range of HK$0.40 per Offer Share to HK$0.60 per Offer Share, we will receive a gross proceeds of approximately HK$75.0 million (equivalent to approximately RMB64.5 million). The net proceeds from the Share Offer are estimated to be approximately HK$38.1 million (equivalent to approximately RMB32.8 million), after deducting the underwriting commission and other estimated expenses payable by our Company in relation to the Share Offer, but without taking into account the discretionary incentive fee not exceeding 5% of the final Offer Price. Hence, if any discretionary incentive fee is payable, the net proceeds from the Share Offer will be reduced correspondingly.

If the Offer Price is finally determined to be more than HK$0.50 per Offer Share, being the mid-point of the indicative range of the Offer Price, the above proposed allocation of net proceeds will increase on a *pro rata* basis. If the Offer Price is less than the mid-point of the indicative range of the Offer Price, the above allocation of the net proceeds will decrease on a *pro rata* basis and we plan to finance such shortfall by internally generated financial resources and/or other financing, as and when appropriate.

To the extent that the net proceeds from the Share Offer are not immediately required for the above purposes or if we are unable to effectuate any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks or authorised financial institutions for so long as it is in our best interests.

Should our Directors decide to re-allocate the intended use of proceeds to other business plans and/or new project of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, our Group will issue an announcement in accordance with the GEM Listing Rules.

Our Directors consider that the net proceeds from the Share Offer together with our internal resources will be sufficient to finance the implementation of our Group's business plans as set forth in the paragraphs headed "Implementation plans" in this section. Investors should be aware that any part of our Group's business plans may not proceed according to the time frame as described above due to various factors. Under such circumstances, the Directors will evaluate carefully the situation and will set aside the funds as short-term deposits until the relevant business plan(s) materialise.

Our Directors intend to apply such net proceeds as follows:

- **Expand our production capacity and enhance our production efficiency by purchasing new machinery**

  — approximately HK$30.3 million (equivalent to approximately RMB26.1 million), representing approximately 79.5% of the net proceeds from the Share Offer, will be used for expanding the production capacity and enhancing our production efficiency, of which approximately HK$26.3 million (equivalent to approximately RMB22.7 million) will be allocated for acquisition of 33 plastic injection moulding machines, approximately HK$2.8 million (equivalent to approximately RMB2.4 million) will be allocated for acquisition of 40 automated arm machines, and approximately HK$1.2 million (equivalent to approximately RMB1.0 million) will be allocated for acquisition for two centralised conveying systems. We expect to acquire 40 plastic injection moulding machines, the total cost of which is expected to be approximately HK$32.0 million (equivalent to approximately RMB27.5 million). After deducting the amount of HK$26.3 million (equivalent to approximately RMB22.7 million) from the proceeds of the Share Offer, the remaining sum of approximately HK$5.6 million (equivalent to approximately RMB4.8 million) will be funded by our internal resources.

Our Directors believe that the acquisition of additional production machinery and equipment should enhance our annual production capacity to approximately 15,894 tonnes and 19,739 tonnes for each of the two years ending 31 December 2020 and 2021, respectively. Hence, the two-phase installation will enhance our production capacity by approximately 5,154 tonnes of our products for the year ending 31 December 2021 upon completion of our planned two-phase installation representing an increase of 35.3% of our production capacity, as compared to the production capacity of 14,585 tonnes for the year ended 31 December 2019.*(Note)*

The particulars of additional machinery (collectively, the "**New Machines**") we intend to acquire for production of our disposable plastic food storage containers are as follows:

Machinery and equipment	Number of existing units as of 31 December 2019	Average remaining useful life of existing units as of 31 December 2020	Number of new units	Estimated costs for purchase of new units	Source of funding	
					From listing proceeds	From internal resources
		(years)		*(RMB'000 approximately)*	*(RMB '000 approximately)*	*(RMB '000 approximately)*
Plastic injection moulding machines	95	4.9	40	27,520	22,704	4,816
Automated robot arm machines	71	5.1	40	2,400	2,400	0
Centralised conveying systems	2	4.5	2	1,000	1,000	0
Total				**30,920**	**26,104**	**4,816**

The payback period of the New Machines is expected to be approximately 2.1 years. Payback period refers to the period of time required for the profit to be generated by the New Machines to recover the initial set up costs of the New Machines. The net profit is calculated by deducting the variable costs to be incurred when the New Machines commence operation and net of taxation effect against our predicted sales revenue (which is derived from multiplying the predicted annual production volume of the New Machines against the predicted average selling price of our products).

Note: The effective designed capacity was slightly increased to approximately 14,585 tonnes for the year ended 31 December 2019 because three machines commenced operation in December 2019 and three machine commenced operation at the end of 2019. Therefore, there was a slight increase in the production capacity for the full year ended 31 December 2019. If the 95 plastic injection moulding machines are operating in full capacity, the effective designed capacity is estimated to be 15,050 tonnes.

The said estimated cost of acquisition of the New Machines of approximately RMB30.9 million was based on the preliminary quotations obtained by us. Our Directors confirmed that the average acquisition cost of the New Machines is expected to be higher than that of the existing machinery and equipment because our Group has acquired the existing machinery and equipment from Hengsheng Toys only in June 2018, at which point, the existing machinery and equipment had already been used by our Group for four years. Majority of the existing production machinery and equipment were leased by Hengsheng Toys to our Group since 2014, and pursuant to the fixed asset transfer agreement entered into between Hengsheng Toys and Hengsheng Animation in June 2018, all of them have been transferred to and are owned by our Group. Our Directors estimate that the depreciation charge for these New Machines will be approximately RMB0.4 million and RMB2.5 million for the year ending 31 December 2020 and 2021, respectively.

- **Setting up a second production facility to cope with our business expansion**

— approximately HK$3.1 million (equivalent to approximately RMB2.7 million) representing approximately 8.1% of the net proceeds from the Share Offer, will be allocated for establishing our second production facility in Jinjiang City, Fujian Province, the PRC to house our additional production machinery and equipment as aforementioned with an estimated annual rent of RMB360,000; of which approximately HK$0.8 million (equivalent to approximately RMB0.7 million) will be allocated for paying the annual rent of the new factory space for two years, and approximately HK$2.3 million (equivalent to approximately RMB2.0 million) will be allocated to renovate the leased production facility. We intend to expand our production capacity in two phases by purchasing our New Machines in two separate batches, and conduct an approximately one-week trial for our New Machines before entering into full production. We also plan to commence renovation of the new factory space during the third quarter of 2020 and 2021, respectively, to house the two batches of machinery purchase. Further details for the establishment of our second production facility in Jinjiang City, the PRC are as follows:

Proposed timeline. We anticipate the proposed timeline of implementation to be in two phases, where the first batch of New Machines, including 20 plastic injection moulding machines, 20 automated robot arm machines and one centralised conveying system, will be installed and tested for production by the fourth quarter of 2020; and the second batch of New Machines, including 20 plastic injection moulding machines, 20 automated robot arm machines and one centralised conveying system, will be installed and tested for production by the third quarter of 2021. Our Group will officially appoint contractors for renovating the new production plant in or around early August 2020.

Projected production capacity. We expect the first batch of New Machines installed at our second production facility to commence full operation and generate sales revenue by the end of the fourth quarter of 2020, increasing our production capacity to approximately 15,894 tonnes for the year ending 31 December 2020, and the second batch of New Machines to commence full operation and generate sales revenue in the third quarter of 2021, further increasing our production capacity to approximately 19,739 tonnes for the year ending 31 December 2021. The two-phase installation will therefore increase our production capacity by approximately 5,154 tonnes for the year ending 31 December 2021. This represents a 35.3% in our production capacity as compared to the production of approximately 14,585 tonnes for the year ended 31 December 2019.

Implementation activities	Proposed completion dates
Engagement of contractors for renovation works (Phase 1)	
• Confirming factory site in Jinjiang City, PRC	end of July 2020
• Obtaining quotations from potential contractors for phase 1 of renovation works to prepare for installation of first batch of New Machines	early August 2020
• Entering into contract to engage contractors for renovation works	early August 2020
Preparation for production	
• Entering into tenancy agreement for the factory	mid August 2020
• Renovating the factory	mid September 2020
• Purchasing and installation of first batch of New Machines	mid November 2020
• Testing the New Machines	late November 2020
Entering full production for first batch of New Machines	early December 2020
Engagement of contractors for renovation works (Phase 2)	
• Obtaining quotations from potential contractors for second phase of renovation works to prepare for installation of second batch of New Machines	early April 2021
• Entering into contract to engage contractor for renovation works	mid April 2021
Preparation for production	
• Renovating the factory	mid July 2021
• Purchasing and installation of second batch of New Machines	mid August 2021
• Testing the New Machines	late August 2021
Entering full production for second batch of New Machines	early September 2021

The aid of 20 automated robot arm machines and one centralised conveying system will effectuate automated picking up of finished products from our plastic injection moulding machines and placing raw materials in the plastic injection moulding machines. As such, our process will reach a high level of automation and thus, it is not necessary for our Group to engage a large number of workers for operation of the New Machines in our second production facility. In this connection, Mr. Xu will be primarily responsible for the overall management; and our production manager will be responsible for overseeing the operation and administration of the second production facility. We also plan to engage 16 additional workers for operating the New Machines with an additional staff cost of approximately RMB100,800 and approximately RMB537,600 for the year ending 31 December 2020 and 2021 respectively, which will be paid from our internal resources.

- **Strengthen our research and development capabilities in our mould and design and production, and production techniques**

  — approximately HK$4.1 million (equivalent to approximately RMB3.5 million), representing approximately 10.8% of the net proceeds will be used for enhancing our research and development capabilities. We intend to (i) strengthen our capabilities in the design and production of moulds in-house for production of our disposable plastic food storage containers; (ii) recruit more talents; (iii) develop patents for our new products and the ways to improve our manufacturing techniques in order to enhance our production efficiency and to save cost; and (iv) repair and modify our existing research and development laboratory in order to optimise the space utilisation of our research and development laboratory. The expected total amount for pursuing this business strategy is approximately HK$4.7 million (equivalent to approximately RMB4.0 million). After deducting the amount of approximately HK$4.1 million (equivalent to approximately RMB3.5 million) from the proceeds of the Share Offer, the remaining sum of approximately HK$0.6 million (equivalent to approximately RMB0.5 million) will be funded by our internal resources. The breakdown of the intended use of the proceeds is set out below:

		Source of funding	
Implementation activities	**Estimated costs**	**From listing proceeds**	**From internal resources**
	(approximately RMB'000)	*(approximately RMB'000)*	*(approximately RMB'000)*
Recruitment of 10 professional product and mould designers with relevant qualifications to expand our product and mould design team	1,200	720	480
Purchase of CNC processing machines and precision moulding machines for production of moulds in-house	2,800	2,800	0
Total	**4,000**	**3,520**	**480**

CNC processing machines and precision moulding machines are both manufacturing tools that feature the ability to carry out precise works. Moreover, with the aid of CNC processing machines, being a pre-programmed computerised control system that dictate the movement of machines and tools for production of moulds, our research and development process can precisely design suitable moulds for our products with efficiency. Our Directors are of the view that precision manufacturing plays a pivotal role in the quality of our research and development process as it enables our Group to manufacture items precisely and thus, we can design and develop products that are more complex or add in subtle designs to our products to distinguish us from our competitors.

The table below sets forth our Group's plan on the 10 professional product and mould designers to be employed:

Position	Number	Qualification and/or requirement to be imposed by our Group	Annual salary
			(RMB'000)
Product and mould designer	10	Must obtain: 1. Diploma in related discipline; 2. at least three years of working experience in product design	60

- **Continue to expand our Group's sales and marketing team**

— approximately HK$0.6 million (equivalent to approximately RMB0.5 million) or approximately 1.6% of the net proceeds from the Share Offer (assuming an Offer Price of HK$0.50 per Offer Share, being the mid-point of the indicative Offer Price range of HK$0.40 to HK$0.60) are used to recruit eight sales representatives for the expansion of our sales and marketing team. The expected total amount for pursuing this business strategy is approximately HK$1.2 million (equivalent to approximately RMB1.0 million). After deducting the amount of approximately HK$0.6 million (equivalent to approximately RMB0.5 million) from the proceeds of the Share Offer, the remaining sum of approximately HK$0.6 million (equivalent to approximately RMB0.5 million) will be funded by our internal resources.

The table below sets forth our Group's plan on the eight sales representatives to be employed:

Position	Number	Qualification and/or requirement to be imposed by our Group	Annual salary
			(RMB'000)
Sales representative	8	Must obtain: 1. Diploma in related discipline; 2. at least one year of working experience in sales and marketing	62.5

IMPLEMENTATION PLANS

In pursuance of the above business objectives, the implementation plans of our Group are set forth below from the Listing Date to 30 June 2022. Investors should note that the following implementation plans are formulated on the bases and assumptions referred to the paragraph headed "Bases and assumptions" in this section below. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors set forth in the section headed "Risk factors" of this prospectus. Therefore, there is no assurance that our Group's business plans will materialise in accordance with the estimated time frame and that our future plans will be accomplished at all.

The net proceeds from the Share Offer to our Company (after deduction of underwriting fees and estimated expenses payable by us in relation to the Share Offer) are estimated to be approximately HK$38.1 million (equivalent to approximately RMB32.8 million). It is estimated that, without taking into account the discretionary incentive fee payable to the Public Offer Underwriters and Placing Underwriters, the total Listing expenses of approximately HK$36.9 million (equivalent to approximately RMB31.7 million) will be incurred. Our Directors presently intend to apply such net proceeds as follows:

(a) From the Listing Date to 31 December 2020

		Source of funding	
Business strategies	**Implementation activities**	**From listing proceeds**	**From internal resources**
		(Approximately RMB'000)	*(Approximately RMB'000)*
Expand our production capacity and enhance our production efficiency by purchasing new machinery	• Acquisition of New Machines:		
	- Plastic injection moulding machines x 20	13,760	0
	- Automated robot arm machines x 20	1,200	0
	- Centralised conveying system x 1	500	0
Setting up a second production facility to cope with our business expansion	• To rent a new factory space	180	0
	• To renovate the new factory space	1,000	0

Business strategies	Implementation activities	Source of funding: From listing proceeds	Source of funding: From internal resources
		(Approximately RMB'000)	*(Approximately RMB'000)*
Strengthen our research and development capabilities in our mould and product design and production, production techniques	• Recruitment of new staff to expand our product design and development and mould design team		
	- Product and mould designer x 10	180	120
	• Acquisition of additional machineries:		
	- CNC processing machine x 6	1,200	0
	- Precision moulding machine x 7	350	0
Continue to expand our Group's sales and marketing team	• Recruitment of new staff to expand our sales and marketing team		
	- Sales representatives x 8	125	125
		18,495	245

(b) From 1 January 2021 to 30 June 2021

Business strategies	Implementation activities	Source of funding: From listing proceeds	Source of funding: From internal resources
		(Approximately RMB'000)	*(Approximately RMB'000)*
Setting up a second production facility to cope with our business expansion	• To rent a new factory space	180	0

Business strategies	Implementation activities	Source of funding: From listing proceeds	Source of funding: From internal resources
		(Approximately RMB'000)	*(Approximately RMB'000)*
Strengthen our research and development capabilities in our mould and product design and production, and production techniques	• Recruitment of new staff to expand our product design and development and mould design team		
	- Product and mould designer x 10	180	120
Continue to expand our Group's sales and marketing team	• Recruitment of new staff to expand our sales and marketing team		
	- sales representatives x 8	125	125
		485	245

(c) From 1 July 2021 to 31 December 2021

Business strategies	Implementation activities	Source of funding: From listing proceeds	Source of funding: From internal resources
		(Approximately RMB'000)	*(Approximately RMB'000)*
Expand our production capacity and enhance our production efficiency by purchasing new machinery	• Acquisition of New Machines:		
	- Plastic injection moulding machines x 20	8,944	4,816
	- Automated robot arm machines x 20	1,200	0
	- Centralised conveying system x 1	500	0
Setting up a second production facility to cope with our business expansion	• To pay for rent of the new factory space	180	0
	• To renovate the new factory space	1,000	0
Strengthen our research and development capabilities in our mould and product design and production, and production techniques	• Recruitment of new staff to expand our product design and development and mould design team		
	- Product and mould designer x 10	180	120

Business strategies	Implementation activities	Source of funding: From listing proceeds	Source of funding: From internal resources
		(Approximately RMB'000)	*(Approximately RMB'000)*
	• Acquisition of additional machineries:		
	- CNC processing machine x 5	1,000	0
	- Precision moulding machine x 5	250	0
Continue to expand our Group's sales and marketing team	• Recruitment of new staff to expand our sales and marketing team		
	- Sales representatives x 8	125	125
		13,379	5,061

(d) From 1 January 2022 to 30 June 2022

Business strategies	Implementation activities	Source of funding: From listing proceeds	Source of funding: From internal resources
		(Approximately RMB'000)	*(Approximately RMB'000)*
Setting up a second production facility to cope with our business expansion	• To rent a new factory space	180	0
Strengthen our research and development capabilities in our mould and product design and production, and production techniques	• Recruitment of new staff to expand our product design and development and mould design team		
	- Product and mould designer x 10	180	120
Continue to expand our Group's sales and marketing team	• Recruitment of new staff to expand our sales and marketing team		
	- Sales representatives x 8	125	125
		485	245

BASES AND ASSUMPTIONS

Our Directors have adopted the following principal assumptions in the preparation of the implementation plan up to 30 June 2022.

(a) Our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our future plans relate;

(b) There will be no material change in the existing political, legal, fiscal, social or economic conditions in Hong Kong, the PRC or in any other places in which any member of our Group carries on its business or will carry on its business;

(c) There will be no material change in the funding requirement for each of our Group's future plans described in this prospectus from the amount as estimated by our Directors.

(d) There will be no material change in existing laws and regulations, or other governmental policies relating to our Group, or in the political, economic or market conditions in which our Group operates.

(e) There will be no change in the effectiveness of the licenses, permits and qualifications obtained by our Group.

(f) There will be no material changes in the bases or rates of taxation applicable to the activities of our Group.

(g) Our Group will be able to retain key staff in the management and the main operational departments.

(h) Our Group will be able to retain our customers and suppliers.

(i) There will be no disasters, natural, political or otherwise, which would materially disrupt the businesses or operations of our Group.

(j) Our Group will not be materially affected by the risk factors as set out under the section headed "Risk factors" in this prospectus.

(k) Our Group's operations including its future plans will not be interrupted by any unforeseeable economic changes in respect of inflation, interest rate and currency exchange rate applicable to our business activities.

REASONS FOR THE LISTING

Our Directors believe the Listing will enhance our Group's profile and the net proceeds from the Share Offer will strengthen our financial position and enable our Group to implement our business strategies set out in the paragraphs headed "Business — Our business strategies" in this prospectus and to capture the anticipated growth of the disposable plastic food storage container industry in the PRC. The reasons of the Listing are set out herein below:

(A) Enable us to respond to the corresponding growth in the downstream industries where our customers are engaged

Our products are applied in downstream catering and food delivery market, which includes downstream participants such as restaurants, and also customers purchasing the take-away food products. According to the F&S Report, the change of eating habits where online food delivery and has gained popularity for consumers to have daily meals, afternoon tea and night snacks, this has become one of the main market drivers for the growth in the downstream markets, hence the demand for disposable plastic food storage containers. To keep up with the continuous growth of catering and food delivery market, we have to keep ourselves abreast of our production level and technical innovations to enhance our production efficiency and product offerings. Moreover, with the steady growth of China's population and the gradual implementation of new urbanisation construction, urban population in the PRC will maintain a rapid growth, which will bring huge consumption potentials. According to the F&S Report, it is anticipated that the layout and coverage of hotels and restaurants in cities, which are the major players in the downstream catering and food delivery market where our products are applied, will further expand thereby increasing the demand of disposable plastic food storage container products. Therefore, the population growth and increasing urbanization rate will promote the development of the disposable plastic food storage container industry. Thus, the anticipated growth of the downstream markets is expected to further stimulate the demand for disposable plastic food storage container products.

The F&S Report also points out that the competition in disposable plastic food storage container industry is relatively fragmented and fierce, midstream manufacturers with personalised branding strategies, strong research and development capabilities which allows more diversified product offerings, coupled with strong integrated management and operational capabilities, and those who provide high-quality delivery services are projected to differentiate their models from those of competitors and stand out in the industry's competitive dynamics.

Hence, considering the anticipated growth of the downstream markets brought by the increasing popularity of food delivery services and consumption potentials, together with the fierce competition in the disposable plastic food storage container industry, as one of the leading manufacturers in the industry, we have to be well prepared for the forthcoming changes in the downstream industries by, among others, (i) strengthening our research and development capabilities in our mould and product design and production, and production techniques; (ii) expanding our production capacity and enhance our production efficiency by setting up a second production facility and purchasing new machinery, and (iii) continuing to expand our Group's sales and marketing team. Our Directors believe that the Listing will enable us to have sufficient capital to implement our business strategies which are formulated in light of the foreseeable growth in the disposable plastic food storage container industry in the PRC.

(B) Necessity of implementing our business strategies to capture more market share in the industry

According to the F&S Report, the PRC is the world's largest disposable food storage container manufacturer, accounting for approximately 44.3% of global disposable plastic food storage container industry in terms of sales revenue in 2019. According to the F&S Report, the market size of the disposable food storage container industry in the PRC has grown from RMB3.5 billion in 2014 to RMB9.6 billion in 2019 with a CAGR of 22.0%. In view of the overall industry growth and in order to capture the market opportunities in the PRC, we have formulated business strategies to develop our Group's sales channels for our products to customers in the PRC. Sustained growth in the catering and food delivery market, population growth and increasing urbanization rate and the implementation of favourable government policies and standards, together with other factors have contributed to the rapid growth of production volume.

In view of the overall growth in the disposable plastic food storage container industry in the PRC and in order to capture the market opportunities in the PRC, we have formulated business strategies to strengthen our design and product development capabilities, expand our sales and marketing team and expand our production capacity. For further details, please see the paragraphs headed "Business — Our business strategies" of this prospectus. Our Directors recognise the need for further capital to expand our business in order to maintain our position in the competitive disposable plastic food storage container market in the PRC and capture more market share. Hence, it is necessary for our Group to enhance our working capital in alignment with our business expansion and implement our strategies. Our Directors believe that the Listing will allow us to capture more capital and expand market share in the industry albeit intense competition within the industry. In respect of the use of proceeds from the Share Offer to implement our business strategies, please see the paragraph headed "Use of proceeds" in this section.

Sufficient market demand to substantiate our expansion in production capacity by purchasing New Machines

As our expansion plan will be implemented across two to three years, our Directors take the view that there will be sufficient market demand for our Group's products due to the following reasons:

- During the Track Record Period, a majority of our Group's revenues were generated from recurring customers. The revenue generated from recurring customers increased from approximately RMB160.9 million for the year ended 31 December 2017 to approximately RMB210.3 million for the year ended 31 December 2019, representing an increase of approximately 30.7%. On the other hand, our Group had also attracted new customers each year;

- Our Directors confirm that there were occasions that our Group had to decline purchase orders from its potential customers during the Track Record Period due to our Group's production constraints. These declined purchase orders amounted to approximately RMB8.15 million and RMB5.87 million for the two years ended 31 December 2018 and 2019, respectively. Up to the Latest Practicable Date, five of our Group's existing major customers have indicated to our Group that they would increase their purchase volume with our Group if our Group is able to take on orders of a larger volume. The Directors are of the view that, in the long run, there is a need for our Group to increase our production capacity.

- To better plan our production schedules and to minimise the occurrence of declining purchase orders from customers due to limited production capacity, our Group has entered into framework agreements with some of our major customers (the "**Framework Agreement**"), including the top five customers, pursuant to which these customers agreed to continue purchasing disposable plastic food storage containers from our Group during the period between July 2019 and December 2020 without material change to the unit selling prices to respective customers. The total additional purchases indicated from customers for whom our Group had declined their purchase orders during the Track Record Period due to our production constraints, (including Customer B, Customer C, Customer D and Customer E) based on the Framework Agreements amounted to approximately RMB38.5 million and approximately RMB78.4 million for the six months ending 31 December 2019 and for the year ending 31 December 2020, respectively. As of the Latest Practicable Date, all of the total intended purchase order from such customers for the period from July to December 2019 were placed and fulfilled pursuant to the Framework Agreement signed between our Group and the five customers. In respect of their purchase for FY2020, as of the Latest Practicable Date the five customers have already placed confirmed orders, in aggregate, amounting to approximately RMB35.6 million or 45.4% of the total indicated purchase orders which is estimated to be approximately RMB78.4 million, for FY2020 as stated in the Framework Agreement signed between the Group and the five customers. Due to the nature of disposable plastic food storage container industry, our customers in downstream industries generally place purchase orders on our Group on a case-by-case basis to flexibly cater their demands for our products. Generally our customers place orders with us at approximately one month ahead because approximately a period of 40-50 days on average is required from placing an order to the date of delivery, depending on the kind of product and the volume of the products ordered by individual customers, from confirming the sales contract with the customers and delivery of the products to the customers. The customers understand that our Group has production constraints and preferred to place purchase earlier for FY2020. Hence, the confirmed orders our Group received from these five customers for FY2020 up to the Latest Practicable Date only represent a small part of the indicated orders for FY2020. Based on the high realisation rate of the intended purchase orders from the customers who have signed Framework Agreement with our Group, our Directors are confident that intended purchases from customers as stated in the Framework Agreement for FY2020 are likely to be fulfilled;

- According to the F&S Report and our Directors' observations, there are ample business opportunities in disposable plastic food storage container industry in the PRC due to the increasing demand for online food delivery and semi-finished food which requires disposable food storage containers. Considering our Group's reputation and market share in the industry, its disposable plastic food storage containers' safety performance which can be approved by testing institutions has the qualification to enter the market, our Directors take the view that with the increased production capacity, our Group can capture the business opportunities arising from the growth of the industry; and

- Given our Group's market share in the industry which accounted for 2.2% in 2019 and the analysis includes disposable plastic food storage containers made of polypropylene ("PP"), polystyrene ("PS"), expanded polystyrene ("EPS") and other material, based on the F&S Report, our Group's market share is significantly higher than other market players which manufacture and produce disposable plastic storage containers with polypropylene resins, ranking the third in the PRC, with a market share of 3.7% in terms of sales revenue in 2019. As customers generally prefer to place orders with disposable plastic storage container manufacturer with larger market share like our Group, our Directors are confident that there is sufficient customer' demand for our products to justify the increase of our Group's production capacity. Although the disposable plastic food storage container industry is fragmented, the Directors believe that the Group is able to maintain stable growth because of (i) strong customer base as evidenced by the strong and stable increase in revenue generated from recurring customers (ii) good brand reputation and (iii) its ability to attract new customers.

Given (i) our Group's historical pattern of securing purchase orders from recurring customers for each of the three years ended 31 December 2017, 2018 and 2019; (ii) the indication of commitment provided by our Group's major customers to continue purchasing disposable plastic food storage container products from our Group; and (iii) our Group's strong market position among manufacturers of disposable plastic storage container products made of polypropylene resins in the PRC, our Directors take the view that there will be sufficient market demand for our Group to increase our production capacity.

Enhancing production efficiency brought by the expansion of production capacity

Our Directors expect that our Group's production efficiency can be enhanced by the purchase of the New Machines and the resultant increase of our production capacity for the following reasons:

(i) with the acquisition of New Machines, the routine maintenance and the time for dismantle and installation of different moulds in the plastic injection moulding machines can be shortened as there would be more plastic injection moulding machines to cater for different moulds and these machines can operate continuously at the same time without being stopped for replacing of moulds from time to time. During the Track Record Period, our Group's production staff takes approximately one hour per working day for routine maintenance of production machinery, dismantle and installation of different moulds in the plastic injection moulding machines (collectively, "**Mould Dismantle and Installation**"). Our Directors estimate that after purchasing the New Machines, we will be able to reduce the frequency of Mould Dismantle and Installation. As 20 and 40 New Machines are planned to be acquired for two years ending 31 December 2021, respectively, approximately 20 and 40 working hours could be increased for each of the two years ending 31 December 2021, respectively due to the corresponding hours reduced for Mould Dismantle and Installation. Assuming there is no material change in the utilisation rate (90%) of production capacity, the condition of our Group's existing machines and production methodology, our Directors estimate that our Group's production capacity for the existing machines can be increased by approximately 125 tonnes and 250 tonnes for the two years ending 31 December 2021, representing approximately 1.0% and 1.9% of our Group actual output for the year ended 31 December 2018, respectively as the time for Mould Dismantle and Installation for these existing machinery can be reduced. As a result, the actual working hours of the machinery and equipment can be prolonged and thus, further increase the output of products produced per day; and

(ii) our Directors confirmed that the New Machines are of an upgraded model with a more advanced specification than that of the existing machinery and equipment, including an increase in the power of the motors, which will enhance the productivity of each plastic injection moulding machine. Moreover, the advanced model of New Machines will allow our Group's products to be ejected faster from the plastic injection moulding machine during the production process. Our Directors therefore expect the New Machines to produce more of our Group's products than that of the existing machinery and equipment.

Commercial rationale for the expansion of workforce

Our Directors believe that the expanded workforce will allow our Group to enhance the product design and development capabilities in its product offering, production techniques and mould design and production, which in totality will enhance the competitiveness of our Group and strengthen our market position to capture the market growth. Our Group places great emphasis on product design and development to offer a wide range of products with various functionality and features to customers. According to the F&S Report, the increasing demand for customisation of disposable plastic food storage containers signifies the importance of recruiting and retaining skilled personnel to design and develop new products to cope with the increasing demand from customers. Moreover, owing to strict safety and environmental protection requirements of disposable plastic food storage containers, continuous improvements on the use of cost-effective raw materials be made by skilled personnel.

Our Directors believe that our Group needs to increase the size of both of our product and mould design team and our sales and marketing team due to the following reasons:

(i) to align with our Group's expansion plan in enhancing our product development, production capacity and production efficiency by acquiring new production machinery and equipment, and to cope with the demand of our Group's major customers, our Group's workforce in the product and mould design team shall also expand correspondingly. Moreover, our Group's sales currently cover 14 provinces and three municipalities in the PRC, we therefore need to expand our sales and marketing team to maintain our business relationship with our existing customers and to explore new customers in these markets. According to the F&S Report, disposable plastic food storage container manufacturers are required to have diverse product categories to satisfy varying customer needs and enhance competitiveness. In view of the above and the market demand for our Group's products as shown by the confirmed orders from our major customers pursuant to the framework agreements entered into between our Group and the relevant customers, our Directors believe it is imperative for our Group to expand our product and mould design team in order to continue expanding our ability to develop products and moulds to maintain our competitiveness in the market. For further details regarding the framework agreements, please refer to the paragraphs headed "Reasons for the Listing — (B) Necessity of implementing our business strategies to capture more market share in the industry" in this section. Hence, our Group intends to apply approximately RMB1.2 million (equivalent to approximately HK$1.4 million), approximately RMB0.7 million (equivalent to approximately HK$0.8 million) of which will be funded by net proceeds and approximately RMB0.5 million (equivalent to approximately HK$0.6 million) of which will be funded by our internal resources, for the payment of the salaries of the 10 product and mould designers with a monthly salary of approximately RMB5,000 (equivalent to approximately HK$5,814.0) each for strengthening our development capabilities in our mould and design production, and our production techniques. Our Directors expect the newly recruited talents will be about to bring innovation to our product development process, and provide technical advice in terms of the design, construction and manufacture for our products.

Hence, it is imperative for our Group to ensure that we have sufficient manpower to design and produce more moulds to be installed in the New Machines for production; and to cater for the expected growth in our product offerings, thereby allowing our Group to take up new orders and large-quantity orders, and continuing to attract new customers.

(ii) our Directors expect that our Group will be able to capture more sales from existing customers and potential customers, which can be demonstrated by the growth of revenue from recurring customers above and our Group's ability to attract new customers. There were six, six and four new customers for the three years ended 31 December 2019, respectively.

(iii) in view of our Group's ability to expand our customer base and product offering, together with our Group's expansion plan to enhance its production capacity and production efficiency by acquiring new production machinery and equipment, it is imperative for our Group to recruit up to eight additional sales representatives by stages to cater for the enlarged customer base and product offering. Hence, our Group intends to apply approximately RMB1.0 million (equivalent to approximately HK$1.2 million), approximately RMB0.5 million (equivalent to approximately HK$0.6 million) of which will be funded by net proceeds and approximately RMB0.5 million (equivalent to approximately HK$0.6 million) of which will be funded by our internal resources, for payment of the salaries of these new sales representatives with a monthly salary of approximately RMB5,200 (equivalent to approximately HK$6,046.5) each for strengthening its sales and marketing team strengthen our Group's position in pitching for new customers. Given the salaries of these sales representatives are relatively low and they can help expand our Group's market share in other parts of the PRC, our Directors take the view that recruitment of sales representatives to pay visits to its customers, explore potential customers and enhance its communication with customers and potential customers is a cost-effective way to expand its sales market in the PRC.

(iv) As at the Latest Practicable Date, the existing sales and marketing team of eight members cover 60 individual customers in 11 provinces and three municipality cities. In anticipation of the expansion of business, there is a need for our Group to enlarge our sales and marketing team to enhance customers relationship and solicit new customers. The Directors plan to allocate the additional marketing staff to provinces or municipality with significant growth during the Track Record Period, such as Hubei Province, Guangdong Province, Shanxi Province, Jiangsu Province, Hunan Province and Shanghai Municipality and Tianjin Municipality.

(C) Satisfy our genuine funding needs

(i) Our current available cash resources and working capital level are only sufficient to maintain our existing business operation but not adequate for business expansion

We required an average monthly operating cost of approximately RMB10.6 million, RMB12.6 million and RMB14.4 million which mainly consisted of our cost of sales (which includes direct labour costs) and administrative and other operating expenses for each of the three years ended 31 December 2017, 2018 and 2019, respectively. In order to maintain our daily operation, we also adopt a prudent cash management approach in maintaining our cash and cash equivalents at a level to satisfy for each month of our average monthly operating cash outflow requirements in case of any unforeseeable event. We also monitor our liquidity level by conducting monthly cash flow forecast which includes comparison in between the actual and budgeted figures to ensure sufficient fund for our business operation. We expect that our monthly operating cost will increase in proportion to the growth of our business.

Notwithstanding the above, as at 31 December 2017, 2018 and 2019, our cash and cash equivalents amounted to approximately RMB11.4 million, RMB9.0 million and RMB26.2 million, respectively only. Furthermore, as at 31 December 2017, 2018 and 2019, we had current liabilities of approximately RMB19.5 million, RMB24.3 million and RMB29.0 million, which mainly consisted of trade and other payables. Considering our low financial leveraged business structure, our Directors take the view that it is financially prudent to maintain sufficient immediately available cash and bank balances that are at least the same as or in excess of our current liabilities at any point in time. As such, taking into account the amount of cash and cash equivalent as at 31 December 2019, our Directors consider that our current cash and cash equivalent may not be sufficient to provide sufficient funding for our business expansion or provide any buffer for us to cater for any material and unexpected adversities such as possible economic downturn, changes and amendments on the relevant laws and regulations in relation to the use of disposable plastic food storage containers and material adverse change in the disposable plastic food storage container industry.

Along the implementation of our ongoing expansion plan, it is expected that the operation costs and minimum working capital balance will increase. Our Directors consider that our current cash and bank balances are only sufficient for maintaining our current business operation and thus are not sufficient to support our business expansion plan.

(ii) Our cash flows from our operating activities including cash generated from the subsequent billing and settlement of and trade receivables may not be sufficient to finance our expansion plan

For the year ended 31 December 2019, our Group experienced a significant drop in our net cash flow generated from operating activities from approximately RMB38.7 million for the year ended 31 December 2018 to RMB21.9 million for the year ended 31 December 2019, which indicated a potential mismatch from the timing of payment to suppliers with the receipt of payments from customers. Our Directors believe that we might face liquidity risk from time to time as a result of the mismatch of our operating cashflow which would happen when we cannot working capital required in the form of trade payables by converting our trade receivables into cash.

As at 31 December 2017, 2018 and 2019, our net current assets amounted to approximately RMB50.8 million, RMB47.1 million and RMB48.0 million. Though we were generally able to generate positive net cash flows from our operating activities during the Track Record Period, our Directors take the view that we cannot continue to heavily rely on our cash flows from our operating activities to finance our expansion plan as we may not be able to generate positive operating cash flows from period to period. Taking into account our trade receivable turnover days of 57 days, 58 days and 57 days for the three years ended 31 December 2019 whereas our trade payable turnover days of 36 days, 42 days and 48 days, indicating a potential cash flow mismatch for our Group in relation to our payments to our suppliers and cash collection from our customers.

Furthermore, these is no assurance that our customers will pay us according to the credit terms as agreed. Our Directors take the view that our liquidity pressure will be further intensified taking into account the facts that we receive more purchase orders from our customers whereby we have to pay the raw material cost, labour cost and payments to third party logistics companies and our customers may need time to pay for our products, whereby we may be exposed to more substantial cash flow mismatch.

Therefore, if we rely solely on our future operating cash flows to finance our business expansion plans, our business expansion plans will be susceptible to the timing as to when sufficient cash can be generated. This will inevitably prolong the implementation of our expansion plans. Hence, we will be placed in a relatively passive position in respect of the timing of implementing our business expansion plans and thus, may not be able to fully capture the forthcoming business opportunities driven by the forecasted growth in the industry.

(iii) Debt financing does not provide enough funding at reasonable costs

We currently have limited option to obtain debt financing other than bank borrowing in the PRC. Our Directors consider that debt financing is not an attractive option to us as compared with equity financing for the following reasons:

(a) Unlike debt financing, equity financing carries no repayment obligation to our Group while providing extra working capital that can be used to grow our Group's business. Hence, there would be no additional financial burden on the Company, allowing us to have more capital available to invest in growing our business;

(b) Despite the cost of equity funding by way of the Share Offer after taking into account the significant listing expenses which might not be less than debt financing, our Directors considered that (i) the listing expenses is one-off by nature; and (ii) equity financing will broaden our Group's capital base, rather than a short term uplift, and provide a platform for our Company's fund raising in the long run and on a recurring basis, which is not limited to the amount of net proceeds to be raised in the Share Offer, to finance our future business expansion and long-term development;

(c) debt financing would require collateral, in the form of cash deposit, property pledge and/or personal guarantee from controlling shareholders, in order to secure the borrowing. As our Group does not own any properties available for pledging, our Directors consider that we are not able to borrow bank loans which would be sufficient to support our expansion plans. It would not be in the best interest of our Group to rely on debt financing that may involve personal guarantee or collateral provided by our Controlling Shareholders or Directors as we wish to minimise connected transactions and financial assistance from our Controlling Shareholders and Directors, which would hinder our financial independence; and

(d) interest expenses will be incurred when our Group pursues debt financing exercise which will affect our financial performance. The impact will be particularly obvious if we rely on short term bank borrowing or bank overdraft to finance our operating activities in light of our prolonged cash and other receivable collection cycle as discussed above. Despite the current low interest rate environment, there is no assurance that the low interest rate environment will be prolonged in the future.

(D) Commercial rationale for listing

(i) The listing status provides an equity fund-raising platform for our Group

With the listing status of our Company, our Directors believe that it will enhance the flexibility of our Group in seeking alternative financing as our Group is able to seek equity fund raising instead of continuously using the bank borrowings. The Listing will provide us with access to the capital market for fund raising which will assist our future business development and strengthen our competitiveness. Subsequent to the Listing, we will also have access to secondary market fund raising for our future expansion plans through the issuance of equity and/or debt securities. Our Group is able to gradually adjust to an optimal capital structure, which can consist of a mixture of debt and equity-financing, to minimise the overall costs of capital on loans, and therefore minimise the costs of capital.

Our Directors are also of the view that the Listing will provide our Group with the platform to access to the Hong Kong equity market both at the time of Listing with an one-off Listing expense and at later stages after Listing for further expansion plans and business strategies and when necessary through the issuance of equity and/or debt securities, with relatively lower financing cost as compared with banking financing which can be obtained by a private company. Our Directors believe that the potential benefits of Listing would ultimately outweigh the Listing costs as it provides access to the capital market for future secondary fund raising opportunities via interest-saving equity issuance.

(ii) Enhance our Group's brand awareness, market reputation and competitiveness

Our Directors consider that the public awareness and market reputation of our Group is crucial for our business expansion in the overseas market. The increased level of information transparency after Listing would give our existing and prospective customers and suppliers public access to our Group's corporate and financial information, which could further enhance their confidence in our Group. The listing status would also raise our Group's brand awareness and market reputation amongst the competitors, in particular to the overseas potential customers, which would help with implementing our business strategies and expanding our customer base and market share in the industry.

With more confidence placed from the customers and suppliers on our Group, our Directors believe that our Group is able to negotiate more favourable terms than when it was a private company, which in turn will bring benefit to the profitability of our Group. For example, our Group has been actively seeking for supplying quotas of polypropylene resins with better terms and better quality. For certain suppliers, they normally grant more supplying quotas of polypropylene resins to a listed company rather than a private company. It is evidenced in that our Group has received a positive indication from one of the major suppliers of polypropylene resins that it is willing to grant more supplying quota of polypropylene resins with better quality to the Group if the Company is successfully listed. Our Directors believe that the listing status of our Company will enhance the competitiveness of our Group in the market, which will in turn improve the profitability of our Group in the long run.

PUBLIC OFFER UNDERWRITERS

Joint Bookrunners and Joint Lead Managers

Ruibang Securities Limited

Mouette Securities Company Limited

Chuenman Securities Limited

Grand Moore Capital Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company is initially offering for subscription of 15,000,000 Public Offer Shares at the Offer Price under the Public Offer, on and subject to the terms and conditions set forth in this prospectus and the Application Forms. The Public Offer Underwriters have agreed on and subject to the terms and conditions in the Public Offer Underwriting Agreement, to procure subscribers for, or failing which they shall subscribe for, the Public Offer Shares.

The Public Offer Underwriting Agreement is subject to various conditions, which include, but without limitation, the Listing Committee granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus. In addition, the Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been executed, becoming unconditional and not having been terminated.

Grounds for termination

The respective obligations of the Public Offer Underwriters to subscribe for, or procure subscribers for, the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination, if, at any time prior to 8:00 a.m. on the Listing Date:

(i) there has been a breach of any of the representations, warranties, undertakings or provisions of either the Public Offer Underwriting Agreement or the Placing Underwriting Agreement by any of our Company, our executive Directors and our Controlling Shareholders, or

(ii) any statement (save and except those statement of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and any of the Public Offer Underwriters contained in the post hearing information pack, this prospectus, the Application Forms or the formal notice of our Company or any announcements in the agreed form issued by our Company in connection with the Public Offer (including any supplement or amendment thereto) was, has or may become untrue, incorrect or misleading in any material respect, or any forecasts, expressions of opinion, intention or expectation expressed in this prospectus, the Application Forms or the formal notice of our Company are not, in all respects, fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole; or

(iii) any event, act or omission which gives or is likely to give rise to any liability of any of our Company, our executive Directors and our Controlling Shareholders pursuant to the indemnities given by them under the Public Offer Underwriting Agreement or the Placing Underwriting Agreement, as applicable; or

(iv) any breach of any of the obligations of any of our Company, our executive Directors and our Controlling Shareholders under the Public Offer Underwriting Agreement or the Placing Underwriting Agreement, as applicable; or

(v) any of the reporting accountants of our Company, or any of the legal counsels or consultants of our Company has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or

(vi) approval in principle from the Stock Exchange granting the listing of, and permission to deal in, the Offer Shares, including any additional Shares issued pursuant to the exercise of the Offer Size Adjustment Option, the Shares in issue and any Shares which may be issued upon the Capitalisation Issue, is refused or not granted, on or before the listing approval date, or if granted, the approval is subsequently withdrawn, qualified or withheld; or

(vii) our Company withdraws any of this prospectus, the Application Forms or the listing application in respect of the Share Offer; or

(viii) save as disclosed in the section headed "Business — Legal proceedings and non-compliance", any potential litigation, legal proceeding, legal reaction, claim or disputes being threatened or instigated against any member of our Group or any Director, or any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company or the commencement by any governmental, political or regulatory body of any action against any executive Director in his or her capacity as such or an announcement by any governmental, political or regulatory body that it intends to take any such action; or

(ix) any of the representations, warranties and undertakings given by our Company or executive Directors or our Controlling Shareholders under the Public Offer Underwriting Agreement or the Placing Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect or misleading in any respect; or

(x) any person (other than any of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and/or the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in any of this prospectus, the Application Forms and the formal notice of our Company or to the issue of any of this prospectus, the Application Forms and the formal notice of our Company; or

(xi) there will have developed, occurred, happened or come into effect any change or development involving a prospective change or development, or any event or series of events, matters or circumstances likely to result in or representing a change or development, or prospective change or development, concerning or relating to:

(a) any local, national, regional or international financial, political, economic, legal, military, industrial, fiscal, regulatory, currency or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and interbank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollars or the Renminbi against any foreign currencies) in or affecting Hong Kong, the PRC, BVI or the Cayman Islands or any other jurisdiction the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) consider relevant (each a "**Relevant Jurisdiction**"); or

(b) any new law or regulation or any change in any existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or

(c) any deterioration of the condition of the financial markets in any Relevant Jurisdiction or generally in the international equity securities or other financial markets; or

(d) (A) any event or series of events in the nature of force majeure (including, without limitation, acts of government, economic sanctions, strikes or lockouts (whether or not covered by insurance), riots, fire, explosion, flooding, civil commotion, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, outbreak of infectious disease or epidemics, including, but not limited to, Severe Acute Respiratory Syndrome and H1N1 or swine or avian influenza or COVID-19 or such related/mutated forms of accident or interruption or delay in transportation), or (B) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other declaration of a national or international state of emergency or calamity or crisis, in the case of either (A) or (B), in or affecting any Relevant Jurisdiction; or

(e) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the Tokyo Stock Exchange, the London Stock Exchange or any PRC stock markets or (B) a general moratorium on commercial banking activities in any Relevant Jurisdiction, declared by the relevant authorities, or a material disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services, in the case of either (A) or (B), in or affecting any Relevant Jurisdiction; or

(f) any taxation or exchange controls, currency exchange rates or foreign investment regulations in any Relevant Jurisdiction adversely affecting an investment in the Shares; or

(g) any litigation or claim being threatened or instigated against any member of our Group or any Director, any of the chairman or chief executive officer of our Company vacating his office, any executive Director being charged with an indictable offence or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company or the commencement by any governmental, political, regulatory body of any action against any executive Director in his or her capacity as such or an announcement by any governmental, political, regulatory body that it intends to take any such action; or

(h) any contravention by any member of the Group of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Law, any of the GEM Listing Rules or any applicable law or regulation; or

(i) a prohibition on our Company for whatever reason from allotting or selling the Offer Shares (including the additional Shares that may be allotted and issued by our Company upon the exercise of the Offer Size Adjustment Option) pursuant to the terms of the Share Offer; or

(j) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Share Offer with the GEM Listing Rules or any other applicable law or regulation; or

(k) the issue or requirement to issue by our Company of a supplementary prospectus, Application Forms, pursuant to the Companies Ordinance or the GEM Listing Rules in circumstances where the matter to be disclosed is, in the opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), materially adverse to the marketing for or implementation of the Share Offer; or

(l) any change or prospective change, or a materialisation of, any of the risks set out in the section headed “Risk factors” in this prospectus; or

(m) any demand by creditors for repayment of indebtedness or a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or

(n) any change in respect of the business, assets, liabilities, conditions, business affairs, prospects, profits, losses or the financial or trading position or performance or management of our Company or any member of the Group; or

(o) any matter that has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitute an omission therefrom;

and which, with respect to any of sub-paragraphs (a) through (o) above, in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters):

(A) is, will be or may have any material adverse effect or any development involving a prospective material adverse effect, in or affecting the business, general affairs, management, prospects, assets and liabilities, financial position (including, but not limited to, revenue and net profits), shareholders' equity or results of operations of the Group Companies, taken as a whole whether or not arising in the ordinary course of business or be materially adverse to any present or prospective shareholder of our Company in its capacity as such; or

(B) has, will have or may have a material adverse effect on the success of the Share Offer or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or make it impracticable, inadvisable or inexpedient for any material part of the Public Offer Underwriting Agreement, the Placing Underwriting Agreement, the Public Offer or the Share Offer to be performed or implemented as envisaged; or

(C) makes or may make it impracticable, inadvisable or inexpedient to proceed with or to market the Public Offer and/or the Share Offer or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus, the Application Forms, the formal notice of our Company; or

(D) would have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof, then the Joint Bookrunners, in their sole and absolute discretion, may, for themselves and on behalf of the Public Offer Underwriters, upon giving notice to our Company, our executive Directors and our Controlling Shareholders made pursuant to the Public Offer Underwriting Agreement on or prior to 8:00 a.m. on the Listing Date (with a copy of such notice to the other Public Offer Underwriters), terminate the Public Offer Underwriting Agreement with immediate effect.

UNDERTAKINGS GIVEN TO THE STOCK EXCHANGE PURSUANT TO THE GEM LISTING RULES

Undertaking by our Company

Pursuant to Rule 17.29 of the GEM Listing Rules, we have undertaken to the Stock Exchange that, save as pursuant to the Share Offer, no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except in certain circumstances prescribed by Rule 17.29 of the GEM Listing Rules.

Undertaking by our Controlling Shareholders

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to our Company that except pursuant to the Share Offer, he/it will not and will procure that the relevant registered holder(s) will not: (a) in the period commencing on the date of this prospectus and ending on the date which is 12 months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; and (b) in the period of 12 months commencing on the date on which the period referred to in the paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in the paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a controlling shareholder or a group of Controlling Shareholder of our Company. Pursuant to Rule 13.19 of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to our Company that, he/it will: (i) in the event that he/it pledges or charges any direct or indirect interest in the Shares under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the 12-month period from the Listing Date, inform us immediately thereafter, disclosing the details specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and (ii) having pledged or charged any interest in the Shares under (i) above, inform the Company immediately in the event that he/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of Shares affected.

UNDERTAKINGS PURSUANT TO THE PUBLIC OFFER UNDERWRITING AGREEMENT

Undertaking by our Company

Except pursuant to the Capitalisation Issue and the Share Offer, during the period commencing on the date of this prospectus and ending on, and including, the date that is six months after the Listing Date (the "**First Six-Month Period**"), our Company has undertaken to each of the Joint Bookrunners, the Joint Lead Managers, the Public Offer Underwriters and the Sole Sponsor not to, and to procure each other member of our Group not to, without the prior written consent of the Joint Bookrunners (such consent not to be unreasonably withheld or delayed) and the Sole Sponsor and unless in compliance with the requirements of the GEM Listing Rules:

(i) offer, allot, issue or sell, or agree to allot, issue or sell, hedge, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of its affiliates), either directly or indirectly, conditionally or unconditionally, any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or any securities convertible into or exchangeable for such Shares (or any interest in any Shares or any voting or other right attaching to any Shares); or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or such securities; or

(iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or

(iv) offer or agree to do any of the foregoing transactions and publicly disclose any intention to effect such transaction, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period).

In the event of our Company doing any of the foregoing by virtue of the aforesaid exceptions or during the six-month period commencing from the expiry of the First Six-Month Period (the "**Second Six-Month Period**"), it will take all steps to ensure that such action will not create a disorderly or false market in any of the Shares or other securities of our Company.

Undertaking by our Controlling Shareholders

Each of our Controlling Shareholders has also undertaken to each of our Company, the Joint Bookrunners, the Joint Lead Managers, the Public Offer Underwriters and the Sole Sponsor that, (i) save as pursuant to the Share Offer; or (ii) permitted under the GEM Listing Rules, without the prior written consent of the Joint Bookrunners (such consent not to be unreasonably withheld or delayed) and the Sole Sponsor:

(i) he/it will not, at any time during the period commencing on the date of the prospectus and ending on the expiry of the 12 months after the Listing Date (the "**First 12-Month Period**"), (A) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable), or (B) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (C) enter into any transaction with the same economic effect as any transaction specified in (A) or (B) above, or (D) offer to or agree to or announce any intention to effect any transaction specified in (A), (B) or (C) above, in each case, whether any of the transactions specified in (A), (B) or (C) above is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);

(ii) he/it will not, during the 12-month period commencing from the expiry of the First 12-Month Period (the "**Second 12-Month Period**"), enter into any of the transactions specified in (i)(A), (B) or (C) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, he/it will cease to be a "controlling shareholder" (as defined in the GEM Listing Rules) of our Company; and

(iii) without prejudice to the undertakings as referred to in paragraphs (i) and (ii) above, during the period commencing on the date by reference to which disclosure of his/its direct or indirect shareholding in our Company is made in this prospectus and ending on the date on which the Second 12-Month Period expiries, he/it shall:

   (a) when he/it pledges or charges or otherwise create any rights of encumbrances over any Shares or other securities of our Company beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Rule 13.18(1) of the GEM Listing Rules, immediately inform our Company, the Sole Sponsor, the Joint Bookrunners and the Joint Lead Managers of such pledge or charge or creation of the rights of encumbrances together with the number of the securities so pledged or charged and all other information as may be reasonably requested by our Company, the Sole Sponsor, the Joint Bookrunners and/or the Joint Lead Managers; and

(b) subsequent to the pledge or charge or creation of rights or encumbrances over the Shares (or interest therein) or other shares or interests as mentioned in paragraph (i) above, when he/it receives any indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged or encumbered securities as referred to in paragraph (i) above will be disposed of, immediately inform our Company of such indications, and inform the Sole Sponsor, the Joint Bookrunners and the Joint Lead Managers as soon as practicable thereafter (taking into account the requirements of applicable laws, rules and regulations) of such indications.

PLACING

Placing Underwriting Agreement

In connection with the Placing, it is expected that our Company and Controlling Shareholders will enter into the Placing Underwriting Agreement with, among others, the Placing Underwriters, on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below.

Under the Placing Underwriting Agreement, subject to the conditions set forth therein, the Placing Underwriters are expected to procure subscribers and purchasers to subscribe for or purchase, or failing which they shall subscribe for or purchase, the 135,000,000 Placing Shares initially being offered pursuant to the Placing. It is expected that the Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. Potential investors shall be reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed. The Placing Underwriting Agreement is conditional on and subject to the Public Offer Underwriting Agreement having been executed, becoming unconditional and not having been terminated. It is expected that pursuant to the Placing Underwriting Agreement, our Company and Controlling Shareholders will make similar undertakings as those given pursuant to the Public Offer Underwriting Agreement as described in the paragraphs headed "Undertakings pursuant to the Public Offer Underwriting Agreement" in this section.

Our Company is expected to grant to the Joint Bookrunners the Offer Size Adjustment Option exercisable by the Joint Bookrunners (for themselves and on behalf of the Placing Underwriters) at any time before 6:00 p.m. on the business day before the date of announcement of the results of application and the basis of the Public Offer Shares or otherwise it will lapse, to require our Company to allot and issue up to an aggregate of 22,500,000 additional Placing Shares, representing 15% of the Offer Shares, at the Offer Price per Offer Share under the Share Offer, solely to cover over allocations, if any, in the Placing.

COMMISSION AND EXPENSES

The Public Offer Underwriters will receive an underwriting commission of 15.0% of the aggregate Offer Price payable for the Public Offer Shares in accordance with the terms of the Public Offer Underwriting Agreement, out of which the Public Offer Underwriters may pay any sub-underwriting commission in connection with the Share Offer. The Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) may receive an additional incentive fee, which is discretionary by nature. The amount of such incentive fee, if payable, is to be agreed between the Company and Chuenman Securities Limited (on behalf of the Joint Bookrunners and the Public Offer Underwriters); and along negotiation, our Directors expect that the incentive fee shall not exceed 5% of the aggregate Offer Price payable for the Public Offer Shares, which will be determined by taking into account the final Offer Price, the then prevailing market sentiment and the response and result of the Public Offer. Our Directors note that underwriting commission of the same rate of 15% and the incentive fee of the rate of not exceeding 5% of the aggregate Offer Price payable for the Placing Shares shall also be payable to the Placing Underwriters in the Placing and thus, the maximum amount of incentive fee payable to both Public Offer Underwriters and Placing Underwriters will be HK$3.75 million based on the Offer Price of HK$0.5 per Offer Share (being the mid-point of the indicative range of the Offer Price). Based on the Offer Price of HK$0.50 per Offer Share (being the mid-point of the indicative range of the Offer Price), the aggregate commission and fees payable to the Underwriters, together with Stock Exchange listing fees, SFC transaction levy, Stock Exchange trading fees, legal and other professional fees and printing and other expenses relating to the Share Offer, without taking into account the incentive fee which is discretionary by nature, are estimated to amount to approximately HK$36.9 million (equivalent to approximately RMB31.7 million) in total (assuming the Offer Size Adjustment Option is not exercised). We will also pay for all expenses in connection with any exercise of the Offer Size Adjustment Option.

SPONSOR'S AND PUBLIC OFFER UNDERWRITERS' INTEREST IN OUR COMPANY

The Sole Sponsor will receive a documentation fee. The Underwriters will receive an underwriting commission. Particulars of these underwriting commission and expenses are set forth under the paragraph headed "Commission and expenses" in this section.

We have appointed Grand Moore Capital Limited as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules for the period commencing on the Listing Date and ending on the date on which we comply with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date.

Save as disclosed above, none of the Sole Sponsor and the Public Offer Underwriters is interested legally or beneficially in shares of any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any members of our Group or has any interest in the Share Offer.

The Sole Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 6A.07 of the GEM Listing Rules.

MINIMUM PUBLIC FLOAT

Our Directors will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 11.23 of the GEM Listing Rules after completion of the Share Offer.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on or around the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be on or around Monday, 6 July 2020, but in any event no later than Tuesday, 7 July 2020. **If, for any reason, the Offer Price is not agreed between us and the Joint Bookrunners (for themselves and on behalf of the Underwriters) by that date or such later date as may be agreed between us and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Share Offer will not proceed and will lapse.**

The Offer Price will not be more than HK$0.60 per Offer Share and is expected to be not less than HK$0.40 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced on or before the Price Determination Date. **Prospective investors should be aware that the Offer Price to be determined on or around the Price Determination Date may be, but not expected to be, lower than the indicative Offer Price range as stated in this prospectus.**

Announcement of final Offer Price

The announcement of the final Offer Price, together with the indication of level of interests in the Placing and the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares is expected to be published on or before Friday, 10 July 2020.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK$0.60 per Offer Share and is expected to be not less than HK$0.40 per Offer Share. Applicants under the Public Offer should pay, on application, the maximum Offer Price of HK$0.60 per Offer Share plus 1% brokerage fee, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy, amounting to a total of HK$3,030.23 per board lot of 5,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum Offer Price of HK$0.60 per Offer Share, appropriate refund payments (including the related brokerage fee, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest.

Further details are set out in the section headed "How to apply for Public Offer Shares" in this prospectus.

REDUCTION OF THE NUMBER OF OFFER SHARES AND/OR THE INDICATIVE OFFER PRICE RANGE

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, where it considers appropriate, based on the level of interest expressed by prospective professional, institutional and private investors during a book-building process, and with the consent of our

Company, reduce the number of the Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time prior to the Price Determination Date, which is expected to be on or around Monday, 6 July 2020. In such a case, our Company will, as soon as practicable following the decision to make such reduction, cause to be published on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.yikwo.cn** an announcement of such change on or before the Price Determination Date. In addition, we will:

(i) issue a supplemental prospectus updating investors of the reduction in the indicative offer price together with an update of all financial and other information in connection with such change;

(ii) extend the period under which the offer was open for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their existing subscriptions; and

(iii) give potential investors who had applied for the Offer Shares the right to withdraw their applications given the change in circumstances.

Upon issue of such an announcement and supplemental prospectus, the revised indicative Offer Price range and/or number of Offer Shares will be final and conclusive and the Offer Price, if agreed upon by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company will be fixed within such revised range. Such an announcement and supplemental prospectus will also include confirmation or revision, as appropriate, of the working capital statement and the Share Offer statistics as currently set out in this prospectus, and any other financial information which may change materially as a result of such reduction.

Applicants who have submitted their applications for Public Offer Shares before such announcement is made may subsequently withdraw their applications in the event that such announcement is subsequently made. In the absence of any such announcement so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the offer price range as stated in this prospectus.

Before submitting applications for Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until Price Determination Date.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares is conditional upon, among others, the satisfaction of all of the following conditions:

1. Listing

The Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Share Offer and the Capitalisation Issue and Shares which fall to be allotted and issued upon the exercise of the Offer Size Adjustment Option (and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange).

2. Underwriting Agreements

The obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of a waiver of any condition(s)) and such obligations not being terminated in accordance with the terms of the Underwriting Agreements.

3. Price determination

The Offer Price having been determined and the execution of the Price Determination Agreement on or around the Price Determination Date or such later date as may be agreed by our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters).

If any of the conditions is not fulfilled or waived on or before the times specified above, the Share Offer will lapse and the application money will be returned to the applicants, without interest. The terms on which the application money will be returned to the applicants are set out in the section headed "How to apply for Public Offer Shares — 14. Despatch/collection of share certificates and refund monies" in this prospectus.

THE SHARE OFFER

The Share Offer comprises the Placing and the Public Offer. A total of initially 150,000,000 Offer Shares (subject to the Offer Size Adjustment Option) will be made available under the Share Offer, of which 135,000,000 Placing Shares (subject to reallocation and the Offer Size Adjustment Option), representing 90% of the total number of Offer Shares, will initially be conditionally placed with selected professional, institutional and private investors under the Placing. The remaining 15,000,000 Public Offer Shares (subject to reallocation), representing 10% of the total number of Offer Shares, will initially be offered to members of the public in Hong Kong under the Public Offer. The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Public Offer Underwriters have agreed to underwrite the Public Offer Shares under the terms of the Public Offer Underwriting Agreement. The Placing Underwriters will underwrite the Placing Shares pursuant to the terms of the Placing Underwriting Agreement. Further details of the underwriting are set out in the section headed "Underwriting" in this prospectus.

Investors may apply for Offer Shares under the Public Offer or indicate an interest for Offer Shares under the Placing, but may not do both.

The Placing

Our Company is expected to offer initially 135,000,000 Placing Shares (subject to reallocation and the Offer Size Adjustment Option) at the Offer Price under the Placing. The number of Placing Shares expected to be initially available for application under the Placing represents 90% of the total number of Offer Shares being initially offered under the Share Offer. The Placing is expected to be fully underwritten by the Placing Underwriters subject to the Offer Price being agreed on or before the Price Determination Date.

It is expected that the Placing Underwriters or selling agents nominated by them, on behalf of our Company, will conditionally place the Placing Shares at the Offer Price with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who sought the Placing Shares in the Placing may also be allocated the Placing Shares.

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and the Shareholders as a whole. Investors to whom Placing Shares are offered will be required to undertake not to apply for Offer Shares under the Public Offer.

Our Company, our Directors, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Underwriters) are required to take reasonable steps to identify and reject applications under the Public Offer from investors who receive Shares under the Placing, and to identify and reject indications of interest in the Placing from investors who receive Shares under the Public Offer.

The Placing is expected to be subject to the conditions as stated in the paragraphs headed "Conditions of the Share Offer" in this section.

The Public Offer

Our Company is initially offering 15,000,000 Public Offer Shares for subscription (subject to reallocation) by members of the public in Hong Kong under the Public Offer, representing 10% of the total number of Offer Shares offered under the Share Offer. The Public Offer is fully underwritten by the Public Offer Underwriters subject to the Offer Price being agreed on or before the Price Determination Date. Applicants for the Public Offer Shares are required on application to pay the maximum Offer Price of HK$0.60 per Share plus 1% brokerage fee, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy.

The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investor. An applicant for Shares under the Public Offer will be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it has not applied for nor taken up any Offer Shares under the Placing nor otherwise participated in the Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue (as the case may be), such applicant's application under the Public Offer is liable to be rejected.

Multiple applications or suspected multiple applications and any application made for more than 100% of the Shares initially comprised in the Public Offer (i.e. 15,000,000 Public Offer Shares) are liable to be rejected.

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. When there is over-subscription under the Public Offer, allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

REALLOCATION OF THE OFFER SHARES BETWEEN PLACING AND PUBLIC OFFER

The allocation of the Offer Shares between the Placing and the Public Offer is subject to reallocation on the following basis:

(a) In the event that the Placing Shares are fully subscribed or oversubscribed under the Placing:

(i) if the Public Offer Shares are undersubscribed, the Joint Bookrunners (for themselves and on behalf of the Underwriters), at their sole and absolute discretion, may reallocate all or any of the unsubscribed Public Offer Shares from the Public Offer to the Placing;

(ii) if the Public Offer Shares are fully subscribed or oversubscribed and the number of Shares validly applied for under the Public Offer represents less than 15 times the number of Shares initially available for subscription under the Public Offer, then up to 15,000,000 Shares may be reallocated to the Public Offer from the Placing at the discretion of the Joint Bookrunners, so that the total number of Shares available for subscription under the Public Offer will be increased to 30,000,000 Shares, representing 20% of the total number of Offer Shares initially available for subscription under the Share Offer (before any exercise of the Offer Size Adjustment Option);

(iii) if the number of Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Public Offer, then Shares will be reallocated to the Public Offer from the Placing, so that the total number of Shares available for subscription under the Public Offer will be increased to 45,000,000 Shares, representing 30% of the number of the Offer Shares initially available for subscription under the Share Offer (before any exercise of the Offer Size Adjustment Option);

(iv) if the number of Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Public Offer, then Shares will be reallocated to the Public Offer from the Placing, so that the total number of Shares available for subscription under the Public Offer will be increased to 60,000,000 Shares, representing 40% of the number of the Offer Shares initially available for subscription under the Share Offer (before any exercise of the Offer Size Adjustment Option); and

(v) if the number of Shares validly applied for under the Public Offer represents 100 times or more the number of Shares initially available for subscription under the Public Offer, then Shares will be reallocated to the Public Offer from the Placing, so that the total number of Shares available for subscription under the Public Offer will be increased to 75,000,000 Shares, representing 50% of the number of the Offer Shares initially available for subscription under the Share Offer (before any exercise of the Offer Size Adjustment Option).

(b) In the event that the Placing Shares are undersubscribed under the Placing:

(i) if the Public Offer Shares are undersubscribed, the Share Offer shall not proceed unless fully underwritten by the Underwriters pursuant to the Underwriting Agreements; and

(ii) if the Public Offer Shares are fully subscribed or oversubscribed irrespective of the number of times, then up to 15,000,000 Shares may be reallocated to the Public Offer from the Placing, so that the total number of Shares available for subscription under the Public Offer will be increased to 30,000,000 Shares, representing 20% of the total number of Offer Shares initially available for subscription under the Share Offer (before any exercise of the Offer Size Adjustment Option), and the final Offer Price shall be fixed at the low end of the indicated Offer Price range stated in the Prospectus according to the HKEX Guidance Letter HKEX-GL91-18 issued by the Stock Exchange.

In all cases save for (a)(i) and (b)(i) above, the number of Offer Shares allocated to the Placing will be correspondingly reduced.

The Offer Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Bookrunners (for themselves and on behalf of the Underwriters). In accordance with the requirements set out in Guidance Letter HKEx-GL91-18, if such reallocation is done other than pursuant to paragraph (a)(iii), (a)(iv) or (a)(v) above, the Joint Bookrunners (for themselves and on behalf of the Underwriters) may, at their discretion, reallocate the Offer Shares initially allocated for the Placing to the Public Offer to satisfy valid applications under the Public Offer, provided that the maximum total number of Offer Shares that may be allocated to the Public Offer following such reallocation shall be not more than double the initial allocation to the Public Offer i.e. 30,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available for subscription under the Share Offer; and the final Offer Price shall be fixed at the low end of the indicated Offer Price range stated in this prospectus (i.e. HK$0.40 per Offer Share) according to the HKEX Guidance Letter HKEX-GL91-18 issued by the Stock Exchange.

Details of any reallocation of the Offer Shares between the Public Offer and the Placing will be disclosed in the allotment results announcement of the Share Offer, which is expected to be published on Friday, 10 July 2020.

OFFER SIZE ADJUSTMENT OPTION

Our Company has granted the Offer Size Adjustment Option to the Placing Underwriters, exercisable by the Joint Bookrunners (for themselves and on behalf of the Placing Underwriters) at any time before 6:00 p.m. on the business day immediately before the date of the announcement of the results of allocations and the basis of allocation of the Public Offer Shares, to require our Company to allot and issue up to an aggregate of 22,500,000 additional Placing Shares, representing 15% of the number of the Offer Shares initially being offered under the Share Offer, on the same terms as those applicable to the Share Offer. The Offer Size Adjustment Option will not be used for price stabilisation purposes in the secondary market after listing of the Shares on the Stock Exchange and is not subject to the Securities and Futures (Price Stabilizing) Rules of the SFO (Chapter 571W of the Laws of Hong Kong). Any such additional Shares may be issued to cover any over-allocation in the Placing and in the event that the Offer Size Adjustment Option is exercised, the Joint Bookrunners (for themselves and on behalf of the Placing Underwriters) may decide to whom and proportions in which the additional Shares will be allotted. If the Offer Size Adjustment Option is exercised in full, the additional 22,500,000 Shares and the total Offer Shares (inclusive of the shares of the Offer Size Adjustment Option) will represent approximately 3.6% and 27.7% of our Company's enlarged share capital immediately after completion of the Share Offer and the exercise of the Offer Size Adjustment Option. The additional net proceeds received from the exercise of the Offer Size Adjustment Option will be allocated pro rata in accordance to the allocations as disclosed in the section headed "Future plans and use of proceeds".

Our Company will disclose in the announcement of the results of allocations and the basis of allocation of the Public Offer Shares whether, and to what extent, the Offer Size Adjustment Option has been exercised. In the event that the Offer Size Adjustment Option has not been exercised by the Joint Bookrunners (for themselves and on behalf of the Placing Underwriters) our Company will confirm in such announcement that the Offer Size Adjustment Option has lapsed and cannot be exercised at any future date.

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at **www.eipo.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Sponsor, the **White Form eIPO** Service Provider, the Joint Bookrunners and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply for the Offer Shares online through the **White Form eIPO** service, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company, the Sole Sponsor and the Joint Bookrunners may accept or reject it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Public Offer Shares.

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a connected person (as defined in the GEM Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer;
- an associate (as defined in the GEM Listing Rules) of any of the above; or
- have been allocated or have applied for any Placing Shares under the Placing or otherwise participated in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which application channel to use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application form or apply only to the **White Form eIPO** Service Provider at **www.eipo.com.hk**.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect this Prospectus and Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 30 June 2020 to 12:00 noon on Monday, 6 July 2020 from:

(i) any of the following offices of the Public Offer Underwriters:

Ruibang Securities Limited
9th Floor, Sang Woo Building
227-228 Gloucester Road
Wanchai, Hong Kong

Mouette Securities Company Limited
Room 1301, 13th Floor
Tung Wai Commercial Building
109-111 Gloucester Road
Wanchai, Hong Kong

Chuenman Securities Limited
Office A, 10th Floor
Sang Woo Building
227-228 Gloucester Road
Wanchai, Hong Kong

Grand Moore Capital Limited
Unit 1607, 16th Floor
Silvercord Tower 1
30 Canton Road, Tsim Sha Tsui
Kowloon, Hong Kong

(ii) any of the following branches of Bank of China (Hong Kong) Limited, the receiving bank for the Public Offer:

	Branch Name	Address
Hong Kong Island	United Centre Branch	Shop 1021, United Centre, 95 Queensway, Hong Kong
Kowloon	Ma Tau Kok Road Branch	39-45 Ma Tau Kok Road, To Kwa Wan, Kowloon
New Territories	Luen Wo Market Branch Safe Box Service Centre	Shop B, 10-16 Luen Shing Street, Luen Wo Market, Fanling, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 30 June 2020 until 12:00 noon on Monday, 6 July 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker who may have such Application Form and the prospectus available.

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED — YIK WO INTERNATIONAL PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

9:00 a.m.to 5:00 p.m., Tuesday, 30 June 2020
9:00 a.m. to 5:00 p.m., Thursday, 2 July 2020
9:00 a.m. to 5:00 p.m., Friday, 3 July 2020
9:00 a.m. to 1:00 p.m., Saturday, 4 July 2020
9:00 a.m. to 12:00 noon., Monday, 6 July 2020

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 6 July 2020, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather on the opening of the application lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

(i) **undertake** to execute all relevant documents and instruct and authorise our Company and/or the Joint Bookrunners (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) **agree** to comply with the Companies Law, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Memorandum and Articles of Association;

(iii) **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) **confirm** that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) **confirm** that you are aware of the restrictions on the Share Offer in this prospectus;

(vi) **agree** that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) **undertake** and **confirm** that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;

(viii) **agree** to disclose to our Company, our Hong Kong Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, **agree** and **warrant** that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) **agree** that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) **agree** that your application will be governed by the laws of Hong Kong;

(xii) **represent**, **warrant** and **undertake** that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) **warrant** that the information you have provided is true and accurate;

(xiv) **agree** to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) **authorise** our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;

(xvi) **declare** and **represent** that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) **understand** that our Company, the Sole Sponsor and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) **warrant** that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) **warrant** that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional instructions for *YELLOW Application Form*

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH THE WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in the paragraphs headed "2. Who can apply" in this section above may apply through the **White Form eIPO** service for the Offer Shares to be allocated and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at **www.eipo.com.hk**. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** Service Provider.

Time for Submitting Applications under the White Form eIPO Service

You may submit your application through the **White Form eIPO** service through the designated website at **www.eipo.com.hk** (24 hours daily, except on the last day for applications) from 9:00 a.m. on Tuesday, 30 June 2020 until 11:30 a.m. on Monday, 6 July 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 6 July 2020, the last day for applications, or such later time as described in the paragraphs headed "10. Effect of bad weather on the opening of the application lists" below.

No Multiple Applications

If you apply by means of the **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for the Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **White Form eIPO** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Commitment to Sustainability

The obvious advantage of **White Form eIPO** service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK$2 for each "Yik Wo International Holdings Limited" **White Form eIPO** application submitted via **www.eipo.com.hk** to support sustainability.

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F., One & Two Exchange Square
8 Connaught Place
Central Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Joint Bookrunners and our Hong Kong Share Registrar.

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- **agree** that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- **agree** to accept the Public Offer Shares applied for or any lesser number allocated;

- **undertake** and **confirm** that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;

- (if the **electronic application instructions** are given for your benefit) **declare** that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) **declare** that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

- **confirm** that you understand that our Company, the Sole Sponsor and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;

- **authorise** our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- **confirm** that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- **agree** that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- **agree** to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving bank, the Sole Sponsor, the Joint Bookrunners, the Underwriters and/or their respective advisers and agents;

- **agree** (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- **agree** that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- **agree** that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;

- **agree** to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Public Offer Shares;

- **agree** with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for themselves and on behalf of each of our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Companies Ordinance and the Articles of Association; and

- **agree** that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage fee, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage fee, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 5,000 Public Offer Shares. Instructions for more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:(1)

9:00 a.m.to 8:30 p.m., Tuesday, 30 June 2020
8:00 a.m. to 8:30 p.m., Thursday, 2 July 2020
8:00 a.m. to 8:30 p.m., Friday, 3 July 2020
8:00 a.m. to 12:00 noon, Monday, 6 July 2020

Note: The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 30 June 2020 until 12:00 noon on Monday, 6 July 2020 (24 hours daily, except on Monday, 6 July 2020 the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, 6 July 2020, the last application day or such later time as described in the paragraphs headed "10. Effect of bad weather on the opening of the application lists" in this section.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, our Hong Kong Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for the Offer Shares through the **White Form eIPO** service is only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facility is subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, 6 July 2020.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company, then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage fee, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 5,000 Public Offer Shares. Each application or **electronic application instructions** in respect of more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

If your application is successful, brokerage fee will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to the section headed "Structure and conditions of the Share Offer" in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above;
- "extreme conditions" caused by super typhoons; or
- a black rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 6 July 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, 6 July 2020 or if there is a tropical cyclone warning signal number 8 or above, "extreme conditions" caused by super typhoons or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected timetable" of this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the Offer Price, the indication of level of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Friday, 10 July 2020 on our Company's website at **www.yikwo.cn** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.yikwo.cn** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Friday, 10 July 2020;

- from the designated results of allocations websites at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment;** Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Friday, 10 July 2020 to 12:00 midnight on Thursday, 16 July 2020;

- by telephone enquiry line by calling (852) 2862 8555 between 9:00 a.m. and 6:00 p.m. from Friday, 10 July 2020 to Wednesday, 15 July 2020 on a Business Day;

- in the special allocation results booklets which will be available for inspection during opening hours from Friday, 10 July 2020 to Monday, 13 July 2020 at all the designated receiving bank branches on a business day.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure and conditions of the Share Offer" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or our agents exercise our/their discretion to reject your application:

Our Company, the Sole Sponsor, the **White Form eIPO** Service Provider, the Joint Bookrunners and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Division of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or

- within a longer period of up to six weeks if the Listing Division of the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at **www.eipo.com.hk**;
- your payment is not made correctly or the cheque or banker 's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Bookrunners believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 100% of the Public Offer Shares initially available for subscription under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK$0.60 per Offer Share (excluding brokerage fee, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer set out in the paragraph headed "Structure and conditions of the Share Offer — The Share Offer — The Public Offer" in this prospectus are not fulfilled or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage fee, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker 's cashier order will not be cleared.

Any refund of your application monies will be made on or before Friday, 10 July 2020.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage fee, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Friday, 10 July 2020. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker s cashier order(s).

Share certificates will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on Monday, 13 July 2020 provided that the Share Offer has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 Public Offer Shares or more and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 10 July 2020 or such other date as notified by us.

If you are an individual who is eligible for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which is eligible for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified on your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) will be sent to the address on your Application Form on or before Friday, 10 July 2020, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 10 July 2020 or such other date as notified by us. If you are an individual who is eligible for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which is eligible for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified on your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) (where applicable) will be sent to the address on your Application Form on or before Friday, 10 July 2020, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Friday, 10 July 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS participant (other than a CCASS Investor Participant)**

  For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

- **If you apply as a CCASS Investor Participant**

  Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the paragraphs headed "11. Publication of results" in this section. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 10 July 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through White Form eIPO service:

- If you apply for 1,000,000 Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, 10 July 2020, or any other place or date notified by our Company as the place or date of despatch/collection of Share certificates e-Refund payment instructions/refund cheques.

- If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post and at your own risk.

- If you apply for less than 1,000,000 Offer Shares through the **White Form eIPO** service, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Friday, 10 July 2020 by ordinary post and at your own risk.

- If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address specified in your application instructions in the form of refund cheque(s) by ordinary post and at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Friday, 10 July 2020, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in the paragraphs headed "11. Publication of results" above on Friday, 10 July 2020.

- You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 10 July 2020 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, 10 July 2020. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage fee, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, 10 July 2020.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second business day after any trading day.

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

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

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

The following is the text of a report set out on pages I-1 to I-3, received from the reporting accountants of the Company, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, for the purposes of incorporation in this prospectus.

GrantThornton
致同

ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF YIK WO INTERNATIONAL HOLDINGS LIMITED (FORMERLY KNOWN AS YIHE INTERNATIONAL HOLDINGS LIMITED) AND GRAND MOORE CAPITAL LIMITED

Introduction

We report on the historical financial information of Yik Wo International Holdings Limited (formerly known as Yihe International Holdings Limited) (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-63, which comprises the consolidated statements of financial position of the Group as at 31 December 2017, 2018 and 2019, the statements of financial position of the Company as at 31 December 2018 and 2019 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2017, 2018 and 2019 (the "Track Record Period"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-63 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 June 2020 (the "Prospectus") in connection with the initial listing of shares of the Company on the GEM of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company ("The Directors") are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and basis of preparation set out in Note 1.3 and Note 2.1 to the Historical Financial Information, respectively, and for such internal control as the Directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, "Accountants' Reports on Historical Financial Information in

Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and basis of preparation set out in Note 1.3 and Note 2.1 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's consolidated financial position as at 31 December 2017, 2018 and 2019 and the Company's financial position as at 31 December 2018 and 2019, and of the Group's consolidated financial performance and consolidated cash flows for the Track Record Period in accordance with the basis of presentation and basis of preparation set out in Note 1.3 and Note 2.1 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which contains information about the dividend paid by the Group in respect of the Track Record Period.

Statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong
30 June 2020

Shaw Chi Kit
Practising Certificate No.: P04834

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Grant Thornton Hong Kong Limited under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousands ("RMB'000"), except when otherwise indicated.

Consolidated Statements of Profit or Loss and Other Comprehensive Income

		Year ended 31 December		
	Note	**2017**	**2018**	**2019**
		RMB'000	*RMB'000*	*RMB'000*
		(note (i))	*(note (i))*	
Revenue	4	166,117	192,458	212,795
Cost of sales		(118,326)	(137,571)	(152,375)
Gross profit		47,791	54,887	60,420
Other income	5	47	45	59
Selling expenses		(9,160)	(9,872)	(11,019)
Administrative and other operating expenses		(8,321)	(14,061)	(20,042)
Profit from operations		30,357	30,999	29,418
Finance costs	6	—	—	(226)
Profit before income tax	7	30,357	30,999	29,192
Income tax expense	8	(7,693)	(8,419)	(8,427)
Profit for the year		22,664	22,580	20,765
Other comprehensive income, net of tax:				
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operation recognised		—	—	(96)
Total comprehensive income for the year		22,664	22,580	20,669
Profit for the year attributable to:				
Equity holders of the Company		22,664	22,414	20,501
Non-controlling interests		—	166	264
		22,664	22,580	20,765

	Note	Year ended 31 December		
		2017	2018	2019
		RMB'000	*RMB'000*	*RMB'000*
		(note (i))	*(note (i))*	
Total comprehensive income for the year attributable to:				
Equity holders of the Company		22,664	22,414	20,405
Non-controlling interests		—	166	264
		22,664	22,580	20,669
Earnings per share attributable to equity holders of the Company				
Basic and diluted *(RMB cents)*	10	5.04	4.98	4.56

Note

(i): The Group has initially applied HKFRS 16 at 1 January 2019. Under the modified retrospective approach, comparative information is not restated (refer to note 2.2 for details).

Consolidated Statements of Financial Position

		As at 31 December		
	Note	**2017**	**2018**	**2019**
		RMB'000 *(note (i))*	*RMB'000* *(note (i))*	*RMB'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	12	13,055	25,433	28,077
Intangible assets	14	—	8,500	6,500
		13,055	33,933	34,577
Current assets				
Inventories	16	10,360	5,916	6,390
Trade and other receivables	17	30,405	32,304	38,370
Amount due from the ultimate holding company	18	—	1	1
Amount due from a related company	18	18,176	24,214	—
Amount due from a shareholder	19	—	—	6,018
Cash and cash equivalents	20	11,378	9,044	26,171
		70,319	71,479	76,950
Current liabilities				
Trade and other payables	21	16,159	22,339	26,109
Amount due to a related company	18	2,257	—	—
Income tax payable		1,122	1,989	2,267
Lease liabilities	13	—	—	595
		19,538	24,328	28,971
Net current assets		50,781	47,151	47,979
Total assets less current liabilities		63,836	81,084	82,556

	Note	As at 31 December 2017	2018	2019
		RMB'000	*RMB'000*	*RMB'000*
		(note (i))	*(note (i))*	
Non-current liabilities				
Lease liabilities	13	—	—	3,703
Net assets		63,836	81,084	78,853
EQUITY				
Share capital	22	20,000	20,001	1
Reserves	23	43,836	57,029	78,852
Equity attributable to equity holders of the Company		63,836	77,030	78,853
Non-controlling interests	23	—	4,054	—
		63,836	81,084	78,853

Note

(i): The Group has initially applied HKFRS 16 at 1 January 2019. Under the modified retrospective approach, comparative information is not restated (refer to note 2.2 for details).

Statements of Financial Position of the Company

	Note	As at 31 December 2018	As at 31 December 2019
		RMB'000	*RMB'000*
ASSET AND LIABILITY			
Non-current asset			
Investment in a subsidiary	15	—*	—*
Current assets			
Amount due from the ultimate holding company	18	1	1
Amount due from a subsidiary *(Note)*		—	20,440
Cash and cash equivalents		—	199
		1	20,640
Current liabilities			
Amounts due to subsidiaries *(Note)*		—	5,460
Net current assets		1	15,180
Net assets		1	15,180
EQUITY			
Share capital	22	1	1
Share premium		—	20,000
Accumulated losses		—	(4,821)
Total equity		1	15,180

* *Amount less than RMB1,000.*

Note: The amounts due are unsecured, interest-free and repayable on demand.

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company							
	Share Capital	**Share Premium**	**Statutory Reserve**	**Translation Reserve**	**Retained Profits**	**Total**	**Non-Controlling Interests**	**Total Equity**
	RMB'000	*RMB'000 (note (i))*	*RMB'000 (note (i))*	*RMB'000 (note (i))*	*RMB'000 (note (i))*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2017	20,000	—	4,499	—	16,673	41,172	—	41,172
Profit and total comprehensive income for the year	—	—	—	—	22,664	22,664	—	22,664
Transaction with owner								
— Transfer to statutory reserve	—	—	1,374	—	(1,374)	—	—	—
As at 31 December 2017	20,000	—	5,873	—	37,963	63,836	—	63,836
Profit and total comprehensive income for the year	—	—	—	—	22,414	22,414	166	22,580
Transactions with owner								
— Transfer to statutory reserve	—	—	1,939	—	(1,939)	—	—	—
— Disposal of partial interest to a non-controlling interest (note (ii))	—	—	—	—	(3,888)	(3,888)	3,888	—
— Issue of share capital (note 22)	1	—	—	—	—	1	—	1
— Dividends declared (note 11)	—	—	—	—	(5,333)	(5,333)	—	(5,333)
As at 31 December 2018	20,001	—	7,812	—	49,217	77,030	4,054	81,084
Profit for the year	—	—	—	—	20,501	20,501	264	20,765
Other comprehensive income								
— Exchange differences on translation of foreign operation recognised	—	—	—	(96)	—	(96)	—	(96)
Total comprehensive income for the year	—	—	—	(96)	20,501	20,405	264	20,669
Transactions with owner								
— Transfer to statutory reserve	—	—	2,017	—	(2,017)	—	—	—
— Dividends declared (note 11)	—	—	—	—	(21,755)	(21,755)	(1,145)	(22,900)
— Issue of share capital (note 22)	—*	20,000	—	—	—	20,000	—	20,000
— Acquisition of Hengsheng Animation (note (iii))	(20,000)	—	—	—	3,173	(16,827)	(3,173)	(20,000)
As at 31 December 2019	1	20,000	9,829	(96)	49,119	78,853	—	78,853

* *Amount less than RMB1,000.*

Note

(i): Total amount of RMB43,836,000, RMB57,029,000 and RMB78,852,000 as at 31 December 2017, 2018 and 2019 respectively represents the amount of reserves as presented in the consolidated statements of financial position.

(ii): Pursuant to the share transfer agreement entered into between Mr. Xu and Mr. Xu Yubin, nephew of Mr. Xu, 5% equity interests of Hengsheng Animation were transferred from Mr. Xu to Mr. Xu Yubin, a non-controlling shareholder, in September 2018.

(iii): Pursuant to the Reorganisation as set out in note 1.2, Silver Excel Investments Limited ("Silver Excel"), a wholly owned subsidiary of the Company, acquired the interests of Fujian Hengsheng Animation Culture Diffusion Co., Ltd. ("Hengsheng Animation" or the "Operating Company") from the shareholders of Hengsheng Animation at the total consideration of RMB20,000,000 on 31 May 2019 and the Company became the holding company of the companies now comprising the Group.

Consolidated Statements of Cash Flows

	Note	Year ended 31 December		
		2017	2018	2019
		RMB'000	*RMB'000*	*RMB'000*
Cash flows from operating activities				
Profit before income tax		30,357	30,999	29,192
Adjustments for:				
Depreciation of property, plant and equipment		2,940	4,115	6,290
Amortisation of intangible assets		—	1,000	2,000
Loss on disposal of property, plant and equipment		—	114	154
Interest income		(23)	(45)	(59)
Interest expense for lease arrangements		—	—	226
Operating cash flows before working capital changes		33,274	36,183	37,803
(Increase)/Decrease in inventories		(2,393)	4,444	(474)
Increase in trade and other receivables		(8,465)	(1,899)	(6,359)
Increase/(Decrease) in trade and other payables		3,980	6,315	(721)
Cash generated from operations		26,396	45,043	30,249
Interest paid		—	—	(226)
Income taxes paid		(4,238)	(6,338)	(8,149)
Net cash generated from operating activities		22,158	38,705	21,874
Cash flows used in investing activities				
Interest received		23	45	59
Purchase of property, plant and equipment		(3,772)	(17,194)	(4,146)
Proceeds from disposal of property, plant and equipment		—	452	20
Purchase of intangible assets		—	(9,500)	—
Increase in amount due from/to related companies		(10,213)	(9,509)	—
Net cash used in investing activities		(13,962)	(35,706)	(4,067)

	Note	Year ended 31 December		
		2017	2018	2019
		RMB'000	*RMB'000*	*RMB'000*
Cash flows used in financing activities				
Dividends paid	11	—	(5,333)	—
Payment of lease liabilities		—	—	(584)
Issue of shares pursuant to Pre-IPO Investment	22	—	—	20,000
Acquisition of interests in Hengsheng Animation		—	—	(20,000)
Net cash used in financing activities		—	(5,333)	(584)
Net increase/(decrease) in cash and cash equivalents		8,196	(2,334)	17,223
Cash and cash equivalents at the beginning of the year		3,182	11,378	9,044
Effect of foreign exchange rate changes		—	—	(96)
Cash and cash equivalents at the end of the year	20	11,378	9,044	26,171

Note (i): During the year ended 31 December 2018, the Company issued 1,000 ordinary shares of HK$0.01 each at par with a debit to amount due from the ultimate holding company which are not reflected in the consolidated statements of cash flows.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

1.1 General information

The Company was incorporated as an exempted company in the Cayman Islands on 13 December 2018 with limited liability. The addresses of the Company's registered office and principal place of business are set out in the section headed "Corporate information" to the Prospectus. The Company was formerly known as Yihe International Holdings Limited and changed to its current name on 15 February 2019.

The Company is an investment holding company and its subsidiaries are principally engaged in the design and development, manufacturing and sales of disposable plastic food storage containers (the "Listing Business") in the People's Republic of China (the "PRC").

The Company's immediate and ultimate holding company is Prize Investment Limited ("Prize Investment"), a company incorporated in the British Virgin Islands (the "BVI"). The ultimate controlling party of the Group is Mr. Xu Youjiang ("Mr. Xu").

1.2 Reorganisation

Prior to the completion of the Group reorganisation (the "Reorganisation") as detailed in the section headed "History, Reorganisation and corporate structure" to the Prospectus, Hengsheng Animation operated (i) the Listing Business and (ii) the provision of design services for animation and its ancillary products and the production and distribution of animation programmes (the "Excluded Business").

In order to delineate the business and to separate the Excluded Business, the Operating Company underwent a corporate division of the Operating Company into two companies, namely the Operating Company holding the Listing Business and Fujian Renyue Culture Diffusion Co., Ltd. ("Fujian Renyue") holding the Excluded Business. Following the corporate division, the registered capital of the Operating Company was reduced from RMB30,000,000 to RMB20,000,000. Fujian Renyue was established in the PRC as limited liability company by way of the above corporate division with registered capital of RMB10,000,000. The shareholding structure remained the same and both the Operating Company and Fujian Renyue were controlled by Mr. Xu upon the corporate division. The assets, liabilities and interests in relation to the Excluded Business were allocated to Fujian Renyue and the remaining assets, liabilities and interest of the Listing Business were retained within the Operating Company. The corporate division was completed in December 2018. In March 2019, Mr. Xu transferred his entire equity interest in Fujian Renyue to Mr. Xu Yubin.

The Reorganisation was completed on 31 May 2019, and the Company became the holding company of the companies now comprising the Group.

As at the end of each reporting period and the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Company name	Place and date of incorporation/ establishment	Registered/ Issued and fully paid up capital as at the end of the Track Record Period	Equity interest attributable to the Group 31 December 2017	2018	2019	Date of this report	Principal activities
Hengsheng Animation (note a)	The PRC/ 13 April 2011	RMB20,000,000	100%	95%	100%	100%	Design and development, manufacturing and sales of disposable plastic food storage containers
Yihe Investment Holdings Limited (note b)	BVI/ 14 December 2018	US$1	N/A	100% (note e)	100% (note e)	100% (note e)	Investment holding
Silver Excel (note c)	Hong Kong/ 4 May 2018	HK$1	N/A	N/A	100%	100%	Investment holding

(a) Hengsheng Animation was incorporated in the PRC with registered and paid up capital of RMB30,000,000 on 13 April 2011. Upon the corporate division in December 2018 as set out above, the registered capital was reduced to RMB20,000,000. The audited financial statements of Hengsheng Animation for the year ended 31 December 2017 and 2018 were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC ("PRC GAAP") and were audited in accordance with relevant auditing standards in the PRC by Xia Men Dong You Certified Public Accountants 廈門東友會計師事務所有限公司 and XiaMenShi YiJiaShun Certified Public Accountants 廈門市怡嘉順會計師事務所有限公司. No audited financial statements of Hengsheng Animation for the year ended 31 December 2019 has been prepared.

(b) No statutory financial statements have been prepared for Yihe Investment Holdings Limited as it is not subject to statutory audit requirement under relevant rules and regulations in the jurisdiction of incorporation.

(c) No statutory financial statements have been prepared for Silver Excel Investments Limited as it has not commenced any business or operation since its incorporation, other than the Reorganisation.

(d) All companies comprising the Group have adopted 31 December as their financial year end date.

(e) Issued capital are held directly by the Company.

1.3 Basis of presentation

The Operating Company was separated into the Operating Company holding the Listing Business and Fujian Renyue holding the Excluded Business. As the Excluded Business was not conducted by a separate legal entity within the Operating Company, certain account balances of the financial statements of the Operating Company were allocated between the Operating Company and Fujian Renyue, and these allocations were made either on specifically identifiable basis or using the ratio of operation headcount or other reasonable methods. The expenses allocated are mainly salaries of supporting functions such as human resources and accounting, and rentals and utilities of general office. Rentals and utilities of general office were allocated based on the headcount of respective Listing Business and Excluded Business in the general office. Salaries of support departments including general manager office, finance department and administration department were allocated based on actual time spent on the management of Listing Business and Excluded Business, number of account transactions of Listing Business and Excluded Business and total operational headcount of Listing Business and Excluded Business, respectively.

Pursuant to the Reorganisation, which was completed by the corporate division and interspersing the Company and other intermediate holding companies between the Operating Company, and the ultimate controlling shareholders, the Company became the holding company of the companies now comprising the Group on 31 May 2019. The Group is under the control of Mr. Xu prior to and after the Reorganisation. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuation of the Listing Business. For the purpose of this report, the Historical Financial Information has been prepared and presented using the carrying amounts of the Listing Business as recorded in the financial statements of the Operating Company for the Track Record Period.

Accordingly, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Track Record Period including the financial performance, changes in equity and cash flows of all companies now comprising the Group but excluding the results of Excluded Business from the earliest date presented. The Historical Financial Information have been prepared using the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. The consolidated statements of financial position of the Group as at 31 December 2017 and 2018 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates taking into account the respective dates of incorporation, where applicable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA. All HKFRSs effective for accounting period commencing from 1 January 2019, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Track Record Period, except that the Group adopted HKFRS 16 "Leases" from 1 January 2019. The early adoption of aforementioned HKFRSs except for HKFRS 16 have no material impact to the results or financial position of the Group during the Track Record Period. Specifically, HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" which are effective for accounting period beginning on or after 1 January 2018 have been early adopted by the Group and consistently applied throughout the Track Record Period. HKFRS 9 and HKFRS 15 replace the provisions of HKAS 39 "Financial Instruments: Recognition and Measurement", and HKAS 18 "Revenue" and HKAS 11 "Constructions Contracts" respectively. The adoptions of HKFRS 9 and HKFRS 15 do not have any significant impacts on the financial positions or results of the Group during the Track Record Period as compared to the provisions of HKAS 39 and HKAS 18. The accounting policies for leases under HKFRS 16 are set out in note 2.14 below. The Historical Financial Information also complies with the applicable disclosure provisions of the GEM Listing Rules. The significant accounting policies that have been used in the preparation of this Historical Financial Information are summarised below. These policies have been consistently applied to all the periods presented in the Historical Financial Information.

The Historical Financial Information has been prepared on the historical cost.

It should be noted that accounting estimates and assumptions are used in preparation of the Historical Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 3.

2.2 Adoption of HKFRS 16 "Leases"

During the year ended 31 December 2019, the Group had applied HKFRS 16 and the related consequential amendments to other HKFRSs which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 16, the Group had elected to apply the new standard retrospectively with the cumulative effect of initial application recognised at 1 January 2019. The Group elected the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and applied the new definition of lease in HKFRS 16 only to contracts entered on or after the date of initial application of HKFRS 16, being 1 January 2019. Furthermore, the Group used the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease.

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognised by the Group as liabilities. Operating lease rental expenses were recognised in the consolidated statement of profit or loss and other comprehensive income over the lease period on a straight-line basis.

On adoption of HKFRS 16, the Group recognised the full lease liabilities in relation to leases which had previously been classified as operating leases if they meet certain criteria set out in HKFRS 16.

These liabilities were subsequently measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of respective entities. The difference between the present value and the total remaining lease payments represents the cost of financing. Such finance cost will be charged to the consolidated statement of profit or loss and other comprehensive income in the period in which it is incurred using effective interest method.

At the inception of a contract that contains a lease component, as a lessee, the Group should allocate the consideration in the contract to each lease component on the basis of their relative stand-alone price. The Group, as a lessee, assessed its leases for non-lease components and separated non-lease components from lease components for certain classes of assets if the non-lease components were material.

The associated right-of-use assets were measured at the amount equal to the initial measurement of lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. The Group had elected not to include initial direct costs in the measurement of the right-of-use assets for operating leases in existence at 1 January 2019. The right-of-use assets were recognised in the consolidated statement of financial position.

Depreciation was charged on a straight-line basis over the shorter of the asset's useful life and the lease term. The Group had relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of HKFRS 16 instead of performing an impairment review on the right-of-use assets at the date of initial application (i.e. 1 January 2019).

The adoption of HKFRS 16 has no material impact to the net assets or results of the Group as compared to HKAS 17. In summary, the following adjustment was made to the amounts recognised in relation to leases of rented office and factory premises in the consolidated statement of financial position at the date of initial application (1 January 2019):

	Carrying amount on 31 December 2018 under HKAS 17	**Adjustment**	**Carrying amount on 1 January 2019 under HKFRS 16**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Right-of-use assets, presented in property, plant and equipment	—	5,175	5,175
Current liabilities			
Leases liabilities	—	877	877
Non-current liabilities			
Leases liabilities	—	4,298	4,298

When measuring lease liabilities for leases that were classified as operating leases under HKAS 17, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The Group had applied the practical expedient for applying a single discount rate to a portfolio of leases with reasonably similar characteristics and the weighted average incremental rates applied are 4.75-4.9%.

	At 1 January 2019
	RMB'000
Operating lease commitment at 31 December 2018 (note 24)	6,733
Discounted using the incremental borrowing rate at 1 January 2019	5,235
Recognition exemption for leases with less than 12 months of lease term at transition	(60)
Lease liabilities recognised at 1 January 2019	5,175

The impact of adoption of HKFRS 16 using the modified retrospective approach on the consolidated statements of profit or loss and other comprehensive income for the year ended 31 December 2019 is set out below.

	RMB'000
Profit for the year as extracted from Section I	20,765
Depreciation of right-of-use assets	663
Interest	226
Lease expenses	(801)
Profit for the year without adopting HKFRS 16 for illustrative purpose	20,853

The impact of adoption of HKFRS 16 using the modified retrospective approach on the consolidated statements of cash flows for the year ended 31 December 2019 is set out below.

	As extracted from Section I	**Adjustment**	**Without adopting HKFRS 16 for Illustrative purpose**
	RMB'000	*RMB'000*	*RMB'000*
Operating cash flows before working capital changes	37,803	(801)	37,002
Increase in trade and other receivables	(6,359)	801	(5,558)

2.3 Issued but not yet effective HKFRSs

The Group has not early applied the following new and revised HKFRSs ("new and revised HKFRSs") that have been issued but are not yet effective:

HKFRS 17	Insurance Contract[2]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Hedge Accounting Requirement[1]
Amendments to HKFRS 16	COVID-19-Related Rent Concession[5]

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for annual periods beginning on or after 1 January 2021

3 Effective date not yet determined

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

5 Effective for annual period beginning on or after 1 June 2020

The Directors anticipate that all of the new and revised HKFRSs will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the new and revised HKFRSs. These new and revised HKFRSs are not expected to have a material impact on the Group's consolidated financial statements.

2.4 Basis of consolidation and combination

The Historical Financial Information incorporate the financial information of the Company and all its subsidiaries made up to respective year end dates during the Track Record Period.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Where unrealised losses on sales of intra-group asset are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 "Financial Instruments" or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.5 Foreign currency translation

Items included in the financial statements of each of the Group's entity are measured using the currency that best reflects the economic substance of the underlying events and circumstance relevant to the entity (the "functional currency"). The Historical Financial Information is presented in RMB, which is the functional currency of the Company and presentation currency of the Group.

In the individual financial statements of the group entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rate at the transaction date).

In the Historical Financial Information, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the reporting date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in translation reserve in equity.

2.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress as described below and cost of right-of-use assets as described in note 2.14, are initially recognised at acquisition cost or manufacturing cost, including any cost directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the Group's management. They are subsequently stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful life, using the straight-line method, at the following rates per annum.

Building	over the lease term
Plant and machinery	10%-33.33%
Mould	33.33%
Furniture and equipment	20%
Leasehold improvement	10%-20% or over the lease term, whichever is shorter

Estimated residual values and useful life are reviewed, and adjusted if appropriate, at each reporting date.

Gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance, are charged to profit or loss during the financial period in which they are incurred.

Construction in progress represents mould under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.7 Intangible assets (other than goodwill) and research and development activities

Intangible assets (other than goodwill)

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives of 5 years. Amortisation commences when the intangible assets are available for use.

Intangible assets with indefinite useful lives are carried at cost less any subsequent impairment losses. The assets' amortisation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets are tested for impairment as described below in note 2.10.

Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

2.8 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss and other comprehensive income.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

— amortised cost;

— FVTPL; or

— fair value through other comprehensive income ("FVOCI").

The classification is determined by both:

— the entity's business model for managing the financial asset; and

— the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within other income or finance costs, except for expected credit losses ("ECL") of trade receivables which is presented within administrative and other operating expenses.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

— they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and

— the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other income in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and other receivables, amount due from a related company, amount due from the ultimate holding company and amount due from a shareholder fall into this category of financial instruments.

Classification and measurement of financial liabilities

Trade and other payables and amount due to a related company

Trade and other payables and amount due to a related company are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

2.9 Impairment of financial assets

Recognition and derecognition

HKFRS 9's impairment requirements use more forward-looking information to recognise ECL - the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost, trade receivables, loan commitments and some financial guarantee contracts (for the issuer) that are not measured at FVTPL.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

— financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and

— financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade receivables

For trade receivables, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the ECL rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

— an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

— significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

— existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

— an actual or expected significant deterioration in the operating results of the debtor; and

— an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Detailed analysis of the ECL assessment of trade receivables and other financial assets measured at amortised cost are set out in note 27.2.

2.10 Impairment of non-financial assets

The following assets are subject to impairment testing:

— Intangible assets;

— Property, plant and equipment; and

— the Company's investment in a subsidiary

These assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is charged pro rata to the assets in the cash generating unit, except that the carrying amount of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.11 Inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. For raw material, cost is calculated using the weighted average method and in case of finished goods, comprise direct materials, direct labour and an appropriate portion of overheads.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the consolidated statements of cash flows presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

2.13 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2.17) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2.9 and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.17). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.8).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

2.14 Leases

Policies applicable from 1 January 2019

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Group determines whether the arrangement meets three key evaluations:

- whether the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;

- whether the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

- whether the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct "how and for what purpose" the asset is used throughout the period of use.

Assets leased to the Group

Leases are initially recognised as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term.

Assets leased to the Group and the corresponding liabilities are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

— fixed payments (including in-substance fixed payments), less any lease incentives receivable;

— variable lease payments that are based on an index or a rate; and

— payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the incremental borrowing rate of respective entities. Right-of-use assets are measured at cost comprising the following:

— the amount of the initial measurement of lease liabilities;

— any lease payments made at or before the commencement date, less any lease incentive received;

— any initial direct costs; and

— restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated statement of profit or loss and other comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

On the consolidated statement of financial position, right-of-use assets have been included in "property, plant and equipment", the same line as it presents the underlying assets of the same nature that it owns.

Refundable rental deposits paid are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Policies applicable before 1 January 2019

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the profit or loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

2.15 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2.16 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares (net of any related income tax benefit) are deducted from share premium to the extent they are incremental costs directly attributable to the equity transaction.

2.17 Revenue recognition

Revenue arises mainly from the sales of disposable plastic food storage containers. To determine whether to recognise revenue, the Group follows a 5-step process:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

Further details of the Group's revenue and other income recognition policies are as follows:

Sales of disposable plastic food storage containers

Revenue from the sales of disposable plastic food storage containers for a fixed fee is recognised when the Group transfers control of the assets to the customer in which the control is transferred at the point in time the customer takes undisputed delivery of the goods. The Group does not provide any sales-related warranties. Revenue from sale of disposable plastic food storage containers excludes value added tax or other sales taxes.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of ECL allowance) of the asset.

2.18 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The employees in the PRC are required to participate in a central pension scheme operated by the local municipal government and are required to contribute certain percentage of its payroll costs to the central pension scheme.

Contributions are recognised as an expense in the profit or loss as employees render services during the Track Record Period. The Group's obligation under these plans is limited to the fixed percentage contributions payable.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

2.19 Borrowing costs

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowings, for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

2.20 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the Track Record Period. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable income of the period in which the temporary differences are expected to reverse.

The determination of the average tax rates requires an estimation of (1) when the existing temporary differences will reverse and (2) the amount of future taxable income in those years. The estimate of future taxable income includes:

(a) income or loss excluding reversals of temporary differences; and

(b) reversals of existing temporary differences.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

    (i) the same taxable entity; or

    (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.21 Segment reporting

The Group identifies operating segments and prepares segment information based on regular internal financial information reported to the executive directors of the Company for their decisions about resources allocation to the Group's business components and their review of the performance of these components.

2.22 Related parties

For the purposes of this Historical Financial Information, a party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) the party is an entity and if any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's Historical Financial Information requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation of uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the reporting period during the Track Record Period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of property, plant and equipment and intangible assets

Items of property, plant and equipment (note 12) and intangible assets (note 14) are tested for impairment if there is any indication that the carrying amounts of these assets may not be recoverable and the assets are subject to an impairment loss. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount (i.e. higher of the assets fair value less cost of disposal and value in use) and the amount of the write-down is charged against the consolidated statements of profit or loss and other comprehensive income. The carrying amount of property, plant and equipment as at 31 December 2017, 2018 and 2019 amounted to RMB13,055,000, RMB25,433,000 and RMB28,077,000 respectively. The carrying amount of intangible assets as at 31 December 2017, 2018 and 2019 amounted to Nil, RMB8,500,000 and RMB6,500,000 respectively.

Net realisable value of inventories

Net realisable value of inventories (note 16) is based on estimated selling price less any estimated costs to be incurred to completion and disposal with reference to prevailing market information. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market conditions. The Group reassesses the estimation at the end of each reporting period. The carrying amount of inventories as at 31 December 2017, 2018 and 2019 amounted to RMB10,360,000, RMB5,916,000 and RMB6,390,000 respectively.

Estimation of impairment of trade and other receivables

The Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. The Group makes estimates based on the aging of its trade receivable balances, customers' creditworthiness, and historical write-off experience adjusted for forward-looking factors specific to the economic environment. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance. Details of trade receivables are set out in note 17. For the years ended 31 December 2017, 2018 and 2019, no impairment loss was recognised on trade receivables.

Critical judgements

Discount rate of lease liabilities and right-of-use assets determination

In determining the discount rate, the Group is required to exercise considerable judgement in relation to determining the discount rate taking into account the nature of the underlying assets, the terms and conditions of the leases, at the commencement date and effective date of the modification.

4. REVENUE

The Group's principal activities are disclosed in note 1.1 to the Historical Financial Information. Revenue of the Group is the revenue derived from these activities.

The Group's product is disposable plastic food storage containers. All the revenue are recognised at a point in time. The Group's contracts with customers usually have original expected duration of one year or less.

The chief operating decision-maker has been identified as the executive directors of the Company. The Directors regard the Group's business of design and development, manufacturing and sales of disposable plastic food storage containers as a single operating segment and reviews the overall results of the Group as a whole to make decision about resources allocation and assess the performance of the component. Accordingly, no segment analysis information is presented.

Disaggregation of revenue from contracts with customers

The Group derives revenue from sales of products in the following brand and nature:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Brand:			
Products under "JAZZIT" brand	151,136	176,798	191,518
Non-branded products	14,981	15,660	21,277
	166,117	192,458	212,795
Nature:			
Regular products	131,238	152,494	168,681
Customised products	32,133	38,526	42,108
Others	2,746	1,438	2,006
	166,117	192,458	212,795

Regular products represent products with more simplistic design and features suitable for food and beverage storage with one compartment. Customised products are the ones with enhanced design features and higher degree of functionality, which generally allow customers to store various kinds of food and beverage with multi-compartment disposable plastic food storage containers.

Geographical information

Information about the Group's revenue by geographical locations presented based on the area or country in which the external customer is operated is presented as below:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
PRC (place of domicile)	164,712	190,423	209,991
Overseas	1,405	2,035	2,804
	166,117	192,458	212,795

The Group's non-current assets are all located in the PRC.

Information about major customers

Other than a customer contributing 13.1%, 12.4% and 12.0% of the Group's revenue for the years ended 31 December 2017, 2018 and 2019 respectively, no other customers contribute over 10% of revenue to the Group during the years ended 31 December 2017, 2018 and 2019.

5. OTHER INCOME

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Interest income	23	45	59
Others	24	—	—
	47	45	59

6. FINANCE COSTS

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Interest expense for lease arrangements	—	—	226

7. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Depreciation			
- Owned used	2,940	4,115	5,627
- Held under leases	—	—	663
Amortisation of intangible assets included in administrative and other operating expenses	—	1,000	2,000
Auditors' remuneration	13	—	24
Operating lease charges in respect of			
- Premises	408	680	74*
- Property, plant and equipment	1,663	834	—
Cost of inventories recognised as an expense	105,210	121,957	134,387
Research and development cost (including staff costs)	2,664	4,963	7,437
Loss on disposals of property, plant and equipment	—	114	154
Listing expenses	—	2,861	4,790
Staff costs (including Directors' emoluments)			
Salaries, allowances and other benefits	7,700	9,782	12,410
Contributions to defined contribution retirement plans	335	463	494
	8,035	10,245	12,904

* Represent short-term leases under HKFRS 16.

8. INCOME TAX EXPENSE

No provision for profits tax has been provided by the Company as the Company had no assessable profits subject to taxation in any jurisdiction. No provision for Hong Kong profits tax has been provided as the Group had no assessable profits arising from Hong Kong during the Track Record Period.

The provision for the PRC enterprise income tax has been provided at the applicable tax rate of 25% on the assessable profits of the Group.

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Current tax			
- Provision for PRC enterprise income tax	7,559	8,209	7,717
- Underprovision in prior year	134	210	710
	7,693	8,419	8,427

The difference between the actual income tax charge in the consolidated statements of profit or loss and other comprehensive income and the amounts which would result from applying the applicable tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	30,357	30,999	29,192
Tax on profit before income tax, calculated at the rate of 25%	7,589	7,749	7,298
Others	(30)	460	419
Under provision in prior year	134	210	710
	7,693	8,419	8,427

9. DIRECTOR'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

9.1 Director's emoluments

Year ended 31 December 2017

	Fees	Salaries, allowances and benefits	Discretionary bonuses	Retirement Scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director:					
Mr. Xu	—	257	21	4	282
Mr. Zhang Yuansheng ("Mr. Zhang")	—	131	11	4	146
	—	388	32	8	428

Year ended 31 December 2018

	Fees	Salaries, allowances and benefits	Discretionary bonuses	Retirement Scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director:					
Mr. Xu	—	271	22	4	297
Mr. Zhang	—	146	15	4	165
	—	417	37	8	462

Year ended 31 December 2019

	Fees	Salaries, allowances and benefits	Discretionary bonuses	Retirement Scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director:					
Mr. Xu	—	298	23	4	325
Mr. Zhang	—	197	15	4	216
Ms. Xu Liping	—	224	18	4	246
	—	719	56	12	787

Mr. Xu was appointed as director of the Company on 13 December 2018 and redesignated as chairman and chief executive officer on 9 May 2019. Mr. Zhang and Ms. Xu Liping were appointed as directors of the Company on 18 March 2019 and redesignated as executive directors on 9 May 2019. During the Track Record Period, the independent non-executive directors have not yet been appointed and have not received any director's remuneration in the capacity of independent non-executive directors.

The emoluments shown above represent emolument received from the Group by the directors in their capacity as director/employee of the Group's subsidiaries during the Track Record Period.

9.2 Five highest paid individuals

The five highest paid individuals of the Group during the years ended 31 December 2017, 2018 and 2019 include 1, 2 and 3 Directors respectively whose emoluments are disclosed in note 9.1. The aggregate emoluments in respect of the remaining 4, 3 and 2 individuals are as follows:

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowances and benefits in kind	719	613	742
Retirement scheme contributions	16	13	15
	735	626	757

The above individuals' emoluments are within the following bands:

	Year ended 31 December		
	2017	**2018**	**2019**
	Number of individuals	*Number of individuals*	*Number of individuals*
HK$nil to HK$1,000,000	4	3	2

No Directors or the five highest paid individuals received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the Track Record Period. No Directors or the five highest paid individuals have waived or agreed to waive any emoluments during the Track Record Period.

10. EARNINGS PER SHARE

The basic earnings per share is calculated based on the profit for the year attributable to equity holders of the Company and the number of ordinary shares outstanding during the Track Record Period on the assumption that the Reorganisation and the Capitalisation Issue as described in Appendix IV to the Prospectus had been effective on 1 January 2017.

	Year ended 31 December		
	2017	**2018**	**2019**
Earnings:			
Profit for the year attributable to equity holders of the Company for purpose of basic earnings per share *(RMB'000)*	22,664	22,414	20,501
Number of shares:			
Number of ordinary shares for the purpose of basic earnings per share *(in thousand)*	450,000	450,000	450,000

The diluted earnings per share equal to basic earnings per share. No adjustment has been made to the basic earnings per share amounts presented for the Track Record Period as there was no potential ordinary share in issue.

11. DIVIDENDS

Prior to the Reorganisation, the Operating Company declared dividends to its then equity owners, as follows:

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Dividend	—	5,333	22,900

The rate of dividend and number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.

12. PROPERTY, PLANT AND EQUIPMENT

	Building held under leases	Plant and Machinery	Furniture and equipment	Mould	Leasehold improvement	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
As at 1 January 2017	—	10,426	357	6,613	1,995	—	19,391
Additions	—	14	—	4,035	—	—	4,049
As at 31 December 2017	—	10,440	357	10,648	1,995	—	23,440
As at 1 January 2018	—	10,440	357	10,648	1,995	—	23,440
Additions	—	13,965	19	2,775	300	—	17,059
Disposals	—	(591)	(45)	(115)	—	—	(751)
As at 31 December 2018	—	23,814	331	13,308	2,295	—	39,748
As at 1 January 2019	—	23,814	331	13,308	2,295	—	39,748
Adjustment on transition to HKFRS 16 (note 2.2)	5,175	—	—	—	—	—	5,175
Additions	—	1,926	—	620	—	1,387	3,933
Transfer	—	—	—	850	—	(850)	—
Disposals	—	(80)	—	(380)	—	—	(460)
As at 31 December 2019	5,175	25,660	331	14,398	2,295	537	48,396
Accumulated depreciation							
As at 1 January 2017	—	1,848	185	4,769	643	—	7,445
Charge for the year	—	991	62	1,654	233	—	2,940
As at 31 December 2017	—	2,839	247	6,423	876	—	10,385
As at 1 January 2018	—	2,839	247	6,423	876	—	10,385
Charge for the year	—	2,028	50	1,799	238	—	4,115
Written back on disposals	—	(44)	(32)	(109)	—	—	(185)
As at 31 December 2018	—	4,823	265	8,113	1,114	—	14,315
As at 1 January 2019	—	4,823	265	8,113	1,114	—	14,315
Charge for the year	663	3,049	30	2,303	245	—	6,290
Written back on disposals	—	(15)	—	(271)	—	—	(286)
As at 31 December 2019	663	7,857	295	10,145	1,359	—	20,319
Net book amount							
As at 31 December 2017	—	7,601	110	4,225	1,119	—	13,055
As at 31 December 2018	—	18,991	66	5,195	1,181	—	25,433
As at 31 December 2019	4,512	17,803	36	4,253	936	537	28,077

13. LEASE LIABILITIES

Lease liabilities are presented in the consolidated statement of financial position as follows:

	As at 31 December 2019
	RMB'000
Current:	
Third parties	198
Jinjiang Hengsheng Toys Co., Ltd ("Hengsheng Toys") (note)	397
Non-current:	
Third parties	1,066
Hengsheng Toys	2,637
	4,298

The Group has leases for an office and factory premises. Except for short-term leases, these leases are reflected on the consolidated statement of financial position as property, plant and equipment (see Note 12) and lease liabilities.

Each lease generally imposes a restriction that the right-of-use asset can only be used by the Group. Leases are only be cancelled with mutually agreement between the Group and lessor. There is no variable lease payment, extension options and termination option among the lease contracts.

Future minimum lease payments at 31 December 2019 were as follows:

	As at 31 December 2019
	RMB'000
Within one year	793
One to five years	3,415
After five years	891
	5,099
Finance charges	(801)
	4,298

	As at 31 December 2019
	RMB'000
Present value of minimum lease payments:	
Due within one year	595
Due in second to fifth years	2,864
Due after the fifth years	839
	4,298
Less: Portion due within one year included under current liabilities	(595)
Portion due after one year included under non-current liabilities	3,703

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognised as property, plant and equipment on consolidated statement of financial position:

Right-of-use asset	**No of lease**	**Range of remaining lease term**	**Average remaining lease term**
		Year	*Year*
Buildings	9	4-9	7-8

Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. For the year ended 31 December 2019, the expenses incurred for short term lease not included in the measurement of lease liability is RMB74,000.

During the year ended 31 December 2019, the total cash outflows for the leases are RMB884,000.

Note: Hengsheng Toys is controlled by Mr. Hui Man Kit. Mr. Hui Man Kit is the brother of Mr. Xu, the controlling shareholder and executive director of the Group. Mr. Xu was a director of Heng Sheng Holding Group Limited, the ultimate holding company of Hengsheng Toys, from July 2015 to March 2019.

14. INTANGIBLE ASSETS

	Trademark
	RMB'000
Cost	
As at 1 January 2017 and 31 December 2017	—
Additions	9,500
As at 31 December 2018	9,500
Additions	—
As at 31 December 2019	9,500
Accumulated amortisation	
As at 1 January 2017 and 31 December 2017	—
Provided for the year	1,000
As at 31 December 2018	1,000
Provided for the year	2,000
As at 31 December 2019	3,000
Net book amount	
As at 31 December 2017	—
As at 31 December 2018	8,500
As at 31 December 2019	6,500

15. INVESTMENT IN A SUBSIDIARY

	The Company	
	As at 31 December 2018	As at 31 December 2019
	RMB'000	*RMB'000*
Unlisted shares, at cost	—*	—*

* *Amount less than RMB1,000.*

Details of the subsidiaries are set out in note 1.2 of Section II of the Historical Financial Information.

16. INVENTORIES

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	6,783	2,884	3,038
Finished goods	3,577	3,032	3,352
	10,360	5,916	6,390

17. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
- From third parties	30,244	30,574	35,442
Prepayments and other receivables			
Prepayments	110	1,679	2,928
Other receivables	51	51	—
	30,405	32,304	38,370

The Directors consider that the fair values of all of the trade and other receivables which are expected to be recovered within one year are not materially different from their carrying amounts due to these balances having short maturity periods on their inception.

Trade receivables

Before accepting any new customer, the Group applies an internal credit assessment policy to assess the potential customer's credit quality. The credit period is generally for a period of 40 days. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

The aging analysis of the trade receivables at the end of each of the reporting period, based on the invoice date and net of impairment, was as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	15,641	17,985	19,229
31 days to 60 days	14,603	12,589	16,213
	30,244	30,574	35,442

All trade receivables are denominated in RMB. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. As at 31 December 2017, 2018 and 2019, all trade receivables were not past due. During the years ended 31 December 2017, 2018 and 2019, no written off was made against the trade receivables.

Generally, the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base. As at 31 December 2017, 2018 and 2019, there has not been any significant change in the gross amounts of trade receivables that has affected the estimation of the loss allowance during the Track Record Period.

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 27.2.

18. AMOUNTS DUE FROM/(TO) A RELATED COMPANY/THE ULTIMATE HOLDING COMPANY

These amounts due were non-trade in nature, unsecured, interest free and repayable on demand.

(a) amount due from a related company

Name of related company	Maximum outstanding during the year ended 31 December 2017	As at 1 January 2017	As at 31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
Fujian Renyue	18,176	10,692	18,176

Name of related company	Maximum outstanding during the year ended 31 December 2018	As at 1 January 2018	As at 31 December 2018
	RMB'000	*RMB'000*	*RMB'000*
Fujian Renyue	24,214	18,176	24,214

Name of related company	Maximum outstanding during the year ended 31 December 2019	As at 1 January 2019	As at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*
Fujian Renyue	24,214	24,214	—

(b) amount due from the ultimate holding company

Name of ultimate holding company	Maximum outstanding during the year ended 31 December 2018	As at 1 January 2018	As at 31 December 2018
	RMB'000	*RMB'000*	*RMB'000*
Prize Investment	1	—	1

Name of ultimate holding company	Maximum outstanding during the year ended 31 December 2019	As at 1 January 2019	As at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*
Prize Investment (note)	1	1	1

Note: The Directors confirm that the outstanding amount due from the ultimate holding company will be settled by declaration of dividend prior to the listing date.

(c) amount due to a related company

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Hengsheng Toys (note)	(2,257)	—	—

Note: Hengsheng Toys is controlled by Mr. Hui Man Kit. Mr. Hui Man Kit is the brother of Mr. Xu, the controlling shareholder and executive director of the Group. Mr. Xu was a director of Heng Sheng Holding Group Limited, the ultimate holding company of Hengsheng Toys, from July 2015 to March 2019.

19. AMOUNT DUE FROM A SHAREHOLDER

The amount due was non-trade in nature, unsecured, interest free and had no fixed terms of repayment.

Name of shareholder	**Maximum outstanding during the year ended 31 December 2019**	**As at 31 December 2017, 2018 and 1 January 2019**	**As at 31 December 2019**
	RMB'000	*RMB'000*	*RMB'000*
Mr. Xu (note)	6,018	—	6,018

Note: The Directors confirm that the outstanding amount due from a shareholder will be settled by declaration of dividend prior to the listing date.

20. CASH AND CASH EQUIVALENTS

As at 31 December 2017, 2018 and 2019, bank balances of RMB11,378,000, RMB9,044,000 and RMB25,904,000 were denominated in RMB placed with banks in the PRC. RMB is not a freely convertible currency respectively. Under the PRC's foreign exchange control regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business. Cash at banks earns interest at floating rates based on daily bank deposit rates.

21. TRADE AND OTHER PAYABLES

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
- To third parties	14,187	17,476	22,541
Accrued charges and other payables			
Other tax payable	643	751	436
Accrued salaries	729	923	1,060
Accrued listing expenses	—	2,670	676
Payable for purchase of property, plant and equipment	348	213	—
Other payables and accruals *(note)*	252	306	1,396
	1,972	4,863	3,568
	16,159	22,339	26,109

Note: The amounts of contract liabilities at the end of each Track Record Period were insignificant.

Trade payables

The Group is granted by its suppliers a credit period of 30 to 60 days. An aging analysis of the trade payables as at each reporting date, based on the invoice date, is as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	9,783	11,553	12,963
31 days to 90 days	4,404	5,923	9,578
	14,187	17,476	22,541

All trade payables are denominated in RMB. All amounts are short term and hence the carrying values of trade and other payables are considered to be a reasonable approximation of their fair values.

22. SHARE CAPITAL

The balance as at 31 December 2017 and 2018 represented the aggregate of the paid up share capital of the subsidiaries and the Company comprising the Group prior to the Reorganisation.

Movements of the authorised and issued share capital of the Company for the period from 13 December 2018 (date of incorporation) to 31 December 2019 are as follows:

	From 13 December 2018 (date of incorporation) to 31 December 2019	
	No. of shares	*RMB'000*
Authorised:		
Ordinary share of HK$0.01 each upon incorporation (note (i)) and as at 31 December 2018, 1 January 2019 and 31 December 2019	38,000,000	380
Issued and fully paid:		
Upon incorporation (note (i)) and at 31 December 2018	1	1
Issue of shares (note (ii))	8,199	—*
Issue of shares pursuant to Pre-IPO Investment (note (iii))	1,800	—*
As at 31 December 2019	10,000	1

* *Amount less than RMB1,000.*

Note (i): The Company was incorporated in the Cayman Islands on 13 December 2018 with an authorised share capital of HK$380,000, comprising 38,000,000 ordinary shares of HK$0.01 each. Upon incorporation, one ordinary share was issued at par to the initial subscriber, which was subsequently transferred to Prize Investment on the same date.

Note (ii): The Company issued 999 ordinary shares on 4 January 2019 of HK$0.01 each at par to Prize Investment. On 30 April 2019, 7,200 ordinary shares of HK$0.01 each were issued at par to Prize Investment.

Note (iii): On 23 April 2019 and 7 May 2019, the Company entered into pre-IPO investment agreements with two independent third parties to allot and issue 1,200 and 600 ordinary shares of HK$0.01 each at the total consideration of RMB13,333,000 and HK$7,610,000, respectively ("Pre-IPO Investment").

23. RESERVES

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2017, 2018 and 2019 are presented in the consolidated statements of changes in equity.

Share premium

The share premium represents the difference between the par value of the shares of the Company and net proceeds received from the issuance of the shares of the Company.

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to the shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

Statutory reserve

In accordance with the Company Law of the PRC, each of the company that was registered in the PRC is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with the PRC GAAP, to the statutory reserve until the balance of the reserve funds reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

Non-controlling interests

During the Track Record Period, the only material non-controlling interest is relating to the Operating Company. Since the Company and other intermediate holding companies had no operations during the Track Record Period, the financial information of the Operating Company have already been presented in section I to the Financial Information.

Distributable reserves

As at 31 December 2017, 2018 and 2019, the Company did not have any amount of reserves available for distribution to the shareholders of the Company since the Company has not yet commenced any business or operation other than the incorporation and the Reorganisation.

24. OPERATING LEASE COMMITMENTS

The Group as lessee

During the Track Record Period, the Group had commitments for future minimum lease payments in respect of rented office and factory premises under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,785	897	—
In the second to fifth years	1,776	3,350	—
Over fifth years	989	2,486	—
	4,550	6,733	—

As at 31 December 2017 and 2018, the Group was the lessee in respect of office and factory premises under operating leases. The leases typically run for an initial period of one year to thirteen years. The leases did not include contingent rentals.

25. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, the Group had the following transactions with related parties during the Track Record Period:

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
(a) Key management personnel remuneration			
Salaries, allowances and benefits	561	603	1,283
Retirement scheme contribution	12	13	25
	573	616	1,308

	Year ended 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
(b) Transactions with related party			
Hengsheng Toys			
- Water and electricity expenses	2,941	1,467	—
- Rental expenses	1,858	1,341	74
- Trademark expenses	2,000	1,000	—
- Purchase of trademark	—	9,500	—
- Purchase of property, plant and equipment	—	11,835	—

Note: Hengsheng Toys is controlled by Mr. Hui Man Kit. Mr. Hui Man Kit is the brother of Mr. Xu, the controlling shareholder and executive director of the Group. Mr. Xu was a director of Heng Sheng Holding Group Limited, the ultimate holding company of Hengsheng Toys, from July 2015 to March 2019.

26. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Amount due from a shareholder	Amount due from a related company	Lease liabilities
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2018	—	24,214	—
Adoption of HKFRS 16	—	—	5,175
At 1 January 2019	—	24,214	5,175
Cash transaction:			
- Capital element of lease rentals paid	—	—	(584)
- Interest element of lease rentals paid	—	—	(226)
Non-cash transaction:			
- Effective interest charges (note 6)	—	—	226
- Net off with prepaid lease payments	—	—	(293)
-Transfer (note (i))	24,214	(24,214)	—
- Dividend declared (note (i))	(22,900)	—	—
- Withholding tax accrued for dividend	4,704	—	—
At 31 December 2019	6,018	—	4,298

Note (i): During the year ended 31 December 2019, Mr.Xu, the controlling shareholder, agreed with Hengsheng Animation to take over the amount due from Fujian Renyue to Hengsheng Animation of RMB24,214,000. Hengsheng Animation further declared dividend of RMB22,900,000 to its shareholders, Mr. Xu and Mr. Xu Yubin. The amount due from Mr. Xu was partly offset with the dividend payable to shareholders of RMB18,196,000 on a dollar-for-dollar basis.

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk), credit risk and liquidity risk. The Group's exposure to foreign currency risks arise from its overseas sales which are primarily denominated in United Stated Dollars and accruals which are primarily denominated in Hong Kong Dollars, which are not the functional currency of the respective entities of the Group to which these transactions related. The Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rate where necessary to address short-term imbalances. The Directors consider the exposure to foreign currency risk is immaterial.

The Group is exposed to other risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

27.1 Categories of financial assets and liabilities

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Measured at amortised costs:			
Amount due from a related company	18,176	24,214	—
Amount due from a shareholder	—	—	6,018
Amount due from the ultimate holding company	—	1	1
Trade and other receivables	30,295	30,625	35,442
Cash and cash equivalents	11,378	9,044	26,171
	59,849	63,884	67,632
Financial liabilities			
Measured at amortised costs:			
Trade and other payables	15,439	21,545	25,608
Amount due to a related company	2,257	—	—
Lease liabilities	—	—	4,298
	17,696	21,545	29,906

27.2 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The Group is exposed to credit risk in relation to its bank deposits, trade and other receivables, amount due from a related company, amount due from a shareholder and amount due from the ultimate holding company. The Group's maximum exposure to credit risk in relation to financial assets is limited to the carrying amount at the reporting dates as summarised in note 27.1.

To manage this risk, bank deposits are mainly placed with state-owned financial institutions and reputable banks which are all high-credit-quality financial institutions. The management does not expect that there will be any significant losses from non-performance by these counterparties.

The Group's policy is to deal only with credit worthy counterparties. Credit terms are granted to new customers after a credit worthiness assessment by the management. Where available at reasonable cost, external credit ratings and/or reports on customers are obtained and used. Payment record of customers is closely monitored. It is not the Group's policy to request collateral from its customers. In addition, as set out in note 2.9, the Group assesses ECL under HKFRS 9 on trade receivables based on provision matrix, the expected loss rates are based on the historical credit. The historical rates are adjusted to reflect current and forward looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed. However given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

The Group is exposed to concentration of credit risk as at 31 December 2017, 2018 and 2019 on trade receivables from the Group's five largest debtors which accounted for 43% and 44% and 51% of the Group's total trade receivables respectively. The management reviews the recoverable amount of each individual receivable regularly to ensure that follow up actions is taken to recover overdue debts and adequate impairment losses, if any, are recognised for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

The Group has established a policy to perform an assessment of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The Group classifies its other receivables, amount due from a related company, amount due from a shareholder and amount due from the ultimate holding company into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1	When other receivables and amounts due from ultimate holding company, a shareholder and a related company are first recognised, the Group recognises an allowance based on 12 months' ECLs.

Stage 2 When other receivables and amounts due from ultimate company, a shareholder and a related company have shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs.

Stage 3 When other receivables and amounts due from ultimate holding company, a shareholder and a related company are considered credit-impaired, the Group records an allowance for the lifetime ECLs.

As at 31 December 2017, 2018 and 2019, the credit rating of other receivables and amounts due from a related company, ultimate holding company and a shareholder were performing. The Group assessed that the ECL for these receivables and amounts due from a related company, ultimate holding company and a shareholder are not material under the 12 months ECL method. Thus no ECL was recognised during the Track Record Period. The ECL are summarised as below.

	As at 31 December		
	2017	**2018**	**2019**
Trade receivables			
- Current	0.1%	0.1%	0.1%
Other receivables and amounts due from the ultimate holding company, a related company and a shareholder	0.1%	0.1%	0.1%

Taking into account that (i) historically there were no material defaults; and (ii) the level of credit risk are not significantly changed, ECL during the Track Record Period are the same.

27.3 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade and other payables, lease liabilities and amount due to a related company, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

The analysis set out the remaining contractual maturity based on undiscounted cash flow of the Group's financial liabilities at the reporting date.

	Within one year or on demand	Total undiscounted amount	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2017			
Trade and other payables	15,439	15,439	15,439
Amount due to a related company	2,257	2,257	2,257
Total	17,696	17,696	17,696

	Within one year or on demand	Total undiscounted amount	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2018			
Trade and other payables	21,545	21,545	21,545

	Within one year or on demand	One to two years	Two to five years	After five years	Total undiscounted amount	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2019						
Trade and other payables	25,608	—	—	—	25,608	25,608
Lease liabilities	793	793	2,622	891	5,099	4,298
Total	26,401	793	2,622	891	30,707	29,906

27.4 Fair value

The management considered the carrying amounts of financial assets and financial liabilities of the Group are not materially different from their fair values as at 31 December 2017, 2018 and 2019.

28. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing goods and services commensurately with the level of risk.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose, net debt is defined as the sum of trade and other payables, lease liabilities and amount due to a related company less cash and cash equivalents. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares and raise new debt financing. The debt to equity ratio is at each reporting date was:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade and other payables	16,159	22,339	26,109
Lease liabilities	—	—	4,298
Amount due to a related company	2,257	—	—
Less: Cash and cash equivalents	(11,378)	(9,044)	(26,171)
Net debt	7,038	13,295	4,236
Total equity	63,836	81,084	78,853
Debt to equity ratio	11.0%	16.4%	5.4%

III. EVENT AFTER THE END OF REPORTING PERIOD

Save as disclosed elsewhere in this report, events and transactions took place subsequent to 31 December 2019 are detailed as below:

(i) COVID-19

The outbreak of a respiratory illness caused by Novel Coronavirus, or known as the COVID-19, in China including Hong Kong in early 2020, has affected many businesses to different extent and has impact on the business and operations of the Group as the Group's operations are located in China. Since the outbreak of Novel Coronavirus, the local governments of various provinces and cities including in which the Group operates have introduced a series of measures in order to prevent or control the epidemic, including but not limited to temporary suspension of on-site works, restrictions on enterprises from resuming work and stringent control over hygiene measures. The Group has officially resumed work since 10 February 2020.

Having considered the current cash position of the Group against the expected cash flow requirements, the Directors are of the view that the outbreak of Novel Coronavirus disease will not result in material adverse changes of the financial condition and results of operation of the Group. However, given the inherent unpredictable nature relating to Novel Coronavirus disease and its pervasive impact, the Group's business could be affected to a different level than it expected and the Directors will closely monitor the development of the disease.

(ii) lease agreements

On 21 June 2020, the Group entered into revised lease agreements with Hengsheng Toys. The lease periods were revised from 1-13 years to 3 years renewable for a maximum 20 years. The monthly rentals under new lease agreements remain unchanged but are subject to negotiation upon renewals.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2019.

The information set forth in this appendix does not form part of the Accountants' Report on the financial information of the Group for the years ended 31 December 2017, 2018 and 2019 prepared by Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus (the "Accountants' Report"), and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared in accordance with paragraph 7.31 of the GEM Listing Rules for the purpose of illustrating the effect of the Share Offer on the audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2019, as if the Share Offer had taken place on 31 December 2019.

The unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to equity holders of the Company had the Share Offer been completed as at 31 December 2019 or at any future dates. It is prepared based on the audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2019 as set out in the Accountants' Report in Appendix I to this Prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2019	**Estimated net proceeds from the Share Offer**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company per Share**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 5)*
Based on the Offer Price of HK$0.40 per Share	72,353	30,124	102,477	0.17	0.20
Based on the Offer Price of HK$0.60 per Share	72,353	52,054	124,407	0.21	0.24

Notes:

(1) The amount is calculated based on audited consolidated net assets of the Group attributable to equity holders of the Company as of 31 December 2019 amounting to approximately RMB78,853,000 less intangible assets of RMB6,500,000 extracted from the Accountants' Report of the Group set out in Appendix I to this prospectus..

(2) The estimated net proceeds from Share Offer are based on 150,000,000 Offer Shares at the Offer Price of HK$0.40 (equivalent to RMB0.34) and HK$0.60 (equivalent to RMB0.52) per Share, being the low-end and high-end of the indicative range of the Offer Price, respectively, after deduction of the estimated underwriting fees and other related expenses expected to be incurred by the Group subsequent to 31 December 2019 and does not take into account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option.

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 600,000,000 Shares are issued immediately following the completion of the Share Offer and the Capitalisation Issue, assuming the Offer Size Adjustment Option is not exercised.

(4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2019 to reflect any trading results, dividends to be declared to settle the amount due from the ultimate holding company and amount due form a shareholder or other transactions of the Group entered into subsequent to 31 December 2019.

(5) In connection with the preparation of this unaudited pro forma statement of adjusted consolidated net tangible assets, the translation of RMB into Hong Kong dollars has been made at a rate of RMB0.86 to HK$1.00.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the assurance report received from, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

Grant Thornton
致同

30 June 2020

TO THE DIRECTORS OF YIK WO INTERNATIONAL HOLDINGS LIMITED (FORMERLY KNOWN AS YIHE INTERNATIONAL HOLDINGS LIMITED)

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Yik Wo International Holdings Limited (formerly known as Yihe International Holdings Limited) (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at 31 December 2019 and related notes as set out on pages II-1 to II-2 of Appendix II to the Prospectus issued by the Company dated 30 June 2020 (the "Prospectus"). The applicable criteria on the basis of which the directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the directors to illustrate the impact of the Share Offer (as defined in the Prospectus) on the Group's financial position as at 31 December 2019 as if the Share Offer had taken place at 31 December 2019. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's historical financial information for the years ended 31 December 2017, 2018 and 2019, on which an Accountants' Report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the unaudited Pro Forma Financial Information

The directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements", and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any historical financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the unaudited pro forma financial information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the historical financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted historical financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted historical financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

Shaw Chi Kit
Practising Certificate No.: P04834

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on 19 June 2020 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection — 2. Documents available for inspection".

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on 19 June 2020 and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is HK$50,000,000 divided into 5,000,000,000 shares of HK$0.01 each.

2.2 Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the GEM Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

(i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:

(A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme under which the Director or any of his close associates may benefit; or

(B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting, but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

(i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;

(ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

(iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;

(iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;

(vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or

(vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

(a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and

(c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.6 Special resolution — majority required

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the GEM Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings and extraordinary general meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and signed by the requisitionist(s). If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of the three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

2.10 Auditors

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.11 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

(b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Directors, in their absolute discretion, consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, it may change or postpone the meeting to another date, time and place.

The Directors also have the power to provide in every notice calling a general meeting that in the event of a gale warning or a black rainstorm warning is in force at any time on the day of the general meeting (unless such warning is cancelled at least a minimum period of time prior to the general meeting as the Directors may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date. Where a general meeting is so postponed, the Company shall endeavour to cause a notice of such postponement to be placed on the Company's website and published on the Stock Exchange's website as soon as practicable, but failure to place or publish such notice shall not affect the automatic postponement of such meeting.

Where a general meeting is postponed:

(a) the Directors shall fix the date, time and place for the reconvened meeting and at least seven clear days' notice shall be given for the reconvened meeting; and such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and

(b) notice of the business to be transacted at the reconvened meeting shall not be required, nor shall any accompanying documents be required to be recirculated, provided that the business to be transacted at the reconvened meeting is the same as that set out in the notice of the original meeting circulated to the members of the Company.

2.12 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

(a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(b) the instrument of transfer is in respect of only one class of shares;

(c) the instrument of transfer is properly stamped (in circumstances where stamping is required);

(d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;

(e) the shares concerned are free of any lien in favour of the Company; and

(f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the GEM Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.13 Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.14 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.15 Dividends and other methods of distribution

Subject to the Companies Law and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be payable at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.16 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.17 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.18 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the GEM Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the GEM Listing Rules as the Directors may determine for each inspection.

2.19 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.20 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.21 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.22 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the GEM Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 13 December 2018 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

(a) paying distributions or dividends to members;

(b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);

(d) writing-off the preliminary expenses of the company;

(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the company; and

(c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

(a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection — 2. Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands as an exempted company on 13 December 2018 under the Companies Law. Our Company's registered office is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Our Company has established its principal place of business in Hong Kong at Room 6, 3/F., Lladro Centre, 72 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong and has been registered as a non-Hong Kong company on 10 April 2019 under Part 16 of the Companies Ordinance. Mr. Yeung Tsz Kit Alban has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, our corporate structure and the Articles are subject to the relevant laws and regulations of the Cayman Islands law. A summary of the relevant laws and regulations of the Cayman Islands and of the Articles is set out in Appendix III to this prospectus.

2. Changes in the share capital of our Company

The authorised share capital of our Company as at the date of its incorporation was HK$380,000 divided into 38,000,000 Shares. The following sets out the changes in the share capital of our Company since its date of incorporation up to the date of this prospectus:

(a) on 13 December 2018, one Share was allotted and issued to the initial subscriber, which was in turn transferred to Prize Investment on the same day;

(b) on 4 January 2019, our Company allotted and issued 999 Shares to Prize Investment;

(c) on 30 April 2019, our Company allotted and issued 7,200 Shares to Prize Investment;

(d) on 14 May 2019, our Company allotted and issued 600 Shares to Quantum Star;

(e) on 13 June 2019, our Company allotted and issued 1,200 Shares to Sun Kong;

(f) on 19 June 2020, the authorised share capital of our Company increased from HK$380,000 divided into 38,000,000 Shares to HK$50,000,000 divided into 5,000,000,000 Shares by the creation of an additional 4,962,000,000 Shares.

Assuming that the Share Offer becomes unconditional, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account of any Share which may be issued upon exercise of the Offer Size Adjustment Option), the issued share capital of our Company will be HK$6,000,000 divided into 600,000,000 Shares, all fully paid or credited as fully paid and 4,400,000,000 Shares will remain unissued.

Other than Shares to be issued pursuant to the exercise of the Offer Size Adjustment Option and the general mandate to issue Shares referred to in the paragraph headed "4. Written resolutions of our Shareholders passed on 19 June 2020" in this Appendix, our Directors do not have any present intention to issue any Share out of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed above and the section headed "History, Reorganisation and corporate structure — Reorganisation" in this prospectus, there has been no alteration in the authorised and issued share capital of our Company since its incorporation and up to the date of this prospectus.

3. Changes in the share capital of our subsidiaries

Subsidiaries of our Company are referred to in the Accountants' Report set out in Appendix I to in this prospectus. Save as set out therein and disclosed in the section headed "History, Reorganisation and corporate structure" in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

4. Written resolutions of our Shareholders passed on 19 June 2020

Pursuant to the written resolutions of our Shareholders passed on 19 June 2020:

(a) conditional upon and with effect from the Listing, the Memorandum and the Articles were approved and adopted;

(b) the authorised share capital of our Company was increased from HK$380,000 divided into 38,000,000 Shares to HK$50,000,000 divided into 5,000,000,000 Shares by the creation of an additional 4,962,000,000 Shares to rank *pari passu* in all respects with the existing Shares;

(c) conditional upon the fulfilment or waiver of the conditions set out in "Structure and conditions of the Share Offer" in this prospectus and subject to the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of the new Shares under the Share Offer, our Directors were authorised to allot and issue a total of 449,990,000 Shares credited as fully paid at par to the Shareholders whose names appear on the register of members of our Company at the close of business on 19 June 2020 in proportion to their then existing shareholdings in our Company, each ranking *pari passu* in all respects with the then existing issued Shares, by way of capitalisation of an amount of HK$4,499,900 standing to the credit of the share premium account of our Company;

(d) conditional upon the fulfilment or waiver of the conditions set out in "Structure and conditions of the Share Offer" in this prospectus, the Share Offer and the Offer Size Adjustment Option were approved;

(e) a general unconditional mandate (the "**Issuing Mandate**") was given to our Directors to exercise all powers of our Company to allot (including the power to make and grant offers, agreements and options which would or might require Shares to be allotted and issued), otherwise than pursuant to, or in consequence of a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or other similar arrangement or pursuant to a specific authority granted by the Shareholders in general meeting, Shares with a total number not exceeding 20% of the number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (but without taking into account the number of Shares which may be issued upon the exercise of the Offer Size Adjustment Option) whereas such Issuing Mandate is to remain in effect until whichever is the earliest of (a) the conclusion of the next annual general meeting of our Company; (b) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held; or (c) the passing of an ordinary resolution by the Shareholders at a general meeting revoking, varying or renewing the Issuing Mandate;

(f) a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange Shares with a total number not exceeding 10% of the number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (but without taking into account the number of Shares which may be issued upon the exercise of the Offer Size Adjustment Option) whereas such Repurchase Mandate is proposed to remain in effect until whichever is the earliest of (a) the conclusion of the next annual general meeting of our Company; (b) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held; or (c) the passing of an ordinary resolution by the Shareholders at a general meeting revoking, varying or renewing such Repurchase Mandate; and

(g) the Issuing Mandate was extended by the addition to the number of Shares which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to the Issuing Mandate of the number of Shares repurchased by the Company pursuant to and in accordance with the Repurchase Mandate.

5. Reorganisation

In preparation for the Share Offer, our Group has undergone the Reorganisation, details of which are set forth in the section headed "History, Reorganisation and corporate structure — Reorganisation" in this prospectus.

6. Particulars of our subsidiaries

Particulars of our subsidiaries are set forth in Note 1.2 to the Accountants' Report, the text of which is set forth in Appendix I to this prospectus.

7. Repurchase by our Company of our own securities

This paragraph contains information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of our own securities.

(a) Provisions of the GEM Listing Rules

Subject to certain restrictions, the GEM Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their own securities on the Stock Exchange, the most important of which are summarised below.

(i) Shareholders' approval

The GEM Listing Rules provide that all proposed repurchases of securities by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of a specific approval of a specific transaction, or by way of a general mandate.

The Repurchase Mandate was granted to our Directors by our Shareholder pursuant to a written resolution of the our Shareholders dated 19 June 2020 authorising them to exercise all powers of our Company to repurchase on the Stock Exchange Shares with a total number not exceeding 10% of the number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (but without taking into account the number of Shares which may be issued upon the exercise of the Offer Size Adjustment Option) whereas such Repurchase Mandate is proposed to remain in effect until whichever is the earliest of (a) the conclusion of the next annual general meeting of our Company; (b) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held; or (c) the passing of an ordinary resolution by the Shareholders at a general meeting revoking, varying or renewing the authority given to our Directors.

(ii) Source of funds

Any repurchases of securities of the Company must be financed out of funds legally available for the purpose in accordance with the GEM Listing Rules, the Articles and the applicable laws and regulations. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

(iii) Trading restrictions

Our Company may repurchase up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Share Offer and the Capitalisation Issue. Our Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares, without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. Our Company is required to procure that the broker appointed by it to effect a repurchase of Shares discloses to the Stock Exchange such information with respect to the repurchases as the Stock Exchange may request. Our Company also shall not purchase our Shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which the Shares were traded on the Stock Exchange.

(iv) Status of repurchased shares

All repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those Shares will be cancelled and destroyed. Under the Companies Law, our Company's repurchased Shares shall be treated as cancelled on repurchase and the amount of our Company's issued share capital shall be diminished by the aggregate nominal value of the repurchased Shares (although the authorised share capital of our Company will not be reduced as a result of the repurchase).

(v) Suspension of repurchase

Pursuant to the GEM Listing Rules, our Company may not make any repurchases of Shares after inside information has come to its knowledge until the information has been made publicly available. In particular, under the requirements of the GEM Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of: (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's results for any year, half year, quarter-year period or any other interim period (whether or not required by the GEM Listing Rules); and (ii) the deadline for our Company to publish an announcement of its results for any year, half-year or quarter-year period under the GEM Listing Rules, or any other interim period (whether or not required under the GEM Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of the Shares on the Stock Exchange if our Company has breached the GEM Listing Rules.

(vi) Procedural and reporting requirements

As required by the GEM Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange no later than 30 minutes before the earlier of the commencement of the morning trading session or any preopening session on the Stock Exchange the business day following any day on which our Company has made a purchase of Shares, reporting the total number of Shares purchased on the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases, where relevant. In addition, our Company's annual report is required to disclose details regarding repurchases of Shares made during the year, including the number of Shares repurchased each month, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate price paid. Our Directors' report shall contain reference to the purchases made during the year and our Directors reasons for making such purchases.

(vii) Core connected persons

The GEM Listing Rules prohibit our Company from knowingly repurchasing the Shares on the Stock Exchange from a "core connected person" which includes a Director, chief executive or substantial Shareholder of our Company or any of its subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell Shares to our Company.

(b) Reasons for repurchase

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of repurchases

In repurchasing securities, our Company may only apply funds lawfully available for such purpose in accordance with the Memorandum, the Articles, the GEM Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our Company's current financial position as disclosed in this prospectus and taking into account our Company's current working capital position, our Directors consider that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on our Company's working capital and/or our Company's gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on our Company's working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(d) General

The exercise in full of the repurchase mandate, on the basis of 600,000,000 Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (assuming the Offer Size Adjustment Option is not exercised) could accordingly result in up to approximately 60,000,000 Shares being repurchased by our Company during the period prior to:

(i) the conclusion of our next annual general meeting of our Company; or

(ii) the end of the period within which we are required by any applicable law or the Articles to hold our next annual general meeting; or

(iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

None of our Directors nor, to the best of their knowledge and having made all reasonable enquiries, any of their close associates (as defined in the GEM Listing Rules), have any present intention, if the Share Repurchase Mandate is exercised, to sell any Shares to our Company or its subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, the Articles and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition of voting rights for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert (as defined in the Takeovers Code), depending on the level of increase of the Shareholder's interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as the aforesaid, our Directors are not aware of any other consequences which would arise under the Takeovers Code as a consequence of any repurchases of Shares pursuant to the Repurchase Mandate.

Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of our Shares then in issue could only implemented with the approval of the Stock Exchange to waive the GEM Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No core connected persons (as defined in the GEM Listing Rules) of our Company have notified us of intention to sell securities to our Company and such persons have undertaken not to sell any such securities to our Company, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Company or any of the members of our Group within the two years immediately preceding the date of this prospectus and are or may be material:

(a) Fujian Hengsheng Animation Culture Diffusion Co., Ltd. equity interest transfer agreement* (福建恒盛動漫文化傳播有限公司股權轉讓協議) dated 5 September 2018 entered into between Xu Youjiang (許有獎) and Xu Yubin* (許育濱), pursuant to which Xu Youjiang (許有獎) agreed to transfer and Xu Yubin* (許育濱) agreed to purchase 5% equity interest (committed capital contribution of RMB1,500,000) in Fujian Hengsheng Animation Culture Diffusion Co., Ltd.* (福建恒盛動漫文化傳播有限公司) at the consideration of RMB1,500,000;

(b) Fujian Hengsheng Animation Culture Diffusion Co., Ltd. equity interest transfer agreement* (福建恒盛動漫文化傳播有限公司股權轉讓協議) dated 28 January 2019 entered into between Xu Youjiang (許有獎) and Hui Pan Pan (許彬彬), pursuant to which Xu Youjiang (許有獎) agreed to transfer and Hui Pan Pan (許彬彬) agreed to purchase 6% equity interest (committed capital contribution of RMB1,200,000) in Fujian Hengsheng Animation Culture Diffusion Co., Ltd.* (福建恒盛動漫文化傳播有限公司) at the consideration of RMB1,200,000;

(c) a pre-IPO investment agreement* (上市前投資協議) dated 23 April 2019 entered into between Yik Wo International Holdings Limited (易和國際控股有限公司) and Sun Kong Investments (BVI) Limited, pursuant to which Sun Kong Investments (BVI) Limited conditionally agreed to subscribe for, and Yik Wo International Holdings Limited (易和國際控股有限公司) conditionally agreed to issue 1,200 shares (representing 12% of the issued share capital of Yik Wo International Holdings Limited (易和國際控股有限公司) upon completion of the transaction) in Yik Wo International Holdings Limited (易和國際控股有限公司) at the consideration of RMB13,333,333 (the "**Sun Kong Pre-IPO Investment Agreement**");

(d) a side letter* (附函) dated 24 June 2020 entered into between Yik Wo International Holdings Limited (易和國際控股有限公司) and Sun Kong Investments (BVI) Limited, pursuant to which a clause contained in the Sun Kong Pre-IPO Investment Agreement was supplemented and amended;

(e) a pre-IPO investment agreement* (上市前投資協議) dated 7 May 2019 entered into between Yik Wo International Holdings Limited (易和國際控股有限公司) and Quantum Star Ventures Limited, pursuant to which Quantum Star Ventures Limited conditionally agreed to subscribe for, and Yik Wo International Holdings Limited (易和國際控股有限公司) conditionally agreed to issue 600 shares (representing 6% of the issued share capital of Yik Wo International Holdings Limited (易和國際控股有限公司) upon reorganisation) in Yik Wo International Holdings Limited (易和國際控股有限公司) at the consideration of HK$7,610,000 (the "**Quantum Star Pre-IPO Investment Agreement**");

(f) a side letter* (附函) dated 24 June 2020 entered into between Yik Wo International Holdings Limited (易和國際控股有限公司) and Quantum Star Ventures Limited, pursuant to which a clause contained in the Quantum Star Pre-IPO Investment Agreement was supplemented and amended;

(g) Fujian Hengsheng Animation Culture Diffusion Co., Ltd. equity interest transfer agreement* (福建恒盛動漫文化傳播有限公司股權轉讓協議) dated 31 May 2019 entered into between Xu Youjiang (許有獎) and Silver Excel Investments Limited (銀卓投資有限公司), pursuant to which Xu Youjiang (許有獎) agreed to transfer and Silver Excel Investments Limited (銀卓投資有限公司) agreed to purchase 89% equity interest (committed capital contribution of RMB17,800,000) in Fujian Hengsheng Animation Culture Diffusion Co., Ltd.* (福建恒盛動漫文化傳播有限公司) at the consideration of RMB17,800,000;

(h) Fujian Hengsheng Animation Culture Diffusion Co., Ltd. equity interest transfer agreement* (福建恒盛動漫文化傳播有限公司股權轉讓協議) dated 31 May 2019 entered into between Hui Pan Pan (許彬彬) and Silver Excel Investments Limited (銀卓投資有限公司), pursuant to which Hui Pan Pan (許彬彬) agreed to transfer and Silver Excel Investments Limited (銀卓投資有限公司) agreed to purchase 6% equity interest (committed capital contribution of RMB1,200,000) in Fujian Hengsheng Animation Culture Diffusion Co., Ltd.* (福建恒盛動漫文化傳播有限公司) at the consideration of RMB1,200,000;

(i) Fujian Hengsheng Animation Culture Diffusion Co., Ltd. equity interest transfer agreement* (福建恒盛動漫文化傳播有限公司股權轉讓協議) dated 31 May 2019 entered into between Xu Yubin* (許育濱) and Silver Excel Investments Limited (銀卓投資有限公司), pursuant to which Xu Yubin* (許育濱) agreed to transfer and Silver Excel Investments Limited (銀卓投資有限公司) agreed to purchase 5% equity interest (committed capital contribution of RMB1,000,000) in Fujian Hengsheng Animation Culture Diffusion Co., Ltd.* (福建恒盛動漫文化傳播有限公司) at the consideration of RMB1,000,000;

(j) a share sale and purchase agreement in relation to Yik Wo International Holdings Limited (易和國際控股有限公司)* (關於Yik Wo International Holdings Limited (易和國際控股有限公司)之股份買賣協議) dated 18 June 2019 entered into between Prize Investment Limited and Merit Winner Limited, pursuant to which Prize Investment Limited as the beneficial owner shall sell, and Merit Winner Limited shall purchase 1,500 shares (representing 15% of the issued share capital of Yik Wo International Holdings Limited (易和國際控股有限公司) as at the date of the agreement) in Yik Wo International Holdings Limited (易和國際控股有限公司) at the consideration of RMB16,666,666 (the "**Share Sale and Purchase Agreement**");

(k) a side letter* (附函) dated 24 June 2020 entered into between Prize Investment Limited and Merit Winner Limited, pursuant to which a clause contained in the Share Sale and Purchase Agreement was supplemented and amended;

(l) a deed of indemnity dated 26 June 2020 executed by Xu Youjiang (許有獎) and Prize Investment Limited in favour of Yik Wo International Holdings Limited (易和國際控股有限公司) (for itself and as trustee for its subsidiaries), particulars of which are set out in the paragraph headed "D. Other information — 1. Estate duty, tax and other indemnities" in this appendix;

(m) a deed of non-competition dated 26 June 2020 executed by Xu Youjiang (許有獎) and Prize Investment Limited in favour of Yik Wo International Holdings Limited (易和國際控股有限公司) (for itself and as trustee for its subsidiaries), particulars of which are set out in the section headed "Relationship with Controlling Shareholders — Deed of Non-Competition" in this prospectus; and

(n) the Public Offer Underwriting Agreement.

2. Intellectual property rights

As at the Latest Practicable Date, we have registered or have applied for the registration of the following intellectual property rights.

(a) Trademarks

As at the Latest Practicable Date, we are the owner of the following trademarks which we consider to be or may be material to our business:

No.	Trademark	Class	Place of registration	Trademark number / Registration number	Trademark owner	Date of registration	Expiry Date
1.		21	The PRC	9853900	Hengsheng Animation	21 October 2012	20 October 2022
2.		21	The PRC	15873319	Hengsheng Animation	7 February 2016	6 February 2026
3.		21	The PRC	23398497	Hengsheng Animation	21 March 2018	20 March 2028

No.	Trademark	Class	Place of registration	Trademark number / Registration number	Trademark owner	Date of registration	Expiry Date
4.		21	The PRC	23398436	Hengsheng Animation	21 March 2018	20 March 2028
5.		9	The PRC	31379551	Hengsheng Animation	7 March 2019	6 March 2029
6.		41	The PRC	31375183	Hengsheng Animation	7 March 2019	6 March 2029

(b) Domain name

As at the Latest Practicable Date, we are the registrant of the following domain name which we consider to be or may be material to our business:

No.	Domain name	Registrant	Date of registration	Expiry date
1.	yikwo.cn	Hengsheng Animation	18 June 2020	18 June 2022

(c) Patent

As at the Latest Practicable Date, we have registered the following patents which, in the opinion of our Directors, are material to our business:

No.	Place of registration	Title of patent	Registered owner	Registration number	Patent type	Date of application	Expiry date
1.	The PRC	Two-case food container* (飯、菜分離一體飯盒)	Hengsheng Animation	ZL 2012 1 0360226.3	Invention	25 September 2012	24 September 2032
2.	The PRC	Anti-bacterial PP plastic material* (一種PP抗菌塑料)	Hengsheng Animation	ZL 2013 1 0371759.6	Invention	23 August 2013	22 August 2033
3.	The PRC	An enhanced structure of a disposable food container* (一次性快餐盒的改進結構)	Hengsheng Animation	ZL 2016 2 0961885.6	Utility Model	26 August 2016	25 August 2026
4.	The PRC	Disposable food container bowl* (一次性碗狀快餐盒)	Hengsheng Animation	ZL 2016 2 0960564.4	Utility Model	26 August 2016	25 August 2026

No.	Place of registration	Title of patent	Registered owner	Registration number	Patent type	Date of application	Expiry date
5.	The PRC	An enhanced structure of a disposable water cup* (一次性飲水杯的改進結構)	Hengsheng Animation	ZL 2016 2 0960600.7	Utility Model	26 August 2016	25 August 2026
6.	The PRC	An enhanced structure of a biscuit box* (一種餅盒的改進結構)	Hengsheng Animation	ZL 2016 2 0961917.2	Utility Model	26 August 2016	25 August 2026
7.	The PRC	An enhanced structure of a beverage cup* (一種飲料杯的改進結構)	Hengsheng Animation	ZL 2016 2 0962156.2	Utility Model	26 August 2016	25 August 2026
8.	The PRC	Food container with sauce case* (一種便於存放醬料的快餐盒)	Hengsheng Animation	ZL 2016 2 1030285.4	Utility Model	31 August 2016	30 August 2026
9.	The PRC	An enhanced model of food container* (一種改進型快餐盒)	Hengsheng Animation	ZL 2016 2 1016446.4	Utility Model	31 August 2016	30 August 2026
10.	The PRC	An enhanced model of a disposable food container* (一種改進型的一次性快餐盒)	Hengsheng Animation	ZL 2016 2 1023899.X	Utility Model	31 August 2016	30 August 2026
11.	The PRC	Milk tea cup* (一種便於飲用奶茶的奶茶杯)	Hengsheng Animation	ZL 2016 2 1059622.2	Utility Model	18 September 2016	17 September 2026
12.	The PRC	Stand-up spoon* (一種可站立的湯匙)	Hengsheng Animation	ZL 2016 2 1015498.X	Utility Model	31 August 2016	30 August 2026
13.	The PRC	an enhanced structure of a disposable bowl* (一次性碗的改進結構)	Hengsheng Animation	ZL 2016 2 0962001.9	Utility Model	26 August 2016	25 August 2026
14.	The PRC	Spoon — new model* (一種新型湯匙)	Hengsheng Animation	ZL 2016 2 1014984.X	Utility Model	31 August 2016	30 August 2026
15.	The PRC	Compact food container* (一體式快餐盒)	Hengsheng Animation	ZL 2016 2 1022940.1	Utility Model	31 August 2016	30 August 2026
16.	The PRC	Portable food container* (便攜式快餐盒)	Hengsheng Animation	ZL 2016 2 1023072.9	Utility Model	31 August 2016	30 August 2026
17.	The PRC	Handled food container* (一種自帶提手的快餐盒)	Hengsheng Animation	ZL 2016 2 1022137.8	Utility Model	31 August 2016	30 August 2026
18.	The PRC	Multi-purpose food container* (一種多用途快餐盒)	Hengsheng Animation	ZL 2016 2 1020107.3	Utility Model	31 August 2016	30 August 2026
19.	The PRC	Enhanced model of a food container* (改進型快餐盒)	Hengsheng Animation	ZL 2016 2 1023039.6	Utility Model	31 August 2016	30 August 2026
20.	The PRC	Two-tier food container* (一種子母快餐盒)	Hengsheng Animation	ZL 2016 2 1022202.7	Utility Model	31 August 2016	30 August 2026

No.	Place of registration	Title of patent	Registered owner	Registration number	Patent type	Date of application	Expiry date
21.	The PRC	Foldable take-out food container* (一種便於疊加打包的方形快餐盒)	Hengsheng Animation	ZL 2016 2 1020679.1	Utility Model	31 August 2016	30 August 2026
22.	The PRC	Insulated beverage cup — new model* (一種新型隔熱快餐杯)	Hengsheng Animation	ZL 2016 2 1022598.5	Utility Model	31 August 2016	30 August 2026
23.	The PRC	Disposable food container (rectangular)* (一種方形一次性快餐盒)	Hengsheng Animation	ZL 2016 2 1028931.3	Utility Model	31 August 2016	30 August 2026
24.	The PRC	Disposable and non-detachable food containment* (一種一次性防拆快餐盒)	Hengsheng Animation	ZL201821880178.X	Utility Model	15 November 2018	14 November 2028
25.	The PRC	Sealed food container — new model* (一種新型密封快餐盒)	Hengsheng Animation	ZL201821880177.5	Utility Model	15 November 2018	14 November 2028
26.	The PRC	Sealed take-out food container* (一種密封式外賣快餐盒)	Hengsheng Animation	ZL201821829367.4	Utility Model	7 November 2018	6 November 2028
27.	The PRC	Reusable food container* (一種可多次使用的快餐盒)	Hengsheng Animation	ZL201821828716.0	Utility Model	7 November 2018	6 November 2028
28.	The PRC	Recognisable and reusable healthy food container* (一種能識別重複使用的衛生快餐盒)	Hengsheng Animation	ZL201821828699.0	Utility Model	7 November 2018	6 November 2028
29.	The PRC	Non-detachable food container with quick opening* (一種能快速開蓋的防拆快餐盒)	Hengsheng Animation	ZL201821828698.6	Utility Model	7 November 2018	6 November 2028
30	The PRC	Foldable and anti-spillage food container* (一種便於疊加防傾倒的快餐盒)	Hengsheng Animation	ZL201821725880.9	Utility Model	24 October 2018	23 October 2028
31	The PRC	Insulated food container* (一種防燙快餐盒)	Hengsheng Animation	ZL201821771490.5	Utility Model	30 October 2018	29 October 2028
32	The PRC	Food container with sauce case* (一種具有容置調料結構的快餐盒)	Hengsheng Animation	ZL201821772918.8	Utility Model	30 October 2018	29 October 2028
33	The PRC	Anti-theft food container* (一種新型防偷吃安全快餐盒)	Hengsheng Animation	ZL201821725877.7	Utility Model	24 October 2018	23 October 2028

No.	Place of registration	Title of patent	Registered owner	Registration number	Patent type	Date of application	Expiry date
34	The PRC	Environmental and self-heating food container with heat preservation* (一種環保保溫自熱快餐盒)	Hengsheng Animation	ZL201821772909.9	Utility Model	30 October 2018	29 October 2028
35	The PRC	Disposable food container with latching arrangement* (一種扣合可靠的一次性快餐盒)	Hengsheng Animation	ZL201821725878.1	Utility Model	24 October 2018	23 October 2028
36	The PRC	Latching structure of the food container* (一種快餐盒的扣合結構)	Hengsheng Animation	ZL201821072834.3	Utility Model	6 July 2018	5 July 2028
37	The PRC	PRC Disposable and degradable food container* (一種一次性可降解快餐盒)	Hengsheng Animation	ZL201821880182.6	Utility Model	15 November 2018	14 November 2028
38	The PRC	Portable food container* (一種易於存放的便攜式快餐盒)	Hengsheng Animation	ZL201821880181.1	Utility Model	15 November 2018	14 November 2028
39	The PRC	Food container 1* (餐盒(一))	Hengsheng Animation	ZL201930492071.1	Design	6 September 2019	5 September 2029
40	The PRC	Food container 2* (餐盒(二))	Hengsheng Animation	ZL201930492063.7	Design	6 September 2019	5 September 2029
41	The PRC	Food container 3* (餐盒(三))	Hengsheng Animation	ZL201930492061.8	Design	6 September 2019	5 September 2029

As at the Latest Practicable Date, we had filed the following patent registrations which we consider to be or may be material to our business:

No.	Place of registration	Title of patent	Applicant	Application number	Patent type	Date of application
1.	The PRC	Sealed take-out food container with sauce case* (一種具有醬料密封存放結構的外賣送餐盒)	Hengsheng Animation	201921480735.3	Utility Model	6 September 2019
2.	The PRC	Dual-layer take-out food container* (一種雙層組合式外賣送餐盒)	Hengsheng Animation	201921481807.6	Utility Model	6 September 2019
3.	The PRC	Food container — new model* (一種新型餐盒)	Hengsheng Animation	201921485350.6	Utility Model	6 September 2019
4.	The PRC	Foldable take-out food container* (一種便於疊加打包的快餐盒)	Hengsheng Animation	201821772926.2	Utility Model	30 October 2018

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Interests of our Directors in dealing with our Group

Save for the service contracts and letters of appointment entered into between our Directors and our Company, none of our Directors or their close associates has engaged in any dealings with our Group during the Track Record Period.

2. Interests and/or short positions of our Directors in the Shares, underlying Shares and debentures of our Company or any associated corporation

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Share which may be allotted and issued upon the exercise of the Offer Size Adjustment Option), the interests and short positions of each Director and the chief executive of our Company in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO) once the Shares are listed on the Stock Exchange, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, once the Shares are listed on the Stock Exchange, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the GEM Listing Rules, to be notified to our Company and the Stock Exchange once the Shares are listed on the Stock Exchange will be as follows:

(a) Interests and/or short positions in our Company

Name of Director	Company concerned	Nature of interest	Number of Shares held *(Note 1)*	Percentage of Interest in our Company
Mr. Xu	Our Company	Interest in controlled corporation (Note 2)	301,500,000 (L)	50.25%

Notes:

1. The letter "L" denotes a long position in the Shares held.

2. These 301,500,000 Shares are held by Prize Investment, which in turn is directly wholly-owned by Mr. Xu. As such, Mr. Xu is deemed under the SFO to be interested in these 301,500,000 Shares upon the Listing.

(b) Interests and/or short positions in associated corporation(s)

Name of Director	Company concerned	Nature of interest	Number of Shares held in the company concerned (Note 1)	Percentage of interest in the company concerned
Mr. Xu	Prize Investment (Note 2)	Beneficial owner	1 (L)	100%

Note:

1. The letter "L" denotes a long position in the Shares held.

2. Prize Investment is interested in 50.25% of the issued Shares immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Share which may be allotted and issued upon the exercise of the Offer Size Adjustment Option) and, accordingly, is the holding company of our Company within the meaning of the SFO.

3. Interests and/or short positions discloseable under the SFO and our substantial shareholders

Save as disclosed in the section headed "Substantial Shareholders" in this prospectus, our Directors are not aware of any person who will, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon exercise of the Offer Size Adjustment Option), have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group.

4. Particulars of service contracts and appointment letters

(a) Executive Directors

Each of our executive Directors has entered into a service agreement with our Company under which they have agreed to act as our executive Directors for an initial term of three years commencing from the Listing Date. Either party has the right to give not less than three months' written notice to terminate the service agreement.

According to the terms of the service contracts entered into between our Company and the executive Directors, the annual remuneration (excluding discretionary and performance bonuses) of each of our executive Director is as follows:

Name	**Salaries and allowances**	**Retirement scheme contributions**
	(RMB)	*(RMB)*
Mr. Xu Youjiang	322,200	4,320
Ms. Xu Liping	251,200	4,320
Mr. Zhang Yuansheng	210,200	4,320

The basic monthly salary payable by our Company to our relevant executive Director is subject to annual review by our Board and our Remuneration Committee.

Each of the executive Directors will be entitled to a discretionary bonus and a performance bonus as may be determined by our Remuneration Committee from time to time by reference to the financial performance of our Company as well as the individual performance of the relevant executive Directors.

(b) Independent non-executive Directors

Each of our independent non-executive Directors has signed a letter of appointment with our Company for an initial term of three years.

The annual director's fees payable by our Company to each of our independent non-executive Directors is approximately RMB80,000, RMB50,000 and HK$120,000, respectively, according to the letters of appointment.

Save as disclosed above, none of our Directors has entered or is proposed to enter into a service agreement with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

(c) Remuneration of our Directors

(i) For the years ended 31 December 2017, 2018 and 2019, the total remuneration (including salaries, allowances and benefits in kind, discretionary bonuses and retirement scheme contribution) paid by us to our Directors amounted to approximately RMB0.43 million, RMB0.46 million and RMB0.79 million, respectively.

(ii) Under the arrangements currently in force, the aggregate remuneration (including benefits in kind but excluding any commission or discretionary bonus) payable to our Directors in respect of the year ending 31 December 2020 is estimated to be approximately RMB1.04 million.

(iii) During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Company. No compensation was paid by us to, or receivable by, our Directors, former Directors, or the five highest paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Company.

(iv) None of our Directors had waived or agreed to waive any remuneration during the Track Record Period.

(v) Save as disclosed in the section headed "Directors, senior management and employees — Remuneration of Directors and five highest paid individuals", no other payments had been made, or are payable, by any member of our Group to our Directors during the Track Record Period.

5. Agency fees or commissions received

Save as disclosed in the section headed "Underwriting — Underwriting arrangements and expenses" in this prospectus, within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries.

6. Related party transaction

Save as disclosed in Note 25 to the Accountants' Report set out in Appendix I to this prospectus, for the Track Record Period, our Group has not engaged in any other material related party transactions.

7. Disclaimers

Save as disclosed in this Appendix:

(a) our Directors are not aware of any person (other than our Directors or the chief executive of our Company) who will, immediately following completion of the Share Offer (without taking into account of any Share which may be issued upon exercise of the Offer Size Adjustment Option), have an interest and/or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and/or short positions which they are deemed to have under such provisions of the SFO) or who will, either directly or indirectly, be expected to be interested in 10% or more of nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group;

(b) none of our Directors or the chief executives of our Company had any interests and short positions in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) once the Shares are listed on the Stock Exchange, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, once the Shares are listed on the Stock Exchange, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the GEM Listing Rules, to be notified to our Company and the Stock Exchange once the Shares are listed on the Stock Exchange;

(c) none of our Directors nor any of the persons whose names are listed in the paragraph headed "D. Other information — 10. Qualifications of experts" in this Appendix IV was directly or indirectly interested in the promotion of our Company, or has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to our Company or any of its subsidiaries, within the two years immediately preceding the date of this prospectus, or were proposed to be acquired or disposed of by or leased to our Company or any of its subsidiaries nor will any Director apply for Offer Shares either in his own name or in the name of a nominee;

(d) none of the persons whose names are listed in the paragraph headed "D. Other information — 10. Qualifications of experts" of this Appendix IV is materially interested in any contract or arrangement subsisting at the date of this prospectus which was significant in relation to the business of our Group;

(e) none of our Directors nor any of the persons whose names are listed in the section headed "D. Other information — 10. Qualifications of experts" in this Appendix IV has received any agency fee, commissions, discounts, brokerage or other special terms from our Group within the two years immediately preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group;

(f) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken; and

(g) none of the parties listed in the paragraph headed "D. Other information — 10. Qualifications of experts" in this Appendix IV:

  (i) are interested legally or beneficially in any securities of any member of our Group; and

  (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of our Group.

D. OTHER INFORMATION

1. Estate duty, tax and other indemnities

Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries in the Cayman Islands or the BVI or Hong Kong in which the companies comprising our Group are incorporated. There are currently no taxes in the form of estate duties under Cayman Islands law, and no estate tax is currently payable by persons who are not resident in the BVI with respect of any shares, debt obligations or other securities of a BVI company.

Stamp Duty

Dealings in the Shares will be subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the Shares. A total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares.

Deed of indemnity

The Controlling Shareholders (together the "**Indemnifiers**") have entered into the Deed of Indemnity with and in favour of our Company (for itself and as trustee for each of its subsidiaries) whereby conditional on the conditions set out in the section headed "Structure and conditions of the Share Offer" in this prospectus having been fulfilled, the Indemnifiers have given indemnities in connection with, among other matters:

(a) any and all taxation including estate duty falling on any company of our Group in any part of the world resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Listing Date or any event on or before the Listing Date, whether alone or in conjunction with other circumstances and whether or not such taxation is chargeable against or attributable to any other person, firm or company, unless such liability to taxation is also discharged by such other person, firm or company;

(b) any liabilities of whatever nature that may arise out of or from or as a result of or in connection with the business and/or operation of any company of our Group, whether in the ordinary course of the business of any company ofour Group or otherwise, on or before the Listing Date, irrespective of whether or not such liabilities are chargeable against or attributable to any other person, firm or company, unless such liabilities are also discharged by such other person, firm or company;

(c) all or any of the liabilities in connection with any tax, duty, excise, customs, charges, fees or expenses that may arise or be incurred in Hong Kong or any part of the world in the context and/or course of, or in relation to, the operation and/or business of any company of our Group on or before the Listing Date;

(d) all or any liabilities, damages, costs, charges, fees, expenses and interest (collectively, "**liabilities**") that may arise or be payable under or in connection with any legal action or proceedings of whatever nature and irrespective of where instituted and whether on going or otherwise of which any company of our Group is involved or is a party of whatever capacity thereto (i) to the extent that such liabilities are not covered by the relevant insurance policies taken out by any company of our Group; or (ii) to the full extent of such liabilities in the event that none of the companies of our Group has taken out any insurance policy to cover such liabilities, provided that the cause of action for such legal action or proceedings has occurred before the Listing Date; and

(e) all reasonable costs (including all legal costs), expenses or other liabilities which any of us may reasonably incur in connection with:-

(i) the investigation, assessment or the contesting of any claim under the Deed of Indemnity;

(ii) the settlement of any claim under the Deed of Indemnity;

(iii) any legal proceedings in which any of us claims under or in respect of the Deed of Indemnity and in which judgment is given for any of us; or

(iv) the enforcement of any such settlement or judgment in respect of any claim under the Deed of Indemnity,

save and except that the Indemnifiers shall be under no liability under the Deed of Indemnity:

(i) to the extent that provision has been made for such taxation or liability in the audited consolidated accounts of our Company or the audited accounts of the relevant company of our Group as at 31 December 2019 (the "**Accounts**");

(ii) to the extent that such claim arises or is incurred as a consequence of any retrospective change in the law or regulations or practice by the Hong Kong Inland Revenue Department or any other relevant authorities in any part of the world coming into force after the date thereof or to the extent that such claim arises or is increased by an increase in rates of taxation after the date thereof with retrospective effect;

(iii) to the extent that such taxation or liability is caused by the act or omission of, or transaction voluntarily effected by, any company of our Group which is carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets other than any prosecution by any government authority;

(iv) to the extent that such taxation or liability would not have arisen but for any act or omission by any company of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected without the prior written consent or agreement of the Indemnifiers; and

(v) to the extent of any provision or reserve made for taxation in the Accounts which is finally established to be an over-provision or an excessive reserve, provided that the amount of any such provision or reserve applied to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising after 31 December 2019.

2. Material claims or litigation

Save as disclosed in the section headed "Business — Legal proceedings and non-Compliance" in this prospectus, as at the Latest Practicable Date, no member of our Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group, that would have a material adverse effect on our business, results of operations or financial condition.

3. No Material Adverse Change

Save as disclose in this prospectus, our Directors confirmed that there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since 31 December 2019, the date of the latest audited consolidated financial statements of our Group, up to the Latest Practicable Date.

4. The Sole Sponsor

Save for the advisory fees in the amount of around HK$6,000,000 paid or to be paid to the Sole Sponsor as the sponsor in connection with the Listing, the advisory fees to be paid to the Sole Sponsor as our compliance advisor with effect from the Listing Date and the commission as disclosed in the section headed "Underwriting" in this prospectus to be paid to the Joint Bookrunners and Joint Lead Managers for its obligations under the Underwriting Agreements, neither the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers nor any of their respective close associates has or may, as a result of the Listing, have any interest in any class of securities of our Company or any of our subsidiaries (including options or rights to subscribe for such securities).

The Sole Sponsor has confirmed that it satisfies the independence criteria applicable to sponsors set forth in Rule 6A.07 of the GEM Listing Rules.

5. Preliminary expenses

The estimated preliminary expenses incurred or proposed to be incurred by our Company relating to the incorporation of our Company are approximately US$4,000 and are payable by our Company.

6. Promotor

Our Company has no promoter for the purpose of the GEM Listing Rules.

7. Agency fees or commission

Within two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of any member of our Group.

8. Registration procedures

The principal register of members of our Company will be maintained in the Cayman Islands by Maples Fund Services (Cayman) Limited and a Hong Kong branch register of members of our Company will be maintained in Hong Kong by our Hong Kong Share Registrar. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company's Hong Kong Share Registrar in Hong Kong and may not be lodged in the Cayman Islands.

9. Taxation of holders of Shares

Dealings in Shares will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

Potential holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares.

None of our Company, our Directors or other parties involved in the Listing can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

10. Qualifications of experts

The qualifications of the experts (as defined under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) and the GEM Listing Rules) who have given their opinions or advice in this prospectus are as follows:

Name	Qualifications
Grand Moore Capital Limited	Licensed corporation permitted to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Grant Thornton Hong Kong Limited	Certified Public Accountants
Maples and Calder (Hong Kong) LLP	Legal advisers to our Company as to the laws of the Cayman Islands
Tian Yuan Law Firm	Legal advisers to our Company as to the laws of the PRC
Frost & Sullivan International Limited	Industry consultant

11. Consents of Experts

Each of the experts as referred to in the paragraph headed "10. Qualifications of experts" above in this appendix has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of statement(s) made by it and/or its report and/or letter and/or legal opinion (as the case may be) and references to its name included herein in the form and context in which it respectively appears.

None of the experts as referred to in the paragraph headed "10. Qualifications of experts" has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

12. Compliance Adviser

In accordance with the requirements of the GEM Listing Rules, our Company has appointed Grand Moore Capital Limited as our compliance adviser to provide advisory services to our Company to ensure compliance with the GEM Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date, or until the compliance adviser agreement is otherwise terminated upon the terms and conditions set out therein.

13. Miscellaneous

Save as disclosed in this prospectus, within two years immediately preceding the date of this prospectus:

(a) none of our Directors or any of the parties listed in the paragraph "10. Qualifications of experts" in this appendix has any direct or indirect interest in the promotion of, or in any asset which have been, acquired or disposed of by or leased to, any member of our Group within the two years immediately preceding the date of this prospectus, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(b) none of our Directors or any of the parties listed in the paragraph "10. Qualifications of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;

(c) none of our Directors has any existing or proposed services contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than payment of statutory compensation);

(d) no capital of any member of our Group is under option, or agreed conditionally or unconditionally to be put under option;

(e) we have not issued or agreed to issue any founder or management or deferred Shares nor any outstanding debentures;

(f) within the two years preceding the date of this prospectus, there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group;

(g) within the two years preceding the date of this prospectus, no share or loan capital or debentures of our Company or of any of our principal operating subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly either for cash or for a consideration other than cash;

(h) we have no outstanding debentures or convertible debt securities;

(i) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;

(j) no commissions, discounts, brokerages or other special terms were paid or granted within the two years immediately preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group, and none of our Directors nor any of the parties listed in the paragraph "10. Qualifications of experts" in this appendix has received any such payment or benefit;

(k) no commission (but not including commission to the Underwriters) had been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Share in or debentures of our Company;

(l) no company within our Group is presently listed on any stock exchange or traded on any trading system; and

(m) all necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

14. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all the provisions (other than penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

15. Bilingual prospectus

The English version and the Chinese version of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

1. Documents Delivered to the Registrar of Companies in Hong Kong

The documents attached to a copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were (a) copies of the Application Forms; (b) the written consents referred to in the paragraph headed "D. Other information — 11. Consents of experts" in Appendix IV to this prospectus; and (c) certified copies of the material contracts referred to in the paragraph headed "B. Further information about our business — 1. Summary of material contracts" in Appendix IV to this prospectus.

2. Documents Available for Inspection

Copies of the following documents will be available for inspection at the offices of P. C. Woo & Co. at Room 1225, Prince's Building, 10 Chater Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum and the Articles;

(b) the Accountants' Report of our Group from Grant Thornton Hong Kong Limited, the text of which is set out in Appendix I to this prospectus;

(c) the audited consolidated financial statements of our Group for each of the three years ended 31 December 2019;

(d) the independent reporting accountants' assurance report on the compilation of unaudited pro forma financial information of our Group prepared by Grant Thornton Hong Kong Limited, the text of which is set out in Appendix II to this prospectus;

(e) the F&S Report;

(f) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, legal advisers to our Company as to the laws of the Cayman Islands, summarising the constitution of our Company and certain aspects of the Companies Law referred to in Appendix III to this prospectus;

(g) the Companies Law;

(h) the PRC legal opinions issued by Tian Yuan Law Firm, legal advisers to our Company as to the laws of the PRC, in respect of certain aspects of our Group and the property interests of our Group;

(i) the material contracts referred to in the paragraph headed "B. Further information about our business — 1. Summary of material contracts" in Appendix IV to this prospectus;

(j) the service agreements and letters of appointment referred to in the paragraph headed "C. Further information about our directors and substantial shareholders — 4. Particulars of service contracts and appointment letters" in Appendix IV to this prospectus; and

(k) the written consents referred to in the paragraph headed "D. Other information — 11. Consents of experts" in Appendix IV to this prospectus.

Yik Wo International Holdings Limited
易和國際控股有限公司