



溫嶺浙江工量刃具交易中心股份有限公司  
Wenling Zhejiang Measuring and Cutting Tools  
Trading Centre Company Limited\*

(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock code : 1379

GLOBAL  
OFFERING

Sole Sponsor and Sole Global Coordinator



信達國際  
CINDA INTERNATIONAL

Joint Bookrunners and Joint Lead Managers



信達國際  
CINDA INTERNATIONAL



潮商證券有限公司  
ChaoShang Securities Limited

\* for identification purposes only

# IMPORTANT

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



## 溫嶺浙江工量刃具交易中心股份有限公司

### Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited\*

(A joint stock company incorporated in the People's Republic of China with limited liability)

#### GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 20,000,000 H Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 2,000,000 H Shares (subject to adjustment)
Number of International Placing Shares	: 18,000,000 H Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	: HK\$6.75 per H Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: RMB1.00 per H Share
Stock code	: 1379

*Sole Sponsor and Sole Global Coordinator*



*Joint Bookrunners and Joint Lead Managers*



*Co-Lead Managers*



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

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

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, 30 October 2019 (Hong Kong time) and, in any event, not later than Monday, 4 November 2019 (Hong Kong time). The Offer Price will be not more than HK\$6.75 and is currently expected to be not less than HK\$6.25. If, for any reason, the Offer Price is not agreed by Monday, 4 November 2019 (Hong Kong time) between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse. Investors applying for Offer Shares must pay, on application, the maximum Offer Price of HK\$6.75 per H Share, unless otherwise announced, together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price finally determined is lower than HK\$6.75 per H Share.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, with the consent of our Company, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published at our website at <http://cnlgj.com> and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. For further information, see the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

We are incorporated, and all of our businesses are located, in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investments in PRC-established companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our H Shares. Such differences and risk factors are set out in the section headed "Risk Factors" in this prospectus, and "Appendix IV – Summary of Principal Legal and Regulatory Provisions" and "Appendix V – Summary of Articles of Association" in this prospectus. Prior to making an investment decision, potential investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in our Shares commences on the Stock Exchange. For further details, please see the section headed "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Underwriting Agreement – Grounds for termination" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered, sold, pledged or transferred within the United States. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S under the U.S. Securities Act.

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

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If there is any change in the following expected timetable of the Global Offering, our Company will issue an announcement in Hong Kong to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of our Company at <http://cnglj.com>.

Hong Kong Public Offering commence and **WHITE** and

**YELLOW** Application Forms available from..... 9:00 a.m.  
on Friday, 25 October 2019

Latest time to complete electronic applications

under **HK eIPO White Form** service through the designated

website [www.hkeipo.hk](http://www.hkeipo.hk)<sup>(Note 2)</sup> ..... 11:30 a.m.  
on Wednesday, 30 October 2019

Application lists open<sup>(Note 3)</sup> ..... 11:45 a.m.  
on Wednesday, 30 October 2019

Latest time to lodge **WHITE** and **YELLOW** Application Forms

and give **electronic application instructions** to HKSCC<sup>(Note 4)</sup> ..... 12:00 noon  
on Wednesday, 30 October 2019

Latest time to complete payment of **HK eIPO White Form**

applications by effecting internet banking transfer(s) or PPS

payment transfer(s). ..... 12:00 noon  
on Wednesday, 30 October 2019

Application lists close ..... 12:00 noon  
on Wednesday, 30 October 2019

Expected Price Determination Date<sup>(Note 5)</sup> ..... Wednesday, 30 October 2019

Announcement of:

- the Offer Price;
- the level of applications in the Hong Kong Public Offering;
- the level of indication of interest in the International Placing; and
- the basis of allocation of the Hong Kong Offer Shares to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at <http://cnglj.com><sup>(Note 6)</sup> on ..... Tuesday, 5 November 2019

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

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Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, or business registration numbers, where appropriate) to be available through a variety of channels (see "How to Apply for Hong Kong Offer Shares – 11. Publication of Results") from . . . . Tuesday, 5 November 2019

Results of allocations in the Hong Kong Public Offering will be available at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) (alternatively: [www.hkeipo.hk/IPOResult](http://www.hkeipo.hk/IPOResult)) with a "search by ID" function . . . . Tuesday, 5 November 2019

H Share certificates in respect of wholly or partially successful applications to be despatched or deposited into CCASS on or before<sup>(Note 7)</sup> . . . . Tuesday, 5 November 2019

**HK eIPO White Form e-Auto Refund payment**  
instructions/refund cheques in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications to be despatched on or before<sup>(Note 8) (Note 9) (Note 10)</sup> . . . . Tuesday, 5 November 2019

Dealings in H Shares on the Stock Exchange expected to commence at 9:00 a.m. on . . . . Wednesday, 6 November 2019

*Notes:*

1. All dates and times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, are set out in the section headed "Structure and Conditions of the Global Offering" in this prospectus.
2. If you have already submitted your application and obtained a payment reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. You will not be permitted to submit your application through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications.
3. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 30 October 2019, the application lists will not open or close on that day. For further details, please refer to the section headed "How to Apply for Hong Kong Offer Shares – 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this prospectus.
4. Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares – 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS" in this prospectus.
5. The Price Determination Date is expected to be on or about Wednesday, 30 October 2019 and in any event not later than Monday, 4 November 2019. If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before Monday, 4 November 2019, the Global Offering will lapse.
6. None of the website or any of the information contained on the website forms part of this prospectus.

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

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7. No temporary documents of title will be issued in respect of the Offer Shares. H Share certificates will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects and (ii) the Underwriting Agreements have not been terminated in accordance with their respective terms prior to 9:00 a.m. on the Listing Date. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.
8. Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Forms may collect their H Share certificates (where applicable) or refund cheque (where applicable) from our H Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 5 November 2019. Applicants being individuals who are eligible for personal collection must not authorise any other person to collect on their behalf. Applicants being corporations who are eligible for personal collection must attend by their authorised representatives each bearing a letter of authorisation from his/her corporation stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to H Share Registrar. Uncollected refund cheques and H Share certificates will be despatched promptly by ordinary post to the addresses as specified in the applicants' Application Forms at the applicants' own risk. Details of the arrangements are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.
9. Applicants who apply through the **HK eIPO White Form** service and paid their application monies through single bank accounts may have refund monies (if any) despatched to the application payment account, in the form of e-Auto Refund payment instructions. Applicants who apply through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions to the **HK eIPO White Form** Service Provider, in the form of refund cheques, by ordinary post at their own risk.
10. e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

**The H Share certificates will only become valid certificates of title provided that: (i) the Global Offering has become unconditional in all respects; and (ii) neither of the Underwriting Agreements has been terminated in accordance with its respective terms prior to 8:00 a.m. on the Listing Date (which is expected to be on or about Wednesday, 6 November 2019). Investors who trade our H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk.**

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### IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of and does not constitute an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale 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.*

*You should rely only on the information contained in this prospectus to make your investment decision. We have not authorised anyone to provide prospective investors 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 prospective investors as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents, affiliates, representatives, professional advisers or any other person or party involved in the Global Offering.*

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## SUMMARY AND HIGHLIGHTS

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*This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety, and should be read in conjunction with the full text of this prospectus. You should read this prospectus in its entirety before you decide to invest in the Offer Shares. Information contained in our website, located at <http://cnglj.com> does not form part of this prospectus.*

*There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this summary are defined in the sections headed “Definitions” and “Glossary of technical terms” of this prospectus.*

### OVERVIEW

We are an established Measuring and Cutting Tools trading centre operator in China. Our Company was founded in 2003 and we own, operate and manage our Trading Centre located in Qianyangxia Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC\* (中國浙江省溫嶺市溫嶺鎮前洋下村). During the Track Record Period and as at the Latest Practicable Date, our principal activity and source of revenue were primarily derived from property leasing business through our operation of the Trading Centre for the Measuring and Cutting Tools industry. We aim to expand such property leasing business in the Measuring and Cutting Tools industry into the Industrial Park. Please refer to the section headed “Business – Our Business Expansion – Measuring and Cutting Tools Industrial Park” for further details. Our Trading Centre is a four-storey commercial complex with basement with a total GFA of approximately 74,204.7 sq.m., of which a total GFA of approximately 71,817.5 sq.m. is held for investment purpose and a total GFA of approximately 2,387.2 sq.m. is held for our own offices.

According to F&S, China has introduced a number of policies facilitating manufacturing industry in recent years. Machine tools industry is the foundation of industrial manufacturing. As the key components for machine tools, the Manufacturing and Cutting Tools manufacturing industry has been benefited from the prosperity of manufacturing industry which in turn has driven the development of Measuring and Cutting Tools trading centre as the same provides a centralised place for the trading of Measuring and Cutting Tools. In particular, according to The Thirteenth Five year Plan of Intelligent Manufacturing (2016–2020)\* (《智能製造“十三五”發展規劃(2016–2020)年》), intelligent manufacturing will become a long-term plan and strategy. Traditional manufacturing will need to gradually transform into digital manufacturing. This policy which aims to expedite the process of intelligent manufacturing will, according to F&S, accelerate the upgrade or replacement of outdated manufacturing machine, in turn requiring additional demand for the Measuring and Cutting Tools of higher product quality. For example, traditional manufacturing market, such as aerospace which demands intelligent transformation, is expected to have increased demand of Measuring and Cutting Tools products to develop high precision CNC (Computerised Numerical Control) machine tools equipment industry and products replacement. In addition, emerging manufacturing market, such as industrial robot

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## SUMMARY AND HIGHLIGHTS

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using new generation of information technology and intelligent manufacturing, will require additional demand of the machine tools and thus inspire the demand of the Measuring and Cutting Tools. As a result of the increased demand of machine tools abovementioned, it is expected that the manufacturers in the Measuring and Cutting Tools industry will be stimulated to offer larger production volumes and higher product quality of Measuring and Cutting Tools, and thus boosting the demands of the Measuring and Cutting Tools.

In addition, we have received supports from the Wenling Government. For example, our Trading Centre was confirmed to be an important corporation in the tertiary sector that is the primary focus of Wenling City. There was preferential policy with respect to use of land and tax, under which government subsidy was granted to us historically. In addition, during the Track Record Period, we received government grants primarily related to quality merit and e-commerce incentive.

### OUR BUSINESS MODEL

We lease the units in the First and the Second Floors to corporations and individuals selling Measuring and Cutting Tools. We designate part of the Third Floor as the Electronic Business Park to lease to the Measuring and Cutting Tools e-commerce business operators. We use the Fourth Floor as our office and the basement as the car park. We also provide property management service and support services, namely the Index and the Measuring and Cutting Tools Financing Service, to our tenants.

With respect to rental fee, we primarily charge our tenants based on the successful bidding amount that they offered during the public tender for the units of our Trading Centre. With respect to property management service fee, we charge them in accordance with the tenancy agreement.

One of the major development milestones of our Trading Centre is the grand opening of the Electronic Business Park on the Third Floor in August 2016. Its main purpose is to provide an open, low-cost and convenient trading platform for the e-commerce business operators in the Measuring and Cutting Tools industry. We have successfully attracted certain remarkable Measuring and Cutting Tools e-commerce business operators, one of which is Tools Union\* (刀具聯盟), which was chosen by Wenling Bureau of Commerce\* (溫嶺商務局) as the e-commerce model enterprise\* (電子商務示範企業) in 2016.

## SUMMARY AND HIGHLIGHTS

### Number of tenants and rental income

The table below provides a summary of the number of tenants as well as the rental income generated by different floors (excluding the Fourth Floor) during the Track Record Period:

	As at/for the years ended 31 December						As at/for the four months ended			
	2015		2016		2017		2018		30 April 2019	
	No. of tenants generated	Rental income <i>RMB'000</i>	No. of tenants generated	Rental income <i>RMB'000</i>	No. of tenants generated	Rental income <i>RMB'000</i>	No. of tenants generated	Rental income <i>RMB'000</i>	No. of tenants generated	Rental income <i>RMB'000</i>
First Floor	371	15,854	351	34,666	354	33,553	360	35,654	365	12,132
Second Floor	180	5,624	159	7,849	167	7,315	183	8,455	183	2,879
Third Floor <sup>(1)</sup>	-	-	68	226	69	703	69	704	69	245
Basement <sup>(2)</sup>	-	1,184	-	1,082	-	1,142	-	1,094	-	377
<b>Total:</b>	<b>551</b>	<b>22,662</b>	<b>578</b>	<b>43,823</b>	<b>590</b>	<b>42,713</b>	<b>612</b>	<b>45,907</b>	<b>617</b>	<b>15,633</b>

*Notes:*

- (1) The figure for the Third Floor was nil for the year ended 31 December 2015 because the grand opening of the Third Floor took place in August 2016.
- (2) Despite that there was no tenant in the basement, the rental income generated from the basement of our Trading Centre throughout the Track Record Period was primarily car parking fee from the tenants of our Trading Centre.

### Lease terms, expiry profile and renewal

Our standard tenancy agreement has a fixed term ranging from four to six years and 20 years. The following table sets forth the information with respect to lease expirations of our Trading Centre tenants that are scheduled to take place during the calendar years indicated.

Calendar Year	Number of Leases <sup>(1)</sup>	LFA leased <sup>(2)</sup> <i>(in sq.m.)</i>	Percentage of Leased Area <i>(%)</i>
2019	2	284.0	1.6
2020	489	13,830.0	76.5
2021	70	2,090.0	11.6
2022	2	669.0	3.7
2025 (and afterwards)	54	1,195.2	6.6
<b>Total</b>	<b>617</b>	<b>18,068.2</b>	<b>100.0</b>

## SUMMARY AND HIGHLIGHTS

*Notes:*

- (1) Assuming that new tenancy agreements are not entered into upon expiration of the initial leases.
- (2) The LFA leased included the LFA leased on the First Floor, the Second Floor and the Third Floor only, excluding the basement of our Trading Centre.

As at 31 December 2015, 2016, 2017 and 2018, our Trading Centre had 551, 578, 590 and 612 tenants. During the years ended 31 December 2015, 2016, 2017 and 2018, 464, 2, 28 and 2 lease agreements expired and nil, 56, 17 and 7 lease agreements were prematurely terminated mainly because the tenants considered the rents were higher than what they might afford, respectively, out of which 464, 8, 31 and 3 leases were taken up by the same tenant or by another tenant before the end of the year, respectively; representing the renewal rate of 100%, 13.8%, 68.9% and 33.3%, respectively. In respect of the 464, 8 and 31 leases renewed during the years ended 31 December 2015, 2016 and 2017, save that 53 leases have been renewed in 2015 for 20 years, all other leases were renewed for a term of five or six years. In respect of the three leases taken up by the same tenant or another tenant during the year ended 31 December 2018, two of them are renewed for a term of one year while one of them is renewed for a term of two years. There was no lease expired or prematurely terminated during the four months ended 30 April 2019.

### OUR CUSTOMERS

Our Trading Centre had 617 tenants as at 30 April 2019. Our tenants include an array of manufacturers, suppliers, distributors and wholesalers in the industry of Measuring and Cutting Tools.

The following table sets forth the information regarding the occupancy rate illustrated by LFA of our Trading Centre and the percentage of LFA leased to our tenants during the Track Record Period:

	As at 31 December						As at 30 April			
	2015		2016		2017		2018		2019	
	LFA (sq.m.)	LFA leased (%)	LFA (sq.m.)	LFA leased (%)	LFA (sq.m.)	LFA leased (%)	LFA (sq.m.)	LFA leased (%)	LFA <sup>(5)</sup> (sq.m.)	LFA leased (%)
First Floor <sup>(1)</sup>	8,043.3	100	8,043.3	95.2	8,043.3	93.9	8,043.3	95.5	8,043.3	96.9
Second Floor <sup>(2)</sup>	7,665.5	100	7,665.5	87.2	7,665.5	89.9	7,713.0	100.0	7,713.0	100.0
Third Floor <sup>(3)</sup>	–	–	2,040.0	97.1	2,559.0	100.0	2,559.0	100.0	2,559.0	100.0
Basement <sup>(4)</sup>	6,499.3	100	6,522.0	100.0	6,522.0	100.0	6,383.7	100.0	6,383.7	100.0
Total/Weighted average	22,208.1	100	24,270.8	94.1	24,789.8	94.8	24,699.0	98.5	24,699.0	99.0

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## SUMMARY AND HIGHLIGHTS

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*Notes:*

- (1) The First Floor comprised (a) Zone A, Zone B, Zone C and Zone D with a total area of approximately 7,551.3 sq.m.; and (b) value added service including a restaurant, a supermarket and banking facilities with a total area of approximately 492 sq.m.. Such areas are counted in our LFA.
- (2) The LFA of the Second Floor increased by approximately 0.6% from 7,665.5 sq.m. as at 31 December 2017 to 7,713.0 sq.m. as at 31 December 2018 primarily because of a slight rearrangement and modification of the usable area in the Second Floor.
- (3) The figures for the Third Floor are nil for the year ended 31 December 2015 because the grand opening of the Third Floor took place in August 2016. The LFA of the Third Floor increased by approximately 25.4% from 2,040.0 sq.m. as at 31 December 2016 to 2,559.0 sq.m. as at 31 December 2017 because the business and commercial centre with a size of 519 sq.m. was available for lease at 8 January 2017.
- (4) The LFA of the basement increased by approximately 0.3% from approximately 6,499.3 sq.m. as at 31 December 2015 to 6,522.0 sq.m. as at 31 December 2016 and decreased by approximately 2.1% from approximately 6,522.0 sq.m. as at 31 December 2017 to 6,383.7 sq.m. as at 31 December 2018 primarily because of a slight rearrangement and modification of the usable area in the basement.
- (5) The LFA leased on the First Floor, the Second Floor and the Third Floor as at 30 April 2019 were approximately 7,796.2 sq.m., 7,713.0 sq.m. and 2,559.0 sq.m. respectively, with the total LFA leased of approximately 18,068.2 sq.m..

Given the above occupancy rates of our Trading Centre were already comparatively high throughout the Track Record Period and is expected to at least maintain such high occupancy rates in the future, the room for the revenue growth for our Trading Centre is little or limited, unless our Company decides to increase the amount of rent. If so decided, it may, on the other hand, attract certain uncertainties to the revenue of our Company. For further details, please refer to the section headed “Risk Factors – Risks Relating to Our Business – During the Track Record Period, our profitability has declined due to decrease in valuation gains of our investment properties, and our prospects are dependent on various factors, including but not limited to the appraisal value of our properties, limited revenue growth, increase in cash outflow in respect of interests for the loan, our ability to execute our expansion plan successfully in light of the uncertainties involved in the establishment of the Industrial Park and our ability to cope with the fierce market competition from different market players” of this prospectus.

### COMPETITIVE LANDSCAPE

There are three types of business models in the Measuring and Cutting Tools market. They consist of trading in (i) trading centres, (ii) independent shops; (iii) directly selling products from manufacturers. According to F&S, the total sales revenue of trading Measuring and Cutting Tools by the tenants of trading centres, independent shops and direct sales from manufacturers accounted for approximately 18.0%, 61.2% and 20.8% of the total Measuring and Cutting Tools market in the PRC in 2018, respectively. In terms of trading centres, as at the Latest Practicable Date, there are mainly four large-scale trading centres in China including two trading centres not only sell measuring and cutting tools, but also sell other hardwares. The four trading centres mainly located in Zhejiang, Jiangsu and Guangdong Province. There are two trading centres in Zhejiang Province and one trading centre in Jiangsu and Guangdong Provinces, respectively.

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## SUMMARY AND HIGHLIGHTS

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### OUR COMPETITIVE STRENGTHS

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

- established position of our Trading Centre in the PRC to capitalise on the Measuring and Cutting Tools market in China;
- distinctive Controlling Shareholder and government support;
- our awards and accreditations consolidating our brand equity;
- stable tenant base allowing stable and recurring revenue source;
- our experienced management team; and
- diverse Measuring and Cutting Tools products offerings by our Trading Centre effectively and extensively distributed regionally and nationally in the PRC.

### OUR BUSINESS STRATEGIES AND FUTURE PLANS

We intend to maintain and further strengthen our position in the Measuring and Cutting Tools industry and to expand our business by implementing the following business strategies:

- further strengthen our market positioning in the Measuring and Cutting Tools market;
- further development of the Third Floor;
- transforming into the internet-enabled trading centre;
- further strengthening our recognition; and
- development of the Measuring and Cutting Tools Industrial Park.

### DEVELOPMENT OF THE MEASURING AND CUTTING TOOLS INDUSTRIAL PARK

#### Background of the expansion plan – Measuring and Cutting Tools Industrial Park

According to the F&S Report, the Measuring and Cutting Tools industry is in demand of an industrial park, primarily because (1) there is strong government support to develop a Measuring and Cutting Tools industrial park; and (2) the existing Measuring and Cutting Tools industrial park in Wenling City is immaturely developed.

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## SUMMARY AND HIGHLIGHTS

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Considering the above and leveraging our experience, knowledge and network through years of being an active market player in the Measuring and Cutting Tools industry, our Directors believe that the development of the Industrial Park is an excellent opportunity for us to expand our business and capitalising our market positioning in the Measuring and Cutting Tools industry.

On 28 December 2018, we successfully won the bid for the Land for the construction of the Industrial Park. On 18 December 2018, we paid the bidding security deposit (競買保證金) of RMB13,000,000. In January 2019, we paid RMB58,846,000 composed of (a) RMB50,500,000, being the remaining balance of the total consideration of the acquisition of the Land; (b) RMB1,996,000, being the related tax and surcharges; and (c) RMB6,350,000, being the performance bond of the Land Contract. We obtained bank loans with amount of approximately RMB40.0 million and RMB57.0 million respectively from two third-party banks in the PRC to finance such payment in January 2019. We have successfully obtained the real property ownership certificate for the land dated 24 May 2019. As advised by the PRC Legal Advisers, as long as our Company comply with applicable legal requirements and procedures in relation to filings and obtaining the relevant permits, there is no material legal impediment for us to obtain the relevant real property ownership certificate for the Industrial Park.

We intend to look for the potential tenants of the Industrial Park that belong to the Measuring and Cutting Tools manufacturing industry within the metallic tools manufacturing industry and be able to comply with the relevant environmental requirements.

We estimate that we shall invest a total of approximately RMB406.1 million into the Industrial Park. The grand opening of the Industrial Park is expected to take place in the end of 2021.

### **Business model and difference in operating the Industrial Park as compared to our Trading Centre**

Our Trading Centre is primarily for product displaying and trading purposes, such that it primarily targets to provide units for use as shops for the tenants to display, trade and promote their products to their downstream customers. The size of the units in our Trading Centre is comparatively small, generally ranging from 18-20 sq.m.. We also provide the Electronic Business Park, an open, low-cost and convenient trading platform, for the e-commerce business operators in the Measuring and Cutting Tools industry. In addition, support services, namely the Index and the Measuring and Cutting Tools Financing Service, are also provided to our tenants.

On the other hand, the Industrial Park is mainly for manufacturing purpose that it targets to provide units for use as factories and workshops, where upstream manufacturers would conduct manufacturing and production of Measuring and Cutting Tools (as compared with our Trading Centre where tenants therein primarily use the units as shops to conduct product display, trading and promotion). It is expected that the size of the manufacturing units in the contemplated Industrial Park is comparatively large, ranging from approximately 500 sq.m. to 2,000 sq.m. or

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## SUMMARY AND HIGHLIGHTS

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larger. In addition, we expect to provide financing service as well as professional support to the tenants' manufacturing business.

Considering the operation of the Industrial Park will primarily involve property leasing and management, which is the type of business that our Trading Centre is principally engaged in, our Directors are of the view that there will be no material difference in operating our Trading Centre and the Industrial Park.

### **Our belief that Industrial Park could replicate the same success as our Trading Centre**

In light of (1) our measures to attract manufacturers to relocate; (2) our Trading Centre and the Industrial Park in the same Measuring and Cutting Tools industry and location; (3) our experience and network in the Measuring and Cutting Tools industry; (4) no material difference contemplated in operating our Trading Centre and the Industrial Park; and (5) the demand for the Industrial Park, we believe that we have the potential to capture the business opportunity with respect to the Industrial Park and replicate the same success as our Trading Centre.

#### ***1. Our measures to attract Measuring and Cutting Tools manufacturers to relocate***

We contemplate to have the following measures to attract Measuring and Cutting tools manufacturers to relocate to the Industrial Park: (a) lower rental rate, that the rent of the Industrial Park manufacturing units will be in general comparable to or lower than the market rate with discounts; (b) financial incentives, that our Directors may consider to offer discount on rent; and (c) active marketing strategies, that we intend to actively promote the distinctive features contemplated in the Industrial Park.

For further details of the demand of the Industrial Park, please refer to section headed "Business – Our Business Expansion – Measuring and Cutting Tools Industrial Park – Demand for the Industrial Park and Measures to Attract Measuring and Cutting Tools manufacturers to relocate".

#### ***2. Our Trading Centre and the Industrial Park in the same Measuring and Cutting Tools industry and location***

Our Trading Centre and the Industrial Park both belong to the Measuring and Cutting Tools industry and both locate in Wenqiao Town. Our Company is knowledgeable of and well familiar with the industry and the location.

#### ***3. Our experience and network in the Measuring and Cutting Tools industry***

Our Company (since its establishment in 2003) has long established network in this region and acquainted with the market players in the industry. Our Controlling Shareholders include Wenqiao Town People's Government. Hence, we believe we are in the position to utilise various government initiatives and earn the trust of tenants.



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## SUMMARY AND HIGHLIGHTS

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#### ***4. No material difference contemplated in operating our Trading Centre and the Industrial Park***

As discussed above, both of the operation of our Trading Centre and the Industrial Park will primarily involve property leasing and management, so our Directors do not contemplate that there will be material difference in operating our Trading Centre and the Industrial Park.

#### ***5. Demand for the Industrial Park***

Our Directors are of the view that there is a demand for the Industrial Park after considering the following: (A) the reconstruction of old factories; (B) support by the government; and (C) capacity of Industrial Park and letters of intent.

##### *A. Reconstruction of old factories*

The government in Zhejiang has published a number of notices to demolish illegal buildings and reconstruct the old factories. Such demolition and reconstruction have great impact on the Measuring and Cutting Tools manufacturers. The small-scale Measuring and Cutting Tools enterprises likely have a pressing need to search for a new place to continue their business operation, driving them to relocate to the Industrial Park.

##### *B. Support by government*

We have received support by the government to construct the Industrial Park. The local government considers that there is a demand and an urgent need to construct the Industrial Park by our Company for the benefit and growth of the Measuring and Cutting Tools industry.

##### *C. Capacity of the Industrial Park and letters of intent*

We estimate that there will be approximately 20 to 25 manufacturing units in the Industrial Park. Since we won the bid of the Land, 19 of our Trading Centre tenants have signed letters of intent already indicating that they are interested in conducting business there.

#### **Total investment cost and source of funding**

We estimate that we shall invest a total of approximately RMB406.1 million for the three years ending 31 December 2021 into the Industrial Park. We intend to fund such expansion with (a) the net proceeds from the Listing (approximately RMB51.6 million); (b) our internal funding (approximately RMB75.3 million); and (c) external borrowings (approximately RMB279.2 million). For further details of our use of proceeds, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.

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## SUMMARY AND HIGHLIGHTS

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For the purpose of the construction of the Industrial Park, we expect to borrow the following loan from banks and incur interest as follows. Based on (i) the principal amount of the loan of approximately RMB180.0 million expected to be borrowed in 2020 and an additional loan of approximately RMB100.0 million expected to be borrowed by the end of 2021, (ii) an expected effective interest rate for these loans of 5.3% per annum (being the effective interest rate of the outstanding loan borrowed by the Group as at the Latest Practicable Date), (iii) the partial loan repayment of approximately RMB40 million in May 2019, and (iv) we expect to make a loan repayment of approximately RMB57 million in January 2020 and a partial loan repayment of approximately RMB122 million in January 2021, we contemplate cash outflow in respect of interest for the above bank borrowings are as follows:

***Borrowing cost***

	<b>For the year ending 31 December 2019 <i>RMB'000</i></b>	<b>For the year ending 31 December 2020 <i>RMB'000</i></b>	<b>For the year ending 31 December 2021 <i>RMB'000</i></b>	<b>For the year ending 31 December 2022 <i>RMB'000</i></b>
Finance costs charged in profit & loss	2,952	1,070	–	8,343
Capitalised as investment properties <sup>(2)</sup>	–	5,746	3,062	–
	2,952	6,816	3,062	8,343
Total borrowing costs <sup>(1)</sup>	2,952	6,816	3,062	8,343

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## SUMMARY AND HIGHLIGHTS

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*Notes:*

- (1) The above borrowing costs is calculated based on the effective interest rate of 5.3% per annum (being the effective interest rate of the outstanding loan borrowed by the Group as at the Latest Practicable Date).
- (2) The borrowing costs capitalised as investment properties are accounted according to HKAS23 “Borrowing Costs”.

We expect to repay the above loan balance of approximately RMB57 million in January 2020 by internal resources. And we expect to repay part of the above loan balance of approximately RMB122 million in January 2021 by sales of certain units and/or prepaid rental income received from certain units leased to the tenants. The repayment is estimated based on the assumptions that (i) our Group will receive estimated sale proceeds of approximately RMB122 million or more (by selling manufacturing units of the gross floor area of approximately 32,000 sq.m. to 35,000 sq.m. at a selling price ranging from approximately RMB3,600 per sq.m. to RMB3,800 per sq.m. with reference to the prevailing market rates of similar properties in the locality), plus (ii) our Group may receive additional amount of prepaid rental deposit from tentative tenants who may want to secure the tenancy. It is expected that the finance cost to be recognised or paid from 2023 onwards over the term of the remaining loan will decrease gradually following advanced loan repayment by the operating cashflow of our Group subject to negotiation with the banks.

Prospective investors shall note that the above forecasted interest, loan amount, repayment schedule and terms of the loan will be subject to factors including but not limited to the then prevailing market interest rate, commercial negotiation between the Group and the bank(s), market demand of the manufacturing units as well as actual amount of capital required by the Group for the construction of the Industrial Park at the relevant time of borrowing.

### **Potential risks involved**

As disclosed above, a substantial amount of the investment cost for the Industrial Park will be financed by external borrowings. In the event of insufficient funding, the business outlook of our Company (as well as the plan and progress for the construction of the Industrial Park) may be materially and adversely affected. For further details, please refer to the section headed “Risk Factors – Risks Relating to Our Business – The construction of our Industrial Park will be substantially financed by external borrowings. If we fail to obtain sufficient funding for our expansion plans, our business and growth prospects may be adversely affected” in this prospectus.

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## SUMMARY AND HIGHLIGHTS

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### Latest development status

Subsequent to the Track Record Period and up to the Latest Practicable Date, we have (1) commenced preparation of the feasibility report; (2) proceeded to obtain the environment and labour safety assessment report; (3) commenced preparation of the land surveying and design; and (4) proceeded to obtain the requisite approvals from the government departments. For further details, please refer to the section headed “Business – Our Business Expansion – Measuring and Cutting Tools Industrial Park – Expected timetable and the corresponding construction phase of the Industrial Park”.

### USE OF PROCEEDS

We estimate that we will receive net proceeds of HK\$81.7 million (equivalent to approximately RMB73.7 million) from the Global Offering, after deducting the underwriting commissions and other estimated expenses payable by us in connection with the Global Offering, assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK\$6.50 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this prospectus. We intend to use such net proceeds from the Global Offering for the purposes and in the amounts set forth below:

- (a) approximately 70%, or approximately HK\$57.2 million (equivalent to approximately RMB51.6 million), to be used to finance partly the costs and expenses for the establishment and construction of the Industrial Park to expand our Measuring and Cutting Tools industry coverage;
- (b) approximately 20%, or approximately HK\$16.3 million (equivalent to approximately RMB14.7 million), to be used to finance further development of the Third Floor, including refurbishment and renovation of the Third Floor, as well as establishment of the Product Testing Service Centre and the Products Display Platform; and
- (c) approximately 10%, or approximately HK\$8.2 million (equivalent to approximately RMB7.4 million), for general working capital and other general corporate purposes.

For further details, please refer to the sections headed “Future plans and use of proceeds” and “Business – Our Business Expansion” in this prospectus.

### NO MATERIAL ADVERSE CHANGE

For the year ending 31 December 2019, the following factors, among others, may affect our net profit and financial position: (i) decrease in fair value gains of our investment properties; (ii) increase in one-off listing expenses; (iii) increase in finance costs due to new bank borrowings of approximately RMB97.0 million drawn from two banks in the PRC in January 2019 for the purpose of financing the construction of the Industrial Park; and (iv) increase in promotion and advertising expenses in relation to attract the potential tenants for the manufacturing units in the Industrial Park.

## SUMMARY AND HIGHLIGHTS

Save for the above factors, our Directors have confirmed that, since 30 April 2019 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since 30 April 2019 (being the date to which our latest audited consolidated financial information has been prepared) and there has been no event since 30 April 2019 which would materially affect the information shown in the Accountants' Report set forth in Appendix I to this prospectus.

### SUMMARY OF FINANCIAL INFORMATION

The following table summarises the financial information of our Group during the Track Record Period, and should be read in conjunction with the financial information included in the Accountants' Report set out in Appendix I to this prospectus.

### RESULTS OF OPERATIONS

	For the year ended 31 December				For the four months ended 30 April	
	2015	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)	
<b>Revenue</b>	25,435	45,129	43,487	46,994	15,215	16,523
Cost of sales	(6,722)	(6,143)	(6,727)	(8,185)	(2,783)	(2,787)
<b>Gross profit</b>	18,713	38,986	36,760	38,809	12,432	13,736
Valuation gains on investment property	99,920	18,421	27,000	17,000	13,000	4,004
Other net income	119	111	808	866	598	31
Administrative expenses	(1,928)	(2,478)	(4,616)	(7,244)	(1,610)	(1,840)
<b>Profit from operations</b>	116,824	55,040	59,952	49,431	24,420	15,931
Finance costs	(4,014)	-	-	-	-	(1,524)
Share of losses of an associate	(67)	(29)	(62)	(86)	(64)	-
<b>Profit before taxation</b>	112,743	55,011	59,890	49,345	24,356	14,407
Income tax	(27,551)	(8,330)	(14,998)	(12,384)	(6,116)	(3,605)
<b>Profit for the year/period</b>	<u>85,192</u>	<u>46,681</u>	<u>44,892</u>	<u>36,961</u>	<u>18,240</u>	<u>10,802</u>

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## SUMMARY AND HIGHLIGHTS

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Significant fluctuations in total revenue and profit during the Track Record Period are explained as follows:

1. Total revenue increased by approximately 77.4% from approximately RMB25.4 million for the year ended 31 December 2015 to approximately RMB45.1 million for the year ended 31 December 2016, primarily due to the increase in revenue from property leasing since we renewed all of the tenancy agreements that were expired in October 2015 with higher rental rates in general.
2. There was no material fluctuation in total revenue for the years ended 31 December 2016 to 2018 as well as for the four months ended 30 April 2019 as compared with the same in 2018.
3. Profit for the year decreased by approximately 45.2% from approximately RMB85.2 million for the year ended 31 December 2015 to approximately RMB46.7 million for the year ended 31 December 2016, mainly as a result of the cumulative effect of the factors including decrease in valuation gains on investment properties, as well as increase in administrative expenses, offset by increase in gross profit and decrease in finance costs. The increase in valuation gains on our investment properties from 2015 to 2016 was primarily due to the relatively large increase on passing rents since we renewed all of the tenancy agreements that were expired in October 2015.
4. There was no material fluctuation in the profit for the years ended 31 December 2016 to 2017.
5. Profit for the year decreased by approximately 17.7% from approximately RMB44.9 million for the year ended 31 December 2017 to approximately RMB37.0 million for the year ended 31 December 2018, mainly due to the decrease in valuation gains on our investment properties. The higher valuation gains on our investment properties in 2017 was due to an increase in both passing rents and market rents during 2017. The growth in market rents in 2018 was relatively modest as compared with 2017.
6. Profit for the period decreased by approximately 40.8% from approximately RMB18.2 million for the four months ended 30 April 2018 to approximately RMB10.8 million for the four months ended 30 April 2019, mainly due to the decrease in valuation gains on our investment properties. The higher valuation gains on our investment properties for the four months ended 30 April 2018 was due to an increase in both passing rents and market rents during 2018. The growth in market rents in 2019 was relatively modest as compared with 2018.

For further details, please refer to the section headed “Financial information – Results of operations” in this prospectus.

## SUMMARY AND HIGHLIGHTS

### NET CURRENT ASSETS AND LIABILITIES

The table below sets out the information of our current assets and current liabilities as at the dates indicated:

	As at 31 December				As at	As at
	2015	2016	2017	2018	30 April 2019	31 August 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
						(Unaudited)
<b>Current assets</b>	43,768	52,071	48,536	44,659	76,810	32,297
<b>Current liabilities</b>	56,927	60,797	66,179	54,222	139,279	87,435
<b>Net current liabilities</b>	<u>(13,159)</u>	<u>(8,726)</u>	<u>(17,643)</u>	<u>(9,563)</u>	<u>(62,469)</u>	<u>(55,138)</u>

Our net current liabilities decreased from approximately RMB13.2 million as at 31 December 2015 to RMB8.7 million as at 31 December 2016, primarily due to the net cash generated from operating activities of approximately RMB28.7 million, less cash paid for purchase of fixed assets and intangible assets of approximately RMB11.3 million and a dividend of RMB10 million declared during the year ended 31 December 2016. Our net current liabilities were relatively higher as at 31 December 2017 as compared with 31 December 2016 or 31 December 2018 primarily due to more dividends declared during the year ended 31 December 2017.

We had net current liabilities of RMB13.2 million, RMB8.7 million, RMB17.6 million, RMB9.6 million, RMB62.5 million and RMB55.1 million as at 31 December 2015, 2016, 2017, 2018 and as at 30 April 2019 and 31 August 2019, respectively. Our Directors are of the view that the net current liabilities position as at 31 December 2015 was primarily resulting from (i) repayment of various loans for the total sum of RMB100.5 million during the year, and (ii) the historical net current liabilities position prior to the Track Record Period primarily related to the financing of the substantial amount of construction costs of the Trading Centre (financed by the loans as discussed above and receipts in advance which were recorded as current liabilities). In addition, the Company declared dividends of RMB10.0 million and RMB30.0 million for the years ended 31 December 2016 and 2017, which further lowered the cash position of the Group and resulted in the net current liabilities position as at 31 December 2016, 2017, 2018. Our net current liabilities as at 30 April 2019 and 31 August 2019 were primarily related to the financing of acquisition of the Land at a consideration of RMB63.5 million by short-term bank loans obtained from two banks of RMB97.0 million in January 2019.

We currently have no plans to pay dividends to the Shareholders after the Listing, if any, declaration of dividends is subject to the discretion of our Directors, depending on our results of operations, working capital, financial position and capital adequacy. Furthermore, as at 31 August 2019, we have unutilised banking facilities of approximately RMB273.0 million.

## SUMMARY AND HIGHLIGHTS

Taking into account of the financial resources available to our Group, including cash and cash equivalent on hand and internally generated funds, presently available banking facilities and estimated net proceeds from the Listing, we expect our net current liabilities position and working capital position to improve after the Listing.

For further details, please refer to the section headed “Financial information – Net current assets and liabilities” in this prospectus.

### CASH FLOWS

The table below is a summary of our consolidated cash flows statements during the Track Record Period.

	For the year ended 31 December			For the four months ended 30 April		
	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2018 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i>
Operating cash flow before movements in working capital	17,033	36,817	33,822	33,370	11,665	12,325
Changes in working capital	120,708	(4,663)	(7,915)	(3,383)	(16,471)	(15,800)
PRC Corporate Income Tax (“CIT”) paid	(1,643)	(3,470)	(2,006)	(7,362)	(1,557)	(702)
<b>Net cash generated from/(used in) operating activities</b>	<b>136,098</b>	<b>28,684</b>	<b>23,901</b>	<b>22,625</b>	<b>(6,363)</b>	<b>(4,177)</b>
Net cash used in investing activities	(9,919)	(11,274)	(2,588)	(14,078)	(56)	(60,039)
Net cash (used in)/generated from financing activities	(100,474)	(8,070)	(14,212)	(28,460)	(13,786)	65,733
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>25,705</b>	<b>9,340</b>	<b>7,101</b>	<b>(19,913)</b>	<b>(20,205)</b>	<b>1,517</b>
Cash and cash equivalents at the beginning of the year/period	6,057	31,762	41,102	48,203	48,203	28,290
<b>Cash and cash equivalents at the end of the year/period</b>	<b>31,762</b>	<b>41,102</b>	<b>48,203</b>	<b>28,290</b>	<b>27,998</b>	<b>29,807</b>



## SUMMARY AND HIGHLIGHTS

Net cash outflow from operating activities for the four months ended 30 April 2018 and 2019 were approximately RMB6.4 million and RMB4.2 million respectively primarily because we receive annual property leasing fees in October of each year for five-year tenancy agreements while we incur operating expenses and make payments at every month, resulted in significant net cash inflow from operating activities in October while net cash outflow from operating activities in most of the month ended periods during each financial year.

For further details, please refer to the section headed “Financial information – Liquidity and capital resources – Cash Flows” in this prospectus.

### NON-HKFRSS MEASURES

The table below sets out the adjusted net profit (excluding the valuation gains on an investment properties and the corresponding deferred tax effect, while adjusting non-recurring items) for the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019:

	For the year ended 31 December				For the four months ended 30 April	
	2015	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)	
Profit for the year/period	85,192	46,681	44,892	36,961	18,240	10,802
Less: valuation gains on an investment properties	(99,920)	(18,421)	(27,000)	(17,000)	(13,000)	(4,004)
Add: Deferred tax expenses in relation to revaluation of investment properties	24,980	4,606	6,750	4,250	3,250	1,001
Listing expenses	–	–	–	266	–	–
Adjusted net profit for the year/period <sup>(1)</sup>	<u>10,252</u>	<u>32,866</u>	<u>24,642</u>	<u>24,477</u>	<u>8,490</u>	<u>7,799</u>

*Note:*

- (1) The adjusted net profit is not a measure under HKFRSs. The use of adjusted net profit has material limitation as an analytical tool, as it does not include all items that have an impact on our profit for the relevant periods. For further details, please refer to the section headed “Financial information – Non-HKFRSs Measures” in this prospectus.

We believe that the non-HKFRSs Measures provide investors with useful supplementary information to access the performance of the Group’s core operations by excluding certain non-cash items, i.e. valuation gains on investment properties and deferred tax expenses and non-recurring items, i.e. listing expenses.

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## SUMMARY AND HIGHLIGHTS

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### KEY FINANCIAL RATIOS

The table below sets out our key financial ratios as at the dates or for the years or periods indicated.

	Years ended 31 December				Four months ended
	2015	2016	2017	2018	30 April 2019
Return on equity (%)	18.0	8.7	8.0	6.3	5.3
Return on total assets (%)	11.4	5.5	5.1	4.1	3.4
Interest coverage ratio	29.1	N/A	N/A	N/A	10.5
Gearing ratio (%)	N/A	N/A	N/A	N/A	15.8
Current ratio	0.8	0.9	0.7	0.8	0.6

*Note:*

- (1) Gearing ratio is calculated based on our total debts divided by our total equity as at the end of each reporting period.

The calculation for the return for the four months ended 30 April 2019 has been annualised. For further details, please refer to the section headed “Financial information – Key financial ratios”.

### LISTING EXPENSES

We incur listing expenses in connection with the Listing, which include professional fees, underwriting commission and other fees and expenses. Total expenses in relation to the Listing are estimated to be approximately HK\$48.3 million (equivalent to approximately RMB43.5 million) (assuming an Offer Price of HK\$6.50 per Offer Share, being the mid-point of the Offer Price range of HK\$6.25 to HK\$6.75 and assuming the Over-allotment Option is not exercised). Approximately HK\$302,000 (equivalent to approximately RMB266,000) of the listing expenses were charged to our profit and loss account for the year ended 31 December 2018 and nil for the four months ended 30 April 2019 and approximately HK\$18.8 million (equivalent to approximately RMB16.6 million) were capitalised as prepayments as at 30 April 2019, which is expected to be charged against equity upon successful Listing. The remaining part which is expected to be incurred and charged to our profit and loss account before or upon completion of the Listing will be approximately HK\$1.7 million (equivalent to approximately RMB1.5 million) and approximately HK\$27.5 million (equivalent to approximately RMB25.2 million) will be accounted for as a deduction from equity.

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## SUMMARY AND HIGHLIGHTS

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### GLOBAL OFFERING STATISTICS

The statistics in the following table are based on the assumptions that: (i) the Global Offering is completed and 20,000,000 H Shares are newly issued in the Global Offering; (ii) the Over-allotment Option for the Global Offering is not exercised; and (iii) 80,000,000 Shares are issued and outstanding following the completion of the Global Offering:

	Based on an Offer Price of HK\$6.25 per Share	Based on an Offer Price of HK\$6.75 per Share
Market capitalisation	HK\$500.0 million	HK\$540.0 million
Unaudited pro forma adjusted consolidated net tangible asset per Share <sup>(Note)</sup>	HK\$9.51	HK\$9.62

*Note:* Unaudited pro forma adjusted consolidated net tangible assets per Share is calculated upon adjustment set out in Appendix II in this prospectus.

### DIVIDEND

We declared and approved dividends of RMB10.0 million, and RMB30.0 million during the years ended 31 December 2016 and 2017, respectively. We settled the declared dividends to our Shareholders on various dates. In respect of dividends for the sum of RMB10.0 million declared during the year ended 31 December 2016, we settled approximately RMB8.1 million in cash and approximately RMB1.9 million through offsetting a relevant related party loan with the relevant Shareholder in the year ended 31 December 2016. In respect of dividends for the sum of RMB30.0 million declared during the year ended 31 December 2017, we settled (i) approximately RMB11.5 million in cash and approximately RMB5.8 million through offsetting a relevant related party loan with the relevant Shareholder in the year ended 31 December 2017, and (ii) approximately RMB12.7 million in cash in the year ended 31 December 2018. We used our internal financial resources to settle above cash payment of dividends. Our dividend distributions during the Track Record Period had complied with the statutory reserve requirements in the PRC. Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' general meeting for approval. Declaration of dividends is subject to the discretion of our Directors, depending on our results of operations, working capital, financial position, capital adequacy ratio, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors which our Board of Directors may consider relevant. We currently have no plans to pay dividends to the Shareholders. Prospective investors should note that historical dividend distributions are not indicative of our future dividend distribution policy and there is no assurance that we will be able to declare or distribute any dividend in the future. For further details, please refer to the section headed "Financial Information – Dividends" in this prospectus.

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## SUMMARY AND HIGHLIGHTS

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### OUR CONTROLLING SHAREHOLDERS

Pursuant to the Concert Party Agreements, details of which are set out in paragraph headed “History, Development and Reorganisation – Concert Party Arrangement” of this prospectus, immediately upon completion of the Global Offering, without taking into account any H Shares which may be issued upon the exercise of the Over-allotment Option, Market Group, Market Development Service Centre, Qiaoling Investment, Wenqiao Town People’s Government, Maowei Investment, Maoyang Village Share Economic Cooperative, Maoyang Village Committee, Qianyang Investment, Qianyangxia Village Share Economic Cooperative, Qianyangxia Village Committee, Shangyu Investment, Shangjie Village Share Economic Cooperative, Shangjie Village Committee, Zhongjie Hede Investment, Zhongjie Village Share Economic Cooperative, Zhongjie Village Committee, Botao Investment, Xuzhai Village Share Economic Cooperative, Xuzhai Village Committee, Zhang Laoqiao Investment, Zhang Laoqiao Village Share Economic Cooperative and Zhang Laoqiao Village Committee will together be entitled to exercise or control the exercise of approximately 72.75% of the voting power at the general meetings of our Company, and therefore, each of them will be our Controlling Shareholders pursuant to the Listing Rules.

### RISK FACTORS

Our operations involve certain risks, some of which are beyond our control. These risks can be broadly categorised into: (i) risks relating to our business; (ii) risks relating to the industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the Global Offering. A detailed discussion of all the risk factors involved are set forth in the section headed “Risk Factors” in this prospectus and you are advised to read the whole section carefully and evaluate the specific risks set forth therein before you decide to invest in the Offer Shares.

Some of the major risks generally associated with our business and industry include the following: (a) during the Track Record Period, our profitability has declined due to decrease in valuation gains of our investment properties, and our prospects are dependent on various factors, including but not limited to the appraisal value of our properties, limited revenue growth, increase in cash outflow in respect of interests for the loan, our ability to execute our expansion plan successfully in light of the uncertainties involved in the establishment of the Industrial Park and our ability to cope with the fierce market competition from different market players; (b) we currently rely on our Trading Centre for substantially all of our revenues and we may not be able to replace or renew all of our leases upon their expiration; (c) our property valuation is based on certain assumptions which, by their nature, are subjective and uncertain, may materially differ from actual results and may not accurately reflect our financial position; (d) the construction of our Industrial Park will be substantially financed by external borrowings. If we fail to obtain sufficient funding for our expansion plans, our business and growth prospects may be adversely affected; (e) if we were unable to obtain all the relevant rights for the Industrial Park for future development, we will not be able to further develop the same according to our plans; (f) we may not be successful in securing sufficient demand in relation to the leasing of the units in the Industrial Park; (g) the construction of our Industrial Park will be substantially financed by external borrowings. If we fail to obtain sufficient funding for our expansion plans,

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## SUMMARY AND HIGHLIGHTS

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our business and growth prospects may be adversely affected; (h) we expect to sell some of the manufacturing units in our Industrial Park. If we fail to secure a sufficient demand, our results of operations, liquidity position and our ability to repay external borrowing may be materially and adversely affected; (i) we incurred net current liabilities as at 31 December 2015, 31 December 2016, 31 December 2017, 31 December 2018 and as at 30 April 2019 and net cash outflow from operating activities for the four months ended 30 April 2018 and 2019. We may be exposed to liquidity risks where our business, financial conditions and operation may be materially and adversely affected; (j) non-renewal of licences, approvals or permits may have a material adverse effect on our business operations; (k) the cyclical nature of the real estate, the manufacturing and the Measuring and Cutting Tools industries and the macro-economic situation in the PRC and worldwide could adversely affect our results of operations; and (l) we face competition from other industrial tools trading centres, industrial park and e-commerce operators as well as B2C companies.

### PROPERTY VALUATION

Our Property Valuer has valued our Trading Centre held for investment purpose and the Land as at 31 August 2019 at RMB912.5 million. Our Property Valuer has adopted Income Capitalisation Method and Market Approach in valuing the property interests held by our Group for investment. The valuation methodology adopted is in line with market practice as it is commonly used in valuing similar properties. The key assumptions in making this valuation include, among others, (a) the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement; and (b) no allowance has been made in their report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. The valuation is made based on assumptions which, by their nature, are subjective and uncertain and may differ from actual results. As a result, the valuation of our property may differ materially from the price we could receive in an actual sale of the property in the market and should not be taken as their actual realisable value or an estimation of their realisable value. The full text of the property valuation report is set out in Appendix VI to this prospectus.

### NON-COMPLIANCE

Our Directors confirm that there was no non-compliance incident which constitutes material non-compliance or systemic non-compliance during the Track Record Period and up to the Latest Practicable Date.

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## DEFINITIONS

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

“Accountants’ Report”	the accountants’ report on our Group as set out in Appendix I to this prospectus
“Agile Group”	Agile Group Holdings Limited, together with its holding companies and subsidiaries. Agile Group Holdings Limited is a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 3383)
“Ancillary Facilities”	The ancillary facilities provided in our Trading Centre including but not limited to mechanical and electrical service rooms, property management room, security control room, fire safety control room as well as the relevant supporting facilities, whether above-ground or underground areas. The Ancillary Facilities are not included in the LFA
“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s), individually or collectively, as the context may require, any of them, relating to the Hong Kong Public Offering
“Articles of Association”	the articles of association of our Company, conditionally adopted on 1 August 2018 and as amended from time to time, a summary of which is set out in “Appendix V – Summary of Articles of Association” in this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board” or “Board of Directors”	the board of Directors
“Board of Supervisors”	our supervisory committee established pursuant to the PRC Company Law, as described in the section headed “Directors, Supervisors and Senior Management” in this prospectus

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## DEFINITIONS

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“Botao Investment”	Wenling City Botao Investment Company Limited* (溫嶺市博濤投資有限公司), a company established in the PRC with limited liability on 20 November 2017, which is wholly-owned by Xuzhai Village Share Economic Cooperative and is one of our Controlling Shareholders and Promoters
“Business Day”	any day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of the HKSCC in relation to CCASS, containing the practices, procedures and administrative requirement relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “the PRC”	the People’s Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires, references in this prospectus to “China” and the “PRC” do not apply to Hong Kong, Macao Special Administrative Region of the People’s Republic of China and Taiwan
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“Companies (WUMP) Ordinance” or “Companies (Winding Up and Miscellaneous Provisions Ordinance)”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”	Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited* (溫嶺浙江工量刃具交易中心股份有限公司), established as a limited liability company in the PRC on 14 May 2003 under the corporate name Wenling City Wenxi Measuring and Cutting Tools Trading Centre Company Limited* (溫嶺市溫西工量刃具交易中心有限公司), which was renamed as Wenling City Zhejiang Measuring and Cutting Tools Trading Centre Company Limited* (溫嶺市浙江工量刃具交易中心有限公司) on 27 June 2006, and then converted into a joint stock company with limited liability and renamed as Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited* (溫嶺浙江工量刃具交易中心股份有限公司) on 3 May 2018
“Concert Party Agreement”	the agreement of concert party entered into by Market Development Service Centre, Wenqiao Town People’s Government, Maoyang Village Committee, Qianyangxia Village Committee, Shangjie Village Committee, Zhongjie Village Committee, Xuzhai Village Committee and Zhang Laoqiao Village Committee on 14 September 2017, details of which are set out in the paragraph headed “History, Development and Reorganisation – Concert Party Arrangement” of this prospectus
“Concert Party Supplemental Agreement”	the supplemental agreement of concert party entered into by Market Group, Qiaoling Investment, Maowei Investment, Qianyang Investment, Shangyu Investment, Zhongjie Hede Investment, Botao Investment and Zhang Laoqiao Investment on 25 December 2017, details of which are set out in the paragraph headed “History, Development and Reorganisation – Concert Party Arrangement” of this prospectus
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules



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## DEFINITIONS

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“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and in the case of our Company, means Market Group, Market Development Service Centre, Qiaoling Investment, Wenqiao Town People’s Government, Maowei Investment, Maoyang Village Share Economic Cooperative, Maoyang Village Committee, Qianyang Investment, Qianyangxia Village Share Economic Cooperative, Qianyangxia Village Committee, Shangyu Investment, Shangjie Village Share Economic Cooperative, Shangjie Village Committee, Zhongjie Hede Investment, Zhongjie Village Share Economic Cooperative, Zhongjie Village Committee, Botao Investment, Xuzhai Village Share Economic Cooperative, Xuzhai Village Committee, Zhang Laoqiao Investment, Zhang Laoqiao Village Share Economic Cooperative and Zhang Laoqiao Village Committee, who together will control the exercise of 30% or more of the voting rights in general meeting of our Company immediately after the Global Offering
“Corporate Governance Code”	the corporate governance code as set out in Appendix 14 to the Listing Rules
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of indemnity”	the deed of indemnity dated 15 October 2019 entered into by our Controlling Shareholders in favour of our Company, details of which are set out in the section headed “Appendix VII – Statutory and General Information – Other Information – Tax and other indemnity” in this prospectus
“Development and Construction Agreement”	the development and construction agreement* (開發建設協議) dated 29 December 2018 entered into between Wenling City New District Management Committee* (溫嶺市城市新區管理委員會) and our Group which, among other things, governs the planning and construction of the Industrial Park
“Director(s)”	the director(s) of our Company
“Domestic Share(s)”	ordinary share(s) in the share capital of our Company with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi

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“Electronic Business Park”	the electronic business park* (電子商業園區) on the Third Floor, providing an open, low-costs and convenient trading platform for e-commerce business operators
“Exhibition”	China Measuring and Cutting Tools Exhibition* (中國工量刃具展覽會), an exhibition held each year since 2006 with the main purpose of exhibit the latest Measuring and Cutting Tools and providing a venue for the procurers to purchase the same.
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
“F&S”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent consulting firm which provides market research and analysis across multiple industries
“F&S Report”	an industry report commissioned by us and independently prepared by F&S in connection with the Global Offering
“First Floor”	the first floor of our Trading Centre
“Fourth Floor”	the fourth floor of our Trading Centre
“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
“Global Offering”	the Hong Kong Public Offering and the International Placing
“ <b>GREEN</b> Application Form(s)”	the application form(s) to be completed by the <b>HK eIPO White Form</b> Service Provider
“Group,” “our Group,” “we” or “us”	our Company and its subsidiaries at the relevant time or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors

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## DEFINITIONS

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“H Share(s)”	overseas listed foreign shares in the share capital of our Company with a nominal value of RMB1.00 each, which are to be subscribed for and traded in Hong Kong dollars and are to be listed on the Stock Exchange
“H Share Registrar”	Tricor Investor Services Limited
“ <b>HK eIPO White Form</b> ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at <b>www.hkeipo.hk</b>
“ <b>HK eIPO White Form Service Provider</b> ”	the <b>HK eIPO White Form Service Provider</b> designated by us, as specified on the designated website at <b>www.hkeipo.hk</b>
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Offer Shares”	the 2,000,000 H Shares (subject to adjustment) being offered by our Company for subscription pursuant to the Hong Kong Public Offering
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price and on, and subject to, the terms and conditions of this prospectus and the Application Forms, as further described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting – Hong Kong Underwriters” in this prospectus

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## DEFINITIONS

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“Hong Kong Underwriting Agreement”	the underwriting agreement dated 24 October 2019 relating to the Hong Kong Public Offering and entered into by our Company, our executive Directors, the Controlling Shareholders, the Sole Sponsor and the Hong Kong Underwriters, as further described in the section headed “Underwriting – Underwriting Arrangements and Expenses” in this prospectus
“IFRS”	International Financial Reporting Standards
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which, as far as our Directors are aware after having made all reasonable enquiries, is/are not a connected person(s) of our Company within the meaning of the Listing Rules
“Index”	Wenling • China Measuring and Cutting Tools index (溫嶺•中國工量刀具指數), the Index that we launched in 2016 that can indicate the price changing trend of the Measuring and Cutting Tools and the prosperity of the Measuring and Cutting Tools industry in the PRC. For further details, please refer to the section headed “Business – Our Business – Support Service – Wenling • China Measuring and Cutting Tools Index in this prospectus
“Industrial Park”	the industrial park to be constructed on the Land for us to expand our business in the Measuring and Cutting Tools industry. It is mainly for manufacturing purpose that it targets to provide units for use as factories and workshops, where upstream manufacturers would conduct manufacturing and production of Measuring and Cutting Tools
“International Placing”	the conditional offering of the International Offer Shares by the International Underwriters with professional, institutional and other investors by the International Underwriters on behalf of our Company as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“International Placing Shares”	the 18,000,000 H Shares (subject to adjustment) offered by our Company pursuant to the International Placing, together with, where relevant, any additional H Shares to be sold pursuant to the exercise of the Over-allotment Option

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“International Underwriters”	the group of international underwriters who are expected to enter into the International Underwriting Agreement to underwrite the International Placing
“International Underwriting Agreement”	the international underwriting agreement relating to the International Placing and to be entered into by our Company, the Sole Sponsor, the Joint Bookrunners and the International Underwriters on or about the Price Determination Date, as further described in the section headed “Underwriting – Underwriting Arrangements and Expenses – the International Placing” in this prospectus
“Joint Bookrunners”	Cinda International Capital Limited, a licensed corporation under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO and ChaoShang Securities Limited, a licensed corporation under the SFO to carry on Type 1 (dealing in securities) and Type 2 (dealing in futures contracts) regulated activities as defined under the SFO
“Joint Lead Managers”	Cinda International Capital Limited, a licensed corporation under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO and ChaoShang Securities Limited, a licensed corporation under the SFO to carry on Type 1 (dealing in securities) and Type 2 (dealing in futures contracts) regulated activities as defined under the SFO
“Land”	one parcel of land known as Wenqiao Town Lot No. GY050102* (溫嶠鎮GY050102地塊) located in Wenqiao Town Chenshan Village* (溫嶠鎮琛山村), Zhejiang Province, the PRC for the future development of the Industrial Park.
“Land Contract”	the State-owned Construction Land Use Right Sale Contract* (國有建設用地使用權出讓合同) dated 29 December 2018 entered into between Wenling Bureau of Land and Resources* (溫嶺市國土資源局) and our Group with respect to the acquisition of the Land

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“Latest Practicable Date”	15 October 2019, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information in this prospectus prior to its publication
“Listing”	the listing of our H Shares on the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on 6 November 2019, on which dealings in our H Shares first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Mandatory Provisions”	the <i>Mandatory Provisions for Articles of Association of Companies to be Listed Overseas</i> * (到境外上市公司章程必備條款), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former Securities Commission of the State Council (國務院證券委員會) and the former State Commission for Restructuring the Economic Systems (國家經濟體制改革委員會) on 27 August 1994
“Maowei Investment”	Wenling City Maowei Investment Company Limited* (溫嶺市茅威投資有限公司), a company established in the PRC with limited liability on 20 November 2017, which is wholly-owned by Maoyang Village Share Economic Cooperative and is one of our Controlling Shareholders and Promoters
“Maoyang Village”	Maoyang Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC* (中國浙江省溫嶺市溫嶺鎮茅洋村)
“Maoyang Village Committee”	Wenling City Wenqiao Town Maoyang Village Villagers Committee* (溫嶺市溫嶺鎮茅洋村村民委員會), a villagers committee in Maoyang Village, which is one of our Controlling Shareholders

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“Maoyang Village Share Economic Cooperative”	Wenling City Wenqiao Town Maoyang Village Share Economic Cooperative* (溫嶺市溫嶠鎮茅洋村股份經濟合作社), a domestic enterprise established in the PRC on 11 August 2017, which is wholly-owned by Maoyang Village Committee and is one of our Controlling Shareholders
“Market Development Service Centre”	Wenling City Market Development Service Centre* (溫嶺市市場開發服務中心), an institutional organisation established in the PRC on 21 September 1995, which is one of our Controlling Shareholders
“Market Group”	Wenling City Market Group Company Limited* (溫嶺市市場集團有限公司), a company established in the PRC with limited liability on 10 August 2017, which is wholly-owned by Market Development Service Centre and is one of our Controlling Shareholders and Promoters
“Measuring and Cutting Tools Financing Service”	the measuring and cutting tools financing service (工量貸融資服務*) offered by a bank in Wenling City in favour of our tenants, details of which are set out in the section headed “Business – Support Service – Measuring and Cutting Tools Financing Service” in this prospectus
“Ministry of Finance”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“NAO”	the National Audit Office of the PRC (中華人民共和國審計署)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NPC”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“NPCSC”	the Standing Committee of the National People’s Congress (中華人民共和國全國人民代表大會常務委員會)

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“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage fee of 1.00%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$6.75 and expected to be not less than HK\$6.25, at which Hong Kong Offer Shares are to be subscribed and which will be determined in the manner as further described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares, together with, where relevant, any additional H Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option to be granted by our Company to the Joint Bookrunners (for themselves and on behalf of the International Underwriters) under the International Underwriting Agreement pursuant to which our Company may be required to sell up to an additional aggregate of 3,000,000 H Shares (in aggregate representing approximately 15% of the Offer Shares initially being offered under the Global Offering) at the Offer Price
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC Company Law”	the <i>Company Law of the PRC</i> (中華人民共和國公司法), issued on 29 December 1993 and the last amendment of which was effective on 26 October 2018
“PRC GAAP”	the <i>Accounting Standards for Business Enterprises</i> (企業會計準則) promulgated by the Ministry of Finance
“PRC Government”	the central government of the PRC and all governmental subdivisions (including provincial, municipal and other regional or local government entities) and organizations of such government or, as the context requires, any of them
“PRC Legal Advisers”	AllBright Law Offices, legal advisers to our Company as to the PRC laws in connection with the Global Offering



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“Price Determination Agreement”	the agreement to be entered into by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or around Wednesday, 30 October 2019 but no later than Monday, 4 November 2019, on which the Offer Price is fixed for the purposes of the Global Offering
“Product Quality Law”	the Product Quality Law of the PRC, as amended, supplemented or otherwise modified from time to time
“Product Testing Service Centre”	the national-level product testing service centre that we contemplate to establish on the Third Floor. For further details, please refer to the section headed “Business – Business Strategies – Further development of the Third Floor – 3. Establishment of the Product Testing Service Centre” in this prospectus
“Products Display Platform”	The Measuring and Cutting Tools products display platform that we contemplate to establish on the Third Floor. For further details, please refer to the section headed “Business – Business Strategies – Further development of the Third Floor – 2. Establishment of the Products Display Platform” in this prospectus
“Promoter(s)”	the promoters that established our Company, which comprised Market Group, Qiaoling Investment, Qianyang Investment, Maowei Investment, Zhongjie Hede Investment, Shangyu Investment, Botao Investment, Zhang Laoqiao Investment and Mr. Huang Yugen
“Property Valuation Report”	the text of a letter, the summary of values and valuation certificates from the Property Valuer, as set out in Appendix VI to this prospectus
“Property Valuer”	Colliers International (Hong Kong) Limited, an independent property valuer commissioned by us to conduct property valuation on the property of our Group
“Province”	an administrative division within China

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“Qianyang Investment”	Wenling City Qianyang Investment Company Limited* (溫嶺市前洋投資有限公司), a company established in the PRC with limited liability on 20 November 2017, which is wholly-owned by Qianyangxia Village Share Economic Cooperative and is one of our Controlling Shareholders and Promoters
“Qianyangxia Village”	Qianyangxia Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC* (中國浙江省溫嶺市溫嶠鎮前洋下村)
“Qianyangxia Village Committee”	Wenling City Wenqiao Town Qianyangxia Village Villagers Committee* (溫嶺市溫嶠鎮前洋下村村民委員會), a villagers committee in Qianyangxia Village and is one of our Controlling Shareholders
“Qianyangxia Village Share Economic Cooperative”	Wenling City Wenqiao Town Qianyangxia Village Share Economic Cooperative* (溫嶺市溫嶠鎮前洋下村股份經濟合作社), a domestic enterprise established in the PRC on 16 October 2017, which is wholly-owned by Qianyangxia Village Committee and is one of our Controlling Shareholders
“Qiaoling Investment”	Wenling City Qiaoling Investment Development Company Limited* (溫嶺市嶠嶺投資發展有限公司), a company established in the PRC with limited liability on 24 June 2016, which is wholly-owned by Wenqiao Town People’s Government and is one of our Controlling Shareholders and Promoters
“Regulation S”	Regulation S under the U.S. Securities Act
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Reorganisation”	the corporate reorganisation arrangements implemented by our Group in preparation for the Listing, particulars of which are summarised in the paragraph headed “History, Development and Reorganisation – Reorganisation” of this prospectus
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration for Industry & Commerce of the PRC (中華人民共和國國家工商行政管理總局)

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## DEFINITIONS

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“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“Second Floor”	the second floor of our Trading Centre
“Securities Law”	the Securities Law of the PRC (中華人民共和國證券法), issued on 29 December 1998 and last amended and newly effective on 31 August 2014
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shangjie Village”	Shangjie Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC* (中國浙江省溫嶺市溫嶠鎮上街村)
“Shangjie Village Committee”	Wenling City Wenqiao Town Shangjie Village Villagers Committee* (溫嶺市溫嶠鎮上街村村民委員會), a villagers committee in Shangjie Village and is one of our Controlling Shareholders
“Shangjie Village Share Economic Cooperative”	Wenling City Wenqiao Town Shangjie Village Share Economic Cooperative* (溫嶺市溫嶠鎮上街村股份經濟合作社), a domestic enterprise established in the PRC on 27 March 2017, which is wholly-owned by Shangjie Village Committee and is one of our Controlling Shareholders
“Shangyu Investment”	Wenling City Shangyu Investment Company Limited* (溫嶺市上宇投資有限公司), a company established in the PRC with limited liability on 20 November 2017, which is wholly-owned by Shangjie Village Share Economic Cooperative and is one of our Controlling Shareholders and Promoters
“Share(s)”	Domestic Share(s) and/or H Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“Shuliang Technology”	Hangzhou Shuliang Technology Co., Ltd* (杭州數亮科技股份有限公司), a company incorporated in the PRC that our Company engaged to invent the Index

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## DEFINITIONS

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“Sole Sponsor” or “Sole Global Coordinator”	Cinda International Capital Limited, a licensed corporation under the SFO permitted to engage in types 1 (advising on securities) and 6 (advising on corporate finance) of the regulated activities (as defined under the SFO), acting as the sole sponsor to the Listing
“Special Regulations”	the <i>Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies</i> (國務院關於股份有限公司境外募集股份及上市的特別規定), issued on 4 August 1994 and effective on 25 December 1995
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Supervisor(s)”	member(s) of the Board of Supervisors
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs, as amended, supplemented or otherwise modified from time to time
“Third Floor”	the third floor of our Trading Centre
“Tiangong Technology”	Wenling City Tiangong Measuring and Cutting Tools Technology Service Centre Company Limited* (溫嶺市天工工量刃具科技服務中心有限公司), a company established in the PRC with limited liability on 21 May 2010, which was owned by Qiaoling Investment as to 26% and four Independent Third Parties, namely, Jiang Zhongrong* (蔣忠榮), Lin Xinyuan* (林新源), Zhejiang Shangyou Daoju Co., Ltd.* (浙江上優刀具有限公司) and Sun Guomei* (孫國美) as to 25%, 25%, 14% and 10%, respectively, as at the Latest Practicable Date
“Track Record Period”	the financial years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2019

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## DEFINITIONS

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“Trading Centre”	the 4-storey trading centre located in Qianyangxia Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC* (中國浙江省溫嶺市溫嶠鎮前洋下村) owned, operated and managed by us essentially for product displaying and trading purposes, such that it primarily targets to provide units for use as shops for the tenants to display, trade and promote their Measuring and Cutting Tools products to their downstream customers
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“US” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$” or “US dollar”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“Wenling Business League”	Wenling business league* (溫嶺商幫), a league formed by commercial trading enterprises from Wenling according to F&S. They can be found in different parts in the PRC and are engaged in professional distribution, wholesale and retail of the Measuring and Cutting Tools. It consists of more than 3,000 Measuring and Cutting Tools commercial trading enterprises and provides more than 4,000 distribution points in China. It has powerful and effectively managed distribution and sales network and channels over China according to the F&S Report
“Wenling Measuring and Cutting Tools Network”	Wenling Measuring and Cutting Tools Network Company Limited* (溫嶺工量刀具網有限公司), a company established in the PRC with limited liability on 27 July 2011, which is a wholly-owned subsidiary of our Company
“Wenling Xuri”	Wenling Xuri Investment Company Limited* (溫嶺市旭日投資有限公司), a company established in the PRC with limited liability on 12 June 2018, which is a wholly-owned subsidiary of our Company

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## DEFINITIONS

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“Wenqiao Town People’s Government”	Wenling City Wenqiao Town People’s Government* (溫嶺市溫嶠鎮人民政府), which is one of our Controlling Shareholders
“ <b>WHITE</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicants’ own name
“Xuzhai Village Committee”	Wenling City Wenqiao Town Xuzhai Village Villagers Committee* (溫嶺市溫嶠鎮許宅村村民委員會), a villagers committee in Xuzhai Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC* (中國浙江省溫嶺市溫嶠鎮許宅村) and is one of our Controlling Shareholders
“Xuzhai Village Share Economic Cooperative”	Wenling City Wenqiao Town Xuzhai Village Share Economic Cooperative* (溫嶺市溫嶠鎮許宅村股份經濟合作社), a domestic enterprise established in the PRC on 9 December 2009, which is wholly-owned by Xuzhai Village Committee and is one of our Controlling Shareholders
“ <b>YELLOW</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
“Zhang Laoqiao Investment”	Wenling City Zhang Laoqiao Investment Company Limited* (溫嶺市張老橋投資有限公司), a company established in the PRC with limited liability on 20 November 2017, which is wholly-owned by Zhang Laoqiao Village Share Economic Cooperative and is one of our Controlling Shareholders and Promoters
“Zhang Laoqiao Village Committee”	Wenling City Wenqiao Town Zhang Laoqiao Village Villagers Committee* (溫嶺市溫嶠鎮張老橋村村民委員會), a villagers committee in Zhang Laoqiao Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC* (中國浙江省溫嶺市溫嶠鎮張老橋村) and is one of our Controlling Shareholders

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## DEFINITIONS

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“Zhang Laoqiao Village Share Economic Cooperative”	Wenling City Wenqiao Town Zhang Laoqiao Village Share Economic Cooperative* (溫嶺市溫嶠鎮張老橋村股份經濟合作社), a domestic enterprise established in the PRC on 13 January 2015, which is wholly-owned by Zhang Laoqiao Village Committee and is one of our Controlling Shareholders
“Zhongjie Hede Investment”	Wenling City Zhongjie Hede Investment Company Limited* (溫嶺市中街和德投資有限公司), a company established in the PRC with limited liability on 20 November 2017, which is wholly-owned by Zhongjie Village Share Economic Cooperative and is one of our Controlling Shareholders and Promoters
“Zhongjie Village”	Zhongjie Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC* (中國浙江省溫嶺市溫嶠鎮中街村)
“Zhongjie Village Committee”	Wenling City Wenqiao Town Zhongjie Village Villagers Committee* (溫嶺市溫嶠鎮中街村村民委員會), a villagers committee in Zhongjie Village and is one of our Controlling Shareholders
“Zhongjie Village Share Economic Cooperative”	Wenling City Wenqiao Town Zhongjie Village Share Economic Cooperative* (溫嶺市溫嶠鎮中街村股份經濟合作社), a domestic enterprise established in the PRC on 6 November 2003, which is wholly-owned by Zhongjie Village Committee and is one of our Controlling Shareholders
“Zone”	the zone of our Trading Centre created for the purposes of effective administration and better management
“%”	per cent

\* For identification purposes only

*Unless otherwise expressly stated or the context otherwise requires, in this prospectus:*

- *All dates and times refer to Hong Kong dates and time, and references to years in this prospectus are to calendar years.*
- *All data in this prospectus is as at the Latest Practicable Date.*

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## DEFINITIONS

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- *If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, the English prospectus shall prevail. However, the English translation and/or transliteration of the names of the PRC nationals, entities, enterprises, government authorities, departments, facilities, certificates, titles, laws and regulations included in this prospectus, including those marked with “\*”, are translations from their Chinese names and are for identification purposes only. In the event of any inconsistency in such case, the Chinese versions shall prevail.*
- *Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments.*
- *Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*



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## GLOSSARY OF TECHNICAL TERMS

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*This glossary of technical terms contains explanations of certain technical terms used in this prospectus. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.*

“B2B”	business-to-business, a process for businesses selling products or services to other businesses
“B2C”	business-to-customers, a process for businesses selling products or services directly to consumers
“CAGR”	compound annual growth rate
“effective rent”	the contractual rent per sq.m. for existing leases in a given period shown on a net basis. This amount reflects the actual amount of rent that we received after discounts given to the gross rent divided by the leased LFA as at the relevant dates
“GFA”	gross floor area. Unless otherwise indicated, the GFA of a building comprises the area contained within the external walls of the building measured at each floor level (including any floor below ground level) including the thickness of the external walls of the building. This generally includes the Ancillary Facilities
“gross rent”	the contractual rent per sq.m. for existing tenancies in a given period. This amount reflects the total contractual base rent without adjusting for any discounts divided by the LFA as at the relevant dates

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## GLOSSARY OF TECHNICAL TERMS

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“LFA”	leaseable gross floor area. Unless otherwise indicated, it comprises the gross floor area designated by us for lease to tenants, including, with respect to our Trading Centre units, the gross floor area leased by us to third parties pursuant to the tenancy agreements with our tenants of our Trading Centre units. It excludes the area of approximately 49,505 sq.m. primarily consisting of the area: (a) for our office and conference purposes (approximately 2,962.5 sq.m.); (b) on the Third Floor to be utilised (approximately 10,000 sq.m.), for example, for the establishment of the Products Display Platform and the Product Testing Service Centre; (c) for providing the Ancillary Facilities (approximately 1,006.9 sq.m.) and (d) considered as common area in our Trading Centre, covering all corridors, pathways, lifts, escalators, pillars and walls etc. (approximately 35,535.6 sq.m.).
“Measuring and Cutting Tools”	the tools or products, mainly including measuring tools, cutting tools and other tools, which are used in the machine manufacturing process. Please refer to the paragraph headed “Business – Our business – Measuring and Cutting Tools” in this prospectus for further details.
“occupancy rate”	the total leased LFA divided by total LFA at a given date
“projects held for future development”	property projects in respect of which we have (a) received the relevant land use rights certificates, or (b) signed the relevant land grant contracts and for which we have fully paid the land grant premium but not yet obtained land use rights certificates
“sq.m.”	square metres

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## FORWARD-LOOKING STATEMENTS

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### **FORWARD-LOOKING STATEMENTS CONTAINED IN THIS PROSPECTUS MAY NOT MATERIALISE**

We have included in this prospectus forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- any changes in the laws, rules and regulations of the central and local governments in the PRC and the rules, regulations and policies of the relevant government authorities relating to all aspects of our business and our business plans;
- our ability to control our risks;
- our business and operating strategies and our ability to implement such strategies;
- future developments, trends, conditions and the competitive environment in the industry and markets in which we operate or into which we intend to expand;
- our expansion plan;
- financial market developments;
- our financial condition and performance;
- our future debt levels and capital needs;
- changes in economic conditions in the cities in which we operate, including a downturn in the industry in which we operate and general economy in China;
- our ability to reduce costs;
- our dividend policy;
- our capital expenditure plans;
- our business prospects;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which we operate;
- the actions and developments of our competitors;

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## FORWARD-LOOKING STATEMENTS

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- certain statements in the section headed “Financial Information” in this prospectus with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this prospectus that are not historical facts.

In some cases, we use the words “aim,” “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “going forward,” “intend,” “ought to,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “will,” “would” and similar expressions to identify forward-looking statements. In particular, we use these forward-looking statements in the sections headed “Business” and “Financial Information” in this prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These forward-looking statements are based on current plans and estimates, and speak only as at the date they were made. We undertake no obligation to update or revise any forward-looking statements in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statements.

Our Directors confirm that the forward-looking statements are made after reasonable care and due consideration. By their nature, however, forward-looking statements require us to make assumptions that are subject to inherent risks and uncertainties. As such, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

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## RISK FACTORS

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*Investing in our H Shares involves a high degree of risk. You should carefully consider each of the risks described below and all of the other information contained in this prospectus before deciding to invest in our H Shares. You should be aware that we are a company incorporated in the PRC and our business and operations are conducted in the PRC which are governed by a legal and regulatory environment that in some respects differs significantly from that in other countries. For more information concerning the PRC and certain related matters discussed below, please refer to the sections headed “Regulatory Overview”, “Appendix IV – Summary of Principal Legal and Regulatory Provisions” and “Appendix V – Summary of Articles of Association” in this prospectus.*

*If any of the following risks occur, our business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of our H Shares could decline, and you may lose all or part of your investment.*

Our operations involve certain risks, some of which are beyond our control. These risks can be broadly categorised into: (i) risks relating to our business; (ii) risks relating to the industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the Global Offering.

### RISKS RELATING TO OUR BUSINESS

**During the Track Record Period, our profitability has declined due to decrease in valuation gains of our investment properties, and our prospects are dependent on various factors, including but not limited to the appraisal value of our properties, limited revenue growth, increase in cash outflow in respect of interests for the loan, our ability to execute our expansion plan successfully in light of the uncertainties involved in the establishment of the Industrial Park and our ability to cope with the fierce market competition from different market players**

During the Track Record Period, our profitability has declined due to decrease in the valuation gains of our investment properties since a significant portion of our net profits were attributable to the valuation gains on our investment property, which represents approximately 117.3%, 39.5%, 60.1%, 46.0% and 37.1% of the profit for the years ended 31 December 2015, 2016, 2017, 2018 and for the four months ended 30 April 2019 respectively. For details, please refer to the paragraph headed “Our property valuation is based on certain assumptions which, by their nature, are subjective and uncertain, may materially differ from actual results and may not accurately reflect our financial position” in this section. As valuation gains are unrealised and do not generate any cash inflow to us until such investment properties are disposed of at considerations similar to the valuations, we may therefore experience higher profitability through investment property valuation gains without a corresponding improvement to our liquidity position.

In addition, during the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2019, approximately 100%, 94.1%, 94.8%, 98.5% and 99% of LFA already leased to our tenants, respectively. Given that the above occupancy rates of our Trading Centre were already comparatively high throughout the Track Record Period and is expected to at least maintain such high occupancy rate in the future, the room for the revenue growth for our Trading Centre is little or limited, unless our Company decides to increase the amount of rent. If so decided, it may, on the other hand, attract certain uncertainties to the revenue of our Company, including but not limited to (1) further negotiations with the existing tenants to enter into new tenancy agreements, causing increase of time, management and operation costs; (2)

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## RISK FACTORS

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pre-mature termination of the existing tenancy agreements as our tenants may not be able to afford the higher rent; (3) potential disputes or litigations with respect to the existing tenancy agreements on the increased amount of rent, causing damage to the reputation of our Trading Centre; and (4) decrease the attractiveness of our Trading Centre to potential tenants, leading to lower occupancy rate, any of which may cause material adverse effect on our business, financial condition and results of operations of our Trading Centre.

We note that our profitability has been declining during the Track Record Period, partly in view of the above, and this trend is expected to continue because of the increasing finance costs to be incurred (which are not capitalised) for the construction of the Industrial Park. We will be incurring a substantial amount of cash outflow in respect of interests for the loan for the development of the Industrial Park, which is estimated to be approximately RMB3.0 million, RMB6.8 million and RMB3.1 million for the years ending 31 December 2019, 2020 and 2021, respectively. Such incurrence is due to our need to finance the investment cost of approximately RMB406.1 million by external borrowings of approximately RMB279.2 million details of which are set out in the paragraph headed “The construction of our Industrial Park will be substantially financed by external borrowings. If we fail to obtain sufficient funding for our expansion plans, our business and growth prospects may be adversely affected” in this section. Further, we expect to repay the loan of approximately RMB 57 million in January 2020 by internal resources. In the event that we are unable to timely repay such amount of loan, we may be subject to the pressure from the banks for negotiation on refinancing, and unfavourable terms such as additional interest payment and fees with extended repayment schedule may be demanded. We may then be exposed to liquidity risk, and our financial condition, results of operations and could be materially and adversely affected. In addition, we expect to repay part of the loan balance of approximately RMB122 million in January 2021 by sales of certain manufacturing units at the Industrial Park and/or prepaid rental income. However, we will incur additional finance costs and our results of operations and liquidity position will be negatively affected if we fail to secure a sufficient demand of targeted tenants and/or prospective purchasers for such units at the expected rental rates and/or selling price or at all. For details, please refer to the paragraphs headed “We may not be successful in securing sufficient demand in relation to the leasing of the units in the Industrial Park” and “We expect to sell some of the manufacturing units in our Industrial Park. If we fail to secure a sufficient demand, our results of operations, liquidity position and our ability to repay external borrowing may be materially and adversely affected” in this section.

Our profitability and ability to achieve profits may also be affected by fierce competition from different market players. We face direct competition with the operators of other trading centres, industrial parks and industrial clusters, as well as indirect competition with independent shops and manufacturers who directly distribute their products to end-customers. In addition, owing to the rise of e-commerce platforms and rapid development of electronic payment ecosystem in China, competition with e-commerce operators and B2C companies who directly sell their products to the end-customers online have also become increasingly fierce. Details of the competition are set out in the paragraph headed “We face competition from other industrial tools trading centres, industrial park, industrial clusters and e-commerce operators as well as B2C companies” in this section. In the premises, the attractiveness of our Trading Centre may be diminished and if we fail to compete against these market players, our profitability and financial position will be adversely affected.

In addition, the construction of the Industrial Park is also subject to uncertainties, some of which may be beyond our reasonable control. For details, please refer to the paragraph headed “Development and operation of the Industrial Park is uncharted territories for us and we may encounter difficulties in our strategic steps in relation to the construction and operation of the

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## RISK FACTORS

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Industrial Park due to lack of experience and other uncertainties” in this section. This suggests that our expansion plan may not be implemented successfully and our profitability may continue to decline until the construction work is completed and the Industrial Park is in full operation.

**We currently rely on our Trading Centre for substantially all of our revenues and we may not be able to replace or renew all of our leases upon their expiration**

We are a Measuring and Cutting Tools trading centre operator and our principal activity and source of revenue are primarily derived from property leasing business through our operation of the Trading Centre. We currently rely on our Trading Centre for substantially all of our revenues. For the years ended 31 December 2015, 2016, 2017, 2018 and for the four months ended 30 April 2019, the revenue of our property leasing business are approximately RMB22.7 million, RMB43.8 million, RMB42.7 million, RMB45.9 million and RMB15.6 million, representing approximately 89.1%, 97.1%, 98.2%, 97.7% and 94.6% of our total revenue, respectively. This single location revenue source may entail a higher level of risk as compared to other operators of trade centres that have revenue-generating properties over several different locations or have a more diverse range of property investments. In the event of a circumstance which adversely affects the operations or business of our Trading Centre, or its attractiveness to tenants, we will not have income from other properties to mitigate any ensuing loss. A concentration of investments in a single location will cause our Trading Centre to be highly susceptible to a downturn in the economic conditions in Wenling City, Zhejiang Province. In addition, any property damage at our Trading Centre, resulting from fire or other causes, or a downturn in the industrial materials or manufacturing industry or Measuring and Cutting Tools industry in the PRC, may have a material adverse effect on our business, financial condition and results of operations.

Further, we cannot assure you that our Trading Centre will continue to attract tenants and generate rental income at historical rates, or that it will be successful in the future. As at 30 April 2019, leases (including the First Floor, the Second Floor and the Third Floor while excluding the basement of our Trading Centre) comprising a total LFA leased of approximately 284.0 sq.m., 13,830.0 sq.m., 2,090.0 sq.m., 669.0 sq.m. and 1,195.2 sq.m. were scheduled to expire in the years ending 2019, 2020, 2021, 2022 and 2025 (and afterwards), respectively, representing approximately 1.6%, 76.5%, 11.6%, 3.7% and 6.6% of the total LFA leased of our Trading Centre as at 30 April 2019, respectively. For details, please refer to the section headed “Business – Our Business Model – Workflow of our property leasing business – (2) Preparation of tenancy agreements – Lease expirations” in this prospectus. As at 31 December 2015, 2016, 2017 and 2018, our Trading Centre had 551, 578, 590 and 612 tenants. During the years ended 31 December 2015, 2016, 2017 and 2018, 464, two, 28 and two lease agreements expired and nil, 56, 17 and seven lease agreements were prematurely terminated mainly because the tenants considered the rents were higher than what they might afford, respectively, out of which 464, eight, 31 and three leases were taken up by the same tenant or by another tenant before the end of the year, respectively, representing the renewal rate of 100%, 13.8%, 68.9% and 33.3%, respectively. In respect of the 464, eight and 31 leases renewed during the years ended 31 December 2015, 2016 and 2017, save that 53 leases have been renewed in 2015 for 20 years, all other leases were renewed for a term of five or six years. In respect of the three leases taken up



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## RISK FACTORS

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by the same tenant or another tenant during the year ended 31 December 2018, two of them have been renewed for a term of one year while one of them is renewed for a term of two years. There was no lease expired or prematurely terminated during the four months ended 30 April 2019. In respect of the 489 leases to be expired in the year ending 31 December 2020, the annual rental income attributable to such leases is approximately RMB42.0 million. The term of the lease normally ranges from four to six years or 20 years. We cannot assure you that we will be able to replace or renew all of the leases upon their expiration or premature termination, that we will maintain our existing occupancy rates, or that we will be able to increase rental rates to market rate, all of which depend on the demands of the units of our Trading Centre, which in turn is affected by various factors, some of which may be beyond our control, such as our tenants' satisfaction of our property management service, the business prospects of our tenants, our ability to compete with other operators of trading centres, e-commerce platforms and B2C companies, and the development of the manufacturing industry in China that has a direct impact on the domestic demands of Measuring and Cutting tools.

Although we plan to establish the Industrial Park, to further develop the Third Floor and to transform our Trading Centre into an internet-enabled trading centre for strengthening our market position and diversifying our revenue stream, we cannot assure you that we will be able to materialise our plans or generate revenue and net income from these plans at all or in amounts that we expect. If we are unable to renew or replace our leases at the Trading Centre and at rental rates as we expect, our results of operations, financial condition and cash flows could be materially adversely affected.

**Our property valuation is based on certain assumptions which, by their nature, are subjective and uncertain, may materially differ from actual results and may not accurately reflect our financial position**

During the Track Record Period, our valuation gains on investment properties were approximately RMB99.9 million, RMB18.4 million, RMB27.0 million, RMB17.0 million and RMB4.0 million, representing approximately 117.3%, 39.5%, 60.1%, 46.0% and 37.1% of the profit for the years ended 31 December 2015, 2016, 2017, 2018 and for the four months ended 30 April 2019, respectively. Valuation of our properties as at 31 August 2019 prepared by our Property Valuer, Colliers International (Hong Kong) Limited, an independent property valuer, is set forth in the Property Valuation Report set out in Appendix VI to this prospectus. The valuation is made based on assumptions which, by their nature, are subjective and uncertain and may differ from actual results. Unforeseeable changes in general and local economic conditions or other factors beyond our control may also affect the value of our properties. As a result, the valuation of our properties may differ materially from the price we could receive in an actual sale of the property in the market. Therefore, they should not be taken as their actual realisable value or an estimation of their realisable value. Also, valuation gains are unrealised and do not generate any cash inflow to us until such investment properties are disposed of at considerations similar to the valuations. As such, we may experience higher profitability through investment property valuation gains without a corresponding improvement to our liquidity position, suggesting that our financial position is not accurately reflected.



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## RISK FACTORS

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### **We may not be able to execute our business strategies**

In order to maintain and enhance our profitability, it is imperative for us to successfully execute our business strategies, namely, (i) to further strengthen our market position in the Measuring and Cutting Tools market; (ii) to further develop the Third Floor of the Trading Centre; (iii) to transform ourselves into an internet-enabled trading centre; (iv) to further strengthen our brand recognition; and (v) the development of the Industrial Park, details of which are set out in the section headed “Business – Business Strategies” in this prospectus, for purposes of attracting new tenants, retaining existing tenants and achieving market rental rates. This, however, depends upon the successful construction and development of our Industrial Park, our ability to secure sufficient demands for our Trading Centre and Industrial Park, our ability to compete against other market players, and other macro-economic factor, namely, the continuing growth in the manufacturing industry and Measuring and Cutting Tools industry in the PRC, details of which are set out in the paragraph headed “The cyclical nature of the real estate, the manufacturing and the Measuring and Cutting Tools industries and the macro-economic situation in the PRC and worldwide could adversely affect our results of operations” in this section. We may face challenges in implementing our business strategies and our ability to achieve our goals may be adversely affected by factors beyond our control. If we are not able to successfully execute our business strategies, we may not be able to compete with other competitors of the industry and our business, results of operations and financial condition will be materially and adversely affected. Even if our business strategies are successfully implemented, there is no assurance that they will increase our market share or enhance our market position and our competitiveness.

### **The construction of our Industrial Park will be substantially financed by external borrowings. If we fail to obtain sufficient funding for our expansion plans, our business and growth prospects may be adversely affected**

A substantial amount of the investment cost of our Industrial Park will be financed by external borrowings. We estimate that a total of approximately RMB406.1 million for the three years ending 31 December 2021 will be invested into the Industrial Park. We intend to fund such expansion with (a) the net proceeds from the Listing (approximately RMB51.6 million); (b) our internal funding (approximately RMB75.3 million); and (c) external borrowings (approximately RMB279.2 million). We contemplate cash outflow in respect of interest for our bank borrowings will be estimated to be approximately RMB3.0 million, RMB6.8 million and RMB3.1 million for the years ending 31 December 2019, 2020 and 2021, respectively. Please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus for details of our use of proceeds. However, the interest associated with the external borrowings for the construction of the Industrial Park, together with the actual costs for construction, are going to be front-loaded such that substantial capital will be incurred before the Industrial Park starts generating revenue, leading to an adverse impact on the liquidity of our Group.

If our resources were insufficient to satisfy our financial requirements, we may seek additional financing, including but not limited to bank borrowings and/or debt and/or equity securities offerings. We believe that our ability to obtain additional financing on acceptable

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terms is subject to a variety of uncertainties, some of which are beyond our control, including general economic and capital market conditions, credit availability from banks or other lenders, investors' confidence in us, the performance of the manufacturing industry and the Measuring and Cutting Tools industry in the PRC in general, and our operating and financial performance in particular. In January 2019, we have obtained bank loans with the aggregate amount of RMB97.0 million from banks in the PRC to finance the development of the Industrial Park. Nevertheless, we cannot assure you that future financing will be available in amounts or on terms acceptable to us, if at all. In the event that financing is not available or is not available on terms acceptable to us, our development of the Industrial Park and the ensuing expansion plan will be compelled to put on hold, and our results of operations, business growth and development prospects may be materially and adversely affected. Furthermore, to the extent that we raise additional financing by issuing equity securities, our Shareholders may experience dilution in their shareholdings in our Company. To the extent that we engage in debt financing, the incurrence of indebtedness would result in increased debt obligations and could result in operating and financing covenants that may, among other things, restrict our operations or our ability to pay dividends. Servicing such debt obligations could also be burdensome to our operations. If we fail to service the debt obligations due to, for example, our inability to maintain adequate cash inflows from funds generated from our operating activities, or are unable to comply with such debt covenants, we could be in default under the relevant debt obligations and our liquidity and financial conditions may be materially and adversely affected.

**If we were unable to obtain all the relevant rights for the Industrial Park for future development, we will not be able to further develop the same according to our plans**

We intend to use part of the proceeds from the Listing (approximately RMB51.6 million) for the establishment and construction of the Industrial Park (approximately RMB406.1 million) thereon. Although we have already obtained the real property ownership certificate for the Land on which the Industrial Park will be erected in May 2019, we cannot assure you that we will be successful in obtaining all other requisite development rights, approvals and permits from the government for these purposes. Specifically, we cannot assure you that we will be successful in obtaining all governmental clearance, whether on the provincial or the municipal level or otherwise, that are required in order for us to construct the Industrial Park. We also cannot assure you that the construction land planning permit will be granted in a timely manner, or at all. Further, we cannot assure you, after the construction, we will be granted the real property ownership certificate for the Industrial Park, or at all. In any event, commitment of financial and managerial resources to develop the Land involves risks beyond our control. Before the development generates any revenue, we will have already incurred a variety of material capital expenditures. If we fail to obtain the requisite rights and approvals mentioned above, we will not be able to develop the Industrial Park as planned, our profitability will continue to decline and our financial position will be materially and adversely affected.

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### **We may not be successful in securing sufficient demand in relation to the leasing of the units in the Industrial Park**

Upon completion of the development of the Industrial Park, a substantial portion of the area of the Industrial Park will be designated as a development platform, in which the units will be for lease to medium to small manufacturer enterprises to conduct and develop their manufacturing business. Pursuant to the Development and Construction Agreement entered into by us with Wenling City New District Management Committee in December 2018, which provides certain requirements in relation to our investment in and development of the Industrial Park, we shall be required to select tenants in accordance with certain pre-set criteria, including the restriction that the tenants shall belong to the Measuring and Cutting Tools industry, and various other restrictions and requirements in relation to the levels of sales revenue, tax payment, pollution generation and energy consumption of these potential tenants. For further details of these restrictions and criteria set out in the Development and Construction Agreement, please refer to the section headed “Business – Our Business Expansion – Measuring and Cutting Tools Industrial Park” in this prospectus. As a result, the Industrial Park will target a restricted pool of participants in the Measuring and Cutting Tools industry. We cannot assure you that we will be able to secure sufficient demand for our manufacturing units of our Industrial Park for leasing. Further, we cannot assure you that the location of our Industrial Park is geographically appealing to our potential tenants. As we are expected to incur substantial capital expenditures of approximately RMB406.1 million for the development of the Industrial Park, which are going to be front-loaded before the Industrial Park starts generating revenue, should we not be able to secure sufficient demand for the leasing of the units, a portion of our investment in the form of development costs and expenses incurred may not be recoverable, which may cause an adverse impact to our business and financial position.

### **We expect to sell some of the manufacturing units in our Industrial Park. If we fail to secure a sufficient demand, our results of operations, liquidity position and our ability to repay external borrowing may be materially and adversely affected**

We expect to sell some of the manufacturing units of the Industrial Park. However, we cannot assure you that we will successfully secure a sufficient demand of prospective purchasers for such units at the expected selling price or at all. Whether the manufacturing units of the Industrial Park would be sold as expected is affected by factors including but not limited to the then market demand, economic conditions in the PRC and government policies which are beyond our control. Further, we do not have sufficient experience with respect to the sale of properties and may not be able to cope with the challenges and difficulties that may exist in the sale of properties. During the Track Record Period, our primary source of revenue derived from property leasing business through our operation of the Trading Centre and we were not engaged in any sale of units of our Trading Centre. Also, the development of the property market of the PRC is uncertain and is affected by local, regional, national and global factors, including economic and financial condition, demand for and supply of properties, inflation, interest rates and availability of capital, many of which are beyond our control. In particular, the PRC property market is subject to extensive governmental regulations and is sensitive to policy changes. The PRC government exerts considerable direct and indirect influence on the growth

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and development of the PRC property market through industry policies and other economic measures such as setting interest rates, controlling the supply of credit by changing bank reserve ratios and implementing lending restrictions, increasing tax and duties on property transfers and imposing restrictions on foreign investment. We cannot assure you that the PRC government will not implement further tightening measures to restrain the PRC property market at the national, provincial, municipal and/or local level, in which case the transaction volume and selling prices of properties in the PRC may decline or further intensify, and as a result, we may not be able to sell our units at the Industrial Park at the expected selling price or at all. Should we fail to secure a sufficient demand for the sale of units at the Industrial Park, or if the selling prices are lower than expected, our results of operations and our liquidity position may be materially and adversely affected.

Moreover, a substantial amount of the investment cost of our Industrial Park will be financed by external borrowings. We expect to borrow a principal amount of approximately RMB180.0 million in 2020 and an additional loan of approximately RMB100.0 million by the end of 2021, and the effective interest rate for these loans is expected to be 5.3% per annum (being the effective interest rate of the outstanding loan borrowed by the Group as at the Latest Practicable Date). For details of the total investment cost, please refer to the section headed “Summary and Highlights – Total investment cost and source of funding” in this prospectus. We expect to repay part of the loan balance of approximately RMB122 million in January 2021 by sales of certain manufacturing units at the Industrial Park and/or prepaid rental income. If we fail to sell the relevant manufacturing units of the Industrial Park as expected, we may not be able to make the above partial repayment of the loan as planned, which may increase our finance costs and affect our results of operations and liquidity position.

**Development and operation of the Industrial Park is uncharted territories for us and we may encounter difficulties in our strategic steps in relation to the construction and operation of the Industrial Park due to lack of experience and other uncertainties**

We intend to develop the Industrial Park to expand our Measuring and Cutting Tools industry coverage in the PRC, and the operation of the Industrial Park involves new elements that did not exist in our Trading Centre, such as a development platform for medium to small manufacturer enterprises to conduct and develop their manufacturing businesses as well as an innovation centre to offer professional service to them. For details, please refer to the section headed “Business – Our Business Expansion – Measuring and Cutting Tools Industrial Park” of this prospectus. Our experience in operating our Trading Centre, may not completely be transferable to, and replicated in, the operation of the Industrial Park. We cannot assure you that we will not encounter any difficulties arising from the lack of experience in relation to the construction and operation of the Industrial Park. When these difficulties arise, additional costs may be incurred to tackle relevant problems, which may include engaging external professionals or consultants to advise on solutions. As a result, the operation of the Industrial Park may be affected or disrupted, and our business and financial position may be adversely affected as a result.

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Furthermore, unforeseeable events may disrupt the construction of the Industrial Park and longer time may be required than we currently anticipate to implement our expansion plan before the Industrial Park can operate, including difficulties and delays in obtaining the requisite development rights, approvals and permits from the government, delays in construction work due to weather condition and natural disasters, occurrence of industrial accidents to our employees and subcontractors during the course of construction and delay in the supply and delivery of raw materials for the construction. As a result of any delay or failure in completing our expansion, cost overruns, failure to obtain the intended economic benefits from our expansion or other circumstances beyond our control, our business, financial condition and operations may be adversely and even materially affected.

**We incurred net current liabilities as at 31 December 2015, 31 December 2016, 31 December 2017, 31 December 2018 and as at 30 April 2019 and net cash outflow from operating activities for the four months ended 30 April 2018 and 2019. We may be exposed to liquidity risks where our business, financial conditions and operation may be materially and adversely affected**

We had incurred net current liabilities of approximately RMB13.2 million, RMB8.7 million, RMB17.6 million, RMB9.6 million and RMB62.5 million as at 31 December 2015, 2016, 2017, 2018 and as at 30 April 2019, respectively. We were in a net current liabilities position mainly because we recorded a current portion of receipts-in-advance of RMB47.2 million, RMB45.2 million, RMB43.4 million, RMB46.4 million and RMB33.0 million as at 31 December 2015, 2016, 2017, 2018 and as at 30 April 2019, respectively, which was related to receipt in advance on property leasing income from our tenants and recognised as revenue over the leasing period as equity. In addition, the net current liabilities as at 30 April 2019 was primarily related to the financing of acquisition of the Land at a consideration of RMB63.5 million by short-term bank loans obtained from two banks of RMB97.0 million in January 2019. For further details of the net current liabilities, please refer to the section headed “Financial Information – Net current assets and liabilities” in this prospectus.

If our current liabilities become due and payable and if we do not have sufficient internal resources to fully repay them, our performance and financial conditions could be adversely and materially affected. Furthermore, our credit rating may be negatively affected, which may prevent us from obtaining further external loan facilities to repay the current liabilities and finance the costs of our investment of the Industrial Park.

Also, we had net cash outflow from operating activities of approximately RMB6.4 million and RMB4.2 million for the four months ended 30 April 2018 and 30 April 2019, respectively. For details of the reasons attributable to the net cash outflow from operating activities, please refer to the section headed “Financial Information – Liquidity and Capital Resources – Cash Flows – Cash flows from operating activities” in this prospectus. While our Directors believe that we have sufficient funds to finance our working capital requirements for the next 12 months, our operating cash flows may be adversely affected by factors that are beyond our control. In the event of an early termination of our tenancy agreements, our Company may be liable for refunding to our tenants a portion of the property leasing fees prepaid as

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receipts-in-advance pursuant to the relevant terms and conditions. Such rental refund may adversely and materially affect our liquidity position and financial performance. Further, we cannot assure you that we will not experience net operating cash outflows in the future. We can give no assurance that we will have sufficient cash from other sources to fund our operation. If we are unable to maintain adequate cash inflows from funds generated from operating activities or external loan facilities and financing, we may expose ourselves to liquidity risks and our business, financial position, operation results and prospects may be materially and adversely affected.

**We charge property management fees on a lump sum basis and our profit margin may decrease if the property management fees are insufficient to cover our operating costs in connection with our performance of property management services**

We charge our customers the property management fees on a lump sum basis. For the years ended 31 December 2015, 2016, 2017, 2018 and for the four months ended 30 April 2019, our property management costs are approximately RMB706,000, RMB1,362,000, RMB1,564,000, RMB1,740,000 and RMB629,000, representing approximately 10.5%, 22.2%, 23.3%, 21.3% and 22.6% of the total cost of sales, respectively. We recognise the total amount of property management fees that we receive from our customers on a lump sum basis as revenue and recognise the costs we incur in relation to the performance of property management services as our cost of sales. While our property management fees are charged on a pre-determined lump sum basis, we also bear all the expenses that arise from our provision of property management services. If there is an increase in such expenses for our performance of property management services, we may charge additional property management fees from our customers to cover our increased costs subject to the terms of the relevant tenancy agreement with the tenants.

During the Track Record Period, we experienced a rise in the property management costs paid to our subcontractors for performance of our property management services. Although we may charge our tenants additional property management fees with a view to covering any increase of property management costs incurred by us, we cannot guarantee that such additional fees collected from our tenants are sufficient to cover the shortfall as, having considered the market condition and our relationship with our tenants, we may not be able to make a dollar-to-dollar adjustment to the property management fees charged and completely transfer the increase in our costs to our tenants. If we fail to promptly increase and collect additional property management fees from our tenants or control our operating costs in connection with our performance of property management services, our profit margin may be adversely affected.

**Non-renewal of licences, approvals or permits may have a material adverse effect on our business operations**

It is a pre-requisite requirement for us to obtain certain licences, approvals and permits from various governmental or regulatory authorities, namely the business licence (營業執照) and trading name registration licence (市場名稱登記證), in order to conduct business and carry on the operations of our Trading Centre. However, these licences, approvals and permits are subject to periodic review and renewal by the relevant governmental or regulatory authorities and our continued compliance with certain standards and requirements.



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There is no assurance that we will be able to renew all necessary licences, approvals and permits in the future. Non-renewal of all necessary licences, approvals and permits may prevent us from undertaking or carrying on the business of our Trading Centre, which may disrupt our business operations and may have a material adverse effect on our business, results of operations and financial condition.

**Any damage to our reputation or brand image could adversely affect our business, financial condition, results of operation and prospects**

We rely on our reputation to attract our tenants' customers to our Trading Centre. We believe that brand value is based largely on subjective customer perception and can be damaged by isolated incidents that diminish customer trust. Any negative incidents or negative publicity concerning us, our business, our Trading Centre or our tenants could adversely affect our reputation and business. Our brand value and consumer demand could decline significantly if we fail to deliver a consistently positive experience to our tenants' customers that visit our Trading Centre.

In addition, our efforts to protect our brand name may not be adequate and we may be unable to identify any unauthorised use of our brand name or to take appropriate steps to enforce our rights on a timely basis. Our trademarks and other intellectual property rights are also critical to our success. We rely on trademark and copyright law as well as agreements with our employees, tenants, business partners and others to protect our intellectual property rights. As at the Latest Practicable Date, we had three trademark registrations and two domain names registered in the PRC. Despite the precautions taken, it may be possible for third parties to obtain and use our intellectual property without authorisation, which may adversely affect our business and reputation. Moreover, litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and a diversion of resources and, consequently, could adversely affect our business and results of operation.

**Failure to retain the services of our key personnel may materially and adversely affect our business and results of operations**

The success of our Group to date has largely been attributable to the contributions, commitment and experience of our management team and key personnel, namely Mr. Pan Haihong, Mr. Zhou Guilin, Mr. Chen Junren and Mr. Xia Xianfa, in particular their familiarity with our business operations and their experience and expertise in the property development and Measuring and Cutting Tools industries in the PRC. For details of our Directors and senior management, please refer to the section headed "Directors, Supervisors and Senior Management" in this prospectus. In the event that we lose our key management personnel without a suitable and timely replacement or those personnel is employed by our competitors, our competitiveness, business performance, results of operations as well as business prospects may be materially and adversely affected.

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In addition, our future growth and ability to implement our business strategies, in particular, our plan to establish the Industrial Park, the operation of which may involve new elements that do not exist in our Trading Centre, will depend on, among other factors, the successful recruitment and retention of additional highly skilled and experienced management and other key personnel. We cannot assure you that we will be able to hire or retain such employees and the failure to do so may materially and adversely affect our business, results of operations and financial condition.

**We may suffer losses caused by natural disasters and accidents and these losses may not be fully covered by insurance**

Our business may be adversely affected due to the occurrence of typhoons, severe storms, earthquakes, floods, wildfires or other natural disasters or similar events in the areas where we operate our Trading Centre. There are other types of losses, such as losses arising from war, nuclear contamination, tsunamis, pollution and acts of terrorism. As at the Latest Practicable Date, we have taken out an insurance with the insured amount of approximately RMB201 million to cover, among others, losses arising from fire, explosion and natural disasters such as lightning strike and landslide against the assets in our Trading Centre. Should an uninsured loss occur, we could lose all or a portion of the capital invested in a property, as well as the anticipated future revenues from the property. Any material uninsured loss could materially and adversely affect our business, financial condition and results of operations.

Moreover, in the course of the construction of the Industrial Park, we cannot guarantee that employees, suppliers and subcontractors involved will implement entirely all safety measures and procedures, and that the construction will be accident-free. Although we will take out insurance policies that we believe will be sufficient for construction works of a similar kind, we cannot assure you that there will not be any occurrence of personal injuries, property damage or fatal accidents that may result in damages or compensation exceeding the insured amount, which may adversely affect the process of construction and our financial position to the extent not covered by insurance.

In addition, we may have to renew our insurance policies in the future periodically and negotiate acceptable terms for coverage, exposing us to the volatility of the insurance markets, including the possibility of rate increases. While we can regularly monitor the status of the insurance market, we cannot anticipate what coverage will be available on commercially reasonable terms in future policy years. Any material increase in insurance rates or decrease in available coverage in the future could adversely affect our results of operations and financial condition.

**We rely on subcontractor(s) to provide certain services to us**

During the Track Record Period, we engaged a subcontractor to provide property management service, including security service, cleaning service, water and electricity repair and maintenance service, to our tenants in our Trading Centre. For the years ended 31 December 2015, 2016, 2017, 2018 and for the four months ended 30 April 2019, our property management



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costs are approximately RMB706,000, RMB1,362,000, RMB1,564,000, RMB1,740,000 and RMB629,000, representing approximately 10.5%, 22.2%, 23.3%, 21.3% and 22.6% of the total cost of sales, respectively. For details of the salient terms of the property management subcontracting agreement between our Company and our subcontractor, please refer to the section headed “Business – Our Supplier – Subcontractor” in this prospectus.

Depending on the business development and our financial performance, we may need to engage additional subcontractor(s) to provide property management services for us (the “**Services**”), especially after the establishment of our Industrial Park. There is no assurance that the Services can meet the standard of our tenants (the “**Tenants’ Standard**”). If the Services cannot meet the Tenants’ Standard, our tenants may deem it as our failure, which may adversely affect our business reputation. Any failure to retain quality subcontractor(s) or obtain replacement with more favourable terms to us or at all may have an adverse effect on our business and results of operations.

### RISKS RELATING TO THE INDUSTRY

**The cyclical nature of the real estate, the manufacturing and the Measuring and Cutting Tools industries and the macro-economic situation in the PRC and worldwide could adversely affect our results of operations**

We are a Measuring and Cutting Tools trading centre operator and our principal activity and source of revenue are primarily derived from property leasing business through our operation of the Trading Centre. A significant portion of our net profits were also attributable to the valuation gains on our investment property during the Track Record Period. As such, our results of operations are and will continue to be affected by the cyclical nature of the real estate industry in the PRC. During the Track Record Period, the value of our investment properties, i.e. the Trading Centre, has been appreciated. We also maintained a steady rental rate for our Trading Centre, details of which are set out in the section headed “Business – Our Business Model – Rental rate” in this prospectus. However, the property value of our Trading Centre and rents we may charge our tenants are affected by, among other factors, supply and demand of comparable properties, interest rates, inflation, the rate of economic growth, tax laws and political and economic developments in the PRC. We cannot assure you the property market in the PRC will continue to grow and at a rate that we expect. If the property value and the rental rate in the PRC decline in general, our property values and rental income may also decline correspondingly.

Since the end-customers of the Measuring and Trading Tools transacted by the tenants of our Trading Centre are mostly downstream manufacturers in the PRC engaging in, among others, the textile industry, paper industry, pharmaceutical industry and automobile industry, our revenue therefore also depends upon the growing demand for the manufacturing industry in the PRC, which is currently supported by favourable government policies such as the Development Plan of Intelligent Manufacturing (2016–2020)\* (智能製造發展規劃(2016–2020)), which aims to expedite the process of intelligent manufacturing, accelerating the upgrade and replacement of outdated manufacturing machine and contributing to a rising demand of Measuring and Cutting

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Tools in China. For further information on how recent market developments have affected the Measuring and Cutting Tools industry during the Track Record Period, please refer to the section headed “Industry Overview – Overview of Measuring and Cutting Tools in China” in this prospectus. If there is a change in the government policy in respect of the development of intelligent manufacturing, the growth of the manufacturing industry in the PRC, as well as the domestic demand for Measuring and Cutting Tools, may be slowed down or retarded, which will adversely affect the trading volume, sales value and demands of our Trading Centre and our Industrial Park to be established.

On the other hand, the PRC has integrated into the world economy and has become an integral part of the global supply chain. There is a tremendous demand for exports of goods manufactured in the PRC. Thus, any occurrence of global economic slowdown or financial crisis may adversely affect the overall economic and market conditions in the PRC. Any downturn of the world economy may lead to an increased market volatility and uncertainty in the PRC, lack of market confidence, weakening economic sentiments and decreasing business spending in the PRC. These economic conditions could adversely affect the disposable income levels of, and the credit available to, the downstream manufacturers in the PRC, especially those involving in the export of goods, as well as the customers of their products, which may include foreign companies. The demands of their products may drop and the manufacturing industry in the PRC may experience a decline in general. In the circumstance, a reduction in the demand for Measuring and Cutting Tools in the PRC would result in a decline of trading activities in our Trading Centre and the Industrial Park that we plan to establish, gradually leading to a decreasing demand of the units in our Trading Centre and our Industrial Park from the suppliers and manufacturers of the Measuring and Cutting Tools industry. As a result, our results of operations, financial condition and business prospect may be materially and adversely affected.

### **We face competition from other industrial tools trading centres, industrial park, industrial clusters and e-commerce operators as well as B2C companies**

We face competition from other trading centres selling industrial tools including Measuring and Cutting Tools in China, particularly in Zhejiang, Jiangsu and Guangdong Provinces. Currently there are four large-scale trading centres in China, with two of them selling not only Measuring and Cutting Tools but also other hardware. In addition, there may be an increase in supply of industrial tools trading centres in Zhejiang Province and elsewhere in China in the future. We may also face competition from other industrial parks operators in the PRC that share the same or similar market positioning with us, or that provide identical or similar services such as key processing service, advanced and integrated technology service, operation of development platform or equipment display centre, etc.. Further, Wenling City, as one of the major domestic industrial agglomeration for Measuring and Cutting Tools, potentially has the following industrial clusters in the PRC as main market competitors: (a) Dongguan Measuring and Cutting Tool Industrial Cluster\* (東莞市工量刀具產業集群), an area in Dongguan which accommodate Measuring and Cutting Tools enterprises that mainly focus on Computer Numeric Control cutting tools\* (數控刀具); (b) Changzhou Measuring and Cutting Tool Industrial Cluster\* (常州市工量刀具產業群), an area in Changzhou which accommodate Measuring and Cutting Tools enterprises that mainly focus on cemented carbide cutting tools\* (硬質合金刀具). Competition between our Trading Centre and these industrial clusters may arise with respect to the trading of the specific type of the Measuring and Cutting Tools that these clusters focus on.

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In addition, we may also face indirect competition from independent shops and manufacturers who directly distribute their products to end-customers. In fact, according to F&S, the total sales revenue of trading Measuring and Cutting Tools by independent shops and direct sales from manufacturers accounted for approximately 61.2% and 20.8% of the total Measuring and Cutting Tools market in the PRC in 2018, respectively. These Manufacturing and Cutting Tools suppliers could have been our potential tenants distributing their products through our Trading Centre, hence their business operating as independent shops and manufacturers directly distributing products to end-customers amounted to an indirect competition to us. Further, due to the rise of e-commerce platforms and rapid development of electronic payment ecosystem in China, competition with e-commerce operators have become increasingly fierce. Over the past few years, the PRC has witnessed rapid development of e-commerce which also penetrates in the Measuring and Cutting Tools market. Comprehensive e-commerce operators such as Alibaba and specific e-commerce operators such as Tools Union have been focusing on the Measuring and Cutting Tools market while Shangwujin focusing on hardware market. These online platforms allow potential buyers to access a large variety of Measuring and Cutting Tools more conveniently, which may be a more attractive option for some of the buyers who could otherwise purchase the products at our Trading Centre. With rapid development of e-commerce, there is a blooming of B2C companies who directly sell their products to the end customers online without any physical trading platforms. This competition may affect our ability to attract and retain tenants and buyers and may reduce the rents or prices we are able to charge. We cannot assure you that we will prevail in competing with other trading centres and industrial park operators. Our inability to compete effectively could adversely affect our business, financial condition and results of operations.

### **Our business, financial condition and results of operations may be materially and adversely affected by international policies and international economic sanctions**

Certain foreign jurisdictions have imposed or may impose economic sanctions in various forms (such as heavy tariffs or harsh trade conditions) against certain countries, individuals and legal entities, which, from time to time, prohibit or restrict export and import activities to a certain extent and result in penalties or fines. For instance, the recent US-China trade war has led to the introductions of tariffs on certain goods trading between the two countries. The products targeted by the additional tariffs are believed to be those which benefit from the PRC's industrial policy and forced technology transfer practices, which include machinery, televisions, medical devices, aircraft parts and batteries. The trade tensions between the two countries have been rising and there is a possibility that the extent and scale of trade restrictions between the two countries will be escalated if the US and China fail to reach any agreement to settle the issue. There is no assurance as to how the US-China trade war may develop or whether there will be any changes to the scope and extent of goods that are or will be subject to such tariffs policies introduced by the two countries. We cannot predict the implications of the ongoing US-China trade war and its impact on our industry and the global economy.

The downstream manufacturers in the PRC, i.e. the end-customers of the Measuring and Cutting Tools products traded in our Trading Centre, include different kinds of manufacturing industries such as textile industry, paper industry, pharmaceutical industry, automobile industry,

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## RISK FACTORS

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etc. We cannot assure that such downstream manufacturers will not engage in export sales of their products into the U.S. and that the export sales of their products into the U.S. will not be subject to the new restrictions to be introduced by US in the future. Further, we have no control over the countries to which such downstream manufacturers will sell and/or export their end products. If the export sales of such downstream manufacturers' end products shall be restricted, prohibited or made subject to any trade conditions under any international policies or international economic sanctions imposed by any jurisdictions, their demand in our tenants' Measuring and Cutting Tools products may drop significantly. They may even relocate their production plants to a country other than China in order to avoid any unfavourable trade restrictions, in which event procurement of Measuring and Cutting Tools for their production will likely take place out of China, which also reduce the demands of products offered by our tenants at our Trading Centre. As a result, the demand for a unit for rent at our Trading Centre from the suppliers of Measuring and Cutting Tools may be diminished correspondingly, and our business, financial condition and results of operations may be materially and adversely affected.

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

#### **Our business operations may be materially and adversely affected by any change in the political, economic and social policies and conditions of Zhejiang Province, the PRC**

Our business and results of operations are subject to the political, economic and social policies and conditions of Zhejiang Province, the PRC, as all of our revenue is derived from our operations in Zhejiang Province, the PRC and our major assets are located in Zhejiang Province, the PRC. Our ability to conduct and expand our business operations in Zhejiang Province, the PRC depends on a number of factors that are beyond our control, including macro-economic and other market conditions and credit availability from lending institutions. In order to control inflation and promote economic growth, the PRC Government has introduced certain macro-economic policies, such as imposing commercial bank lending guidelines, which have the effect of restricting lending to certain industries. Some of these macro-economic policies and lending policies may limit our ability to obtain financing, thus reducing our ability to implement our business strategies. There is no assurance that the Zhejiang Provisional Government and the PRC Government as a whole will not introduce more restrictive or onerous policies in the future. Any change in the political, economic and social policies and conditions of Zhejiang Province, the PRC may bring uncertainty to our business operations and may materially and adversely affect our prospects and results of operations.

While the PRC Government has undergone various economic reforms in the last few decades, many of such reforms are of an experimental nature and are expected to be refined, adjusted and modified from time to time based on economic and social conditions. In addition, the scope, application and interpretation of the laws and regulations relating to such reforms may not be entirely clear. Such refinement, adjustment or modification may impact our business operations in ways that we cannot predict and any uncertainty in the scope, application and interpretation of the relevant laws and regulations may materially and adversely affect our results of operations and financial condition.

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### **The legal system in the PRC is not fully developed and has inherent uncertainties that could limit the legal protections available to our Shareholders**

Our business operations are primarily conducted in the PRC and our Company is governed by the PRC laws, rules and regulations. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court of the PRC, and may not be as comprehensive or developed as that of other jurisdictions. Prior court decisions may be cited for reference but do not have binding precedential effect and have little weight as precedents. Accordingly, the outcome of dispute resolutions may not be consistent or predictable.

Although efforts have been made by the PRC Government to enhance protection of foreign investment in the PRC, the PRC has not yet developed a fully integrated legal system. Newly-enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC and there is much uncertainty in their application, interpretation and enforcement. As a result, we may not be aware of our violations of certain policies or rules in a timely manner.

The legal protection available to us under the PRC laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted, which may result in the diversion of our resources and management attention. In addition, the outcome of dispute resolutions may not be consistent or predictable and it may be difficult to enforce judgments and arbitration awards in the PRC.

In addition, the application, interpretation and enforcement of the PRC laws and regulations may be subject to the political condition and changes in social policies in the PRC. Different regulatory authorities may have different interpretation on certain laws and regulations and may adopt different approach in enforcement. As a result, companies may be required to comply with the requirements or standards set by the relevant authorities from time to time or obtain approvals and complete filings in accordance with the interpretation and enforcement of such laws and regulations by the relevant authorities. Uncertainty in the application, interpretation and enforcement of the PRC laws and regulations may require us to incur additional cost and effort in complying with the requirements or standards imposed by the PRC regulatory authorities, which may materially and adversely affect our business, results of operations and financial condition.

### **The PRC Government's control of foreign currency conversion may limit our foreign exchange transactions, including payment of dividends to holders of our H Shares**

Substantially all of our revenue is denominated in Renminbi. Since Renminbi is not a freely convertible currency, a portion of our cash may be required to be converted into other currencies in order to meet our foreign currency needs, including payment of dividends to holders of our H Shares. The PRC Government has imposed controls on the conversion between Renminbi and foreign currencies and, in certain cases, the remittance of foreign currencies into and out of the PRC.

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## RISK FACTORS

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Pursuant to the existing the PRC foreign exchange regulations, payments of current account items, such as dividend distributions and interest payments, can be made in foreign currencies without prior approval from the SAFE, but subject to certain procedural requirements. However, approval from or registration with the SAFE is required where Renminbi is to be converted into other foreign currencies and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. We cannot assure you that the PRC regulatory authorities will not impose restrictions on foreign exchange transactions for current account items in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our currency demands, we may not be able to pay dividends to holders of our H Shares in foreign currencies. Any shortage in the availability of foreign currencies may also restrict our ability to purchase or obtain goods and services in countries outside of the PRC, impair our business activities that are conducted in foreign currencies, or limit our ability to remit sufficient foreign currencies to make other payments or otherwise satisfy our obligations that are required to be settled in foreign currencies.

Furthermore, the net proceeds from the Global Offering are expected to be deposited in currencies other than Renminbi until we convert these proceeds into onshore Renminbi. If the net proceeds cannot be converted into onshore Renminbi in a timely manner, our ability to deploy these proceeds efficiently may be affected, which may adversely affect our business, results of operations and financial condition.

### **Fluctuations in exchange rates and the value of Renminbi may have a material adverse effect on our results of operations and financial condition**

Since substantially all of our revenues are denominated in Renminbi, we will need to convert some of our cash into foreign currencies in order to pay dividends to holders of our H Shares. The value of Renminbi against foreign currencies fluctuates, and is subject to changes resulting from the PRC Government's policies, domestic and international economic and political developments as well as supply and demand in the monetary market. Since July 2005, the PRC Government has adopted a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and with reference to a basket of currencies. In April 2012, the PBOC enlarged the floating band for the trading price of Renminbi against U.S. dollars on the interbank spot exchange market to 1.00% around the central parity rate. In March 2014, the PBOC further enlarged the floating band for the trading price of Renminbi against U.S. dollars on the interbank spot exchange market to 2.00% around the central parity rate. There remains significant international pressure on the PRC Government to adopt more flexible currency policies. In the event of significant change in the exchange rates of Hong Kong dollars and U.S. dollars against Renminbi, our ability to pay dividends in foreign currencies may be materially and adversely affected.

In addition, since dividends in respect of our H Shares will be declared in Renminbi and paid in Hong Kong dollars, holders of our H Shares in countries other than the PRC are subject to risks arising from adverse fluctuations in the value of Renminbi against Hong Kong dollars, which may reduce the value of any dividends to be paid in respect of our H Shares. Furthermore, following completion of the Global Offering, our exposure to risks associated with foreign



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## RISK FACTORS

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currency fluctuations may further increase as the net proceeds from the Global Offering are expected to be denominated in currencies other than Renminbi. We cannot predict how the exchange rate of Renminbi against other currencies will fluctuate in the future. Any such fluctuation may have a material and adverse effect on our business, results of operations and financial condition.

### **Our results of operations may be materially and adversely affected by tax reforms in the PRC**

On 23 March 2016, the Ministry of Finance of the PRC and the SAT jointly released 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), whereby business tax in certain industry sectors will be replaced by value-added tax with effect from 1 May 2016. In particular, value-added tax at a rate of 5% is imposed on the property leasing industry in the PRC. Please refer to the section headed “Appendix IV – Summary of Principal Legal and Regulatory Provisions” of this prospectus for further details.

There is also no assurance that the PRC government authorities will not impose a higher tax rate on the property leasing industry in the PRC in the future. Any tax reform introduced by the government authorities in the PRC may increase our tax burden and have a material adverse impact on our financial condition and results of operations.

### **It may be difficult to effect service of process in relation to disputes brought in courts outside the PRC on, or to enforce judgments obtained from non-PRC courts against, us or our management who reside in the PRC**

Most of our management reside in the PRC and our major assets and a significant portion of the assets of most of our management are located in the PRC. There is no assurance that you will be able to effect service of process in connection with disputes brought in courts outside the PRC on, or to enforce judgments obtained from non-PRC courts against, us or our management who reside in the PRC.

Furthermore, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments awarded by courts in certain foreign countries. Even though the PRC has entered into either a treaty relating to judicial enforcement with the relevant foreign country or a relevant international convention, a foreign judgment or ruling may not be recognised and enforced in the PRC if the people’s court considers that the recognition or enforcement of such judgment or ruling would violate the basic legal principles of the PRC, its sovereignty or national security, or would not be in the public interest. It may therefore be difficult or even impossible to enforce against us or our management who reside in the PRC certain judgment obtained from non-PRC courts.

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## **RISK FACTORS**

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### **Payment of dividends is subject to restrictions under the PRC laws and regulations**

According to the relevant the PRC laws and regulations, our Company can only pay dividends out of our distributable profits. Distributable profits are our after-tax profits as calculated according to the PRC GAAP or HKFRSs, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. The declaration of dividends is proposed by our Board and subject to our Shareholders' approval. We cannot guarantee whether, when and in what form we will pay dividends in the future. We may not have sufficient or any distributable profits to make dividend distributions to our Shareholders, even if our financial statements may indicate that our business is profitable. Our ability to pay dividends may also be restricted due to the existence of restrictive covenants in banking facilities or other agreements that we may enter into in the future. In addition, dividends paid in the past may not be indicative of our dividend policy in the future.

### **You may be subject to the PRC taxation for dividends received and gains realised in connection with our H Shares**

Under the PRC tax laws, rules and regulations, non-PRC resident individuals and non-PRC resident enterprises are generally subject to the PRC income tax obligations on dividends paid to them by us at the rate of 20% and 10%, respectively. We would be required to withhold such tax from our dividend payments to them, subject to any reduction or exemption under any tax treaties between the PRC and the jurisdictions of such non-PRC resident individuals or non-PRC resident enterprises. Similarly, holders of our H Shares who are non-PRC resident individuals or non-PRC resident enterprises would be required to pay the PRC income tax on gains from the dispositions of our H Shares at the rate of 20% or 10%, respectively, subject to any reduction or exemption under any tax treaties between the PRC and the jurisdictions of such non-PRC resident individuals or non-PRC resident enterprises.

Despite the arrangements mentioned above, the PRC tax laws and rules may change, including the relevant preferential tax treatment being revoked in the future such that all non-PRC resident individual holders of our H Shares will be subject to EIT at a flat rate of 20%. In addition, there are significant uncertainties as to the interpretation and application of applicable the PRC tax laws and rules, including the taxation of capital gains by non-PRC resident enterprises, EIT on dividends to non-PRC resident individual holders of our H Shares and on gains realised on the sale or other disposition of our H Shares. If there is any change to applicable tax laws and rules and interpretation or application in respect of such laws and rules, the value of your investment in our H Shares may be materially affected.

### **Inflation in the PRC could negatively affect our profitability and growth**

Economic growth in the PRC has been accompanied by periods of high inflation in the past, and the PRC Government has implemented various policies from time to time to control inflation, including imposing various corrective measures designed to restrict the availability of credit or regulate growth. For example, inflation rate in the PRC increased rapidly in 2010 and 2011 and the PRC Government introduced a number of monetary tightening measures to curb the



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overheated real estate markets and increasing inflation in the PRC. High inflation in the future may cause the PRC Government to once again impose controls on credit and/or price of commodities, or to take other actions, which may bring a negative impact on our business.

**We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to the PRC, the PRC economy and our relevant industries contained in this prospectus**

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

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

**There has been no prior market for our H Shares, and their liquidity and market price following the Global Offering may be volatile**

Prior to the Global Offering, there has been no public market for our H Shares. The initial Offer Price range for our H Shares was the result of negotiations among us and the Joint Bookrunners (on behalf of the Underwriters), and the Offer Price may differ significantly from the market price of our H Shares following the Global Offering. In addition, there can be no guarantee that: (i) an active trading market for our H Shares will develop; or (ii) if such a trading market does develop, it will be sustained following the completion of the Global Offering; or (iii) the market price of our H Shares will not decline below the Offer Price. Factors such as variations in our revenue, earnings and cash flows or any other developments of our Company may affect the volume and price at which our H Shares will be traded.

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## RISK FACTORS

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**Our Controlling Shareholders have substantial influence over us and their interests may not be aligned with the interests of our other Shareholders**

Immediately after the Global Offering, our Controlling Shareholders will directly and indirectly own an aggregate of 72.75% of our Shares, if the Over-allotment Option is not exercised, or 70.12% of our Shares, if the Over-allotment Option is exercised in full. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matter submitted to our Shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership, as a result, may discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for their Shares in a sale of our Company or may reduce the market price of our Shares. In addition, to the extent the interests of our Controlling Shareholders conflict with the interests of other Shareholders, the interests of other Shareholders may be disadvantaged or harmed.

**Investors should not place reliance on any information released by us other than this prospectus, or any information contained in press or other media in making your investment decisions**

There has been and will be coverage in the media regarding the Global Offering and our operations. We do not accept any responsibility for the accuracy or completeness of such media coverage and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim any information in the media to the extent that such information is inconsistent or conflicts with the information contained in this prospectus. Accordingly, prospective investors should not rely on any of the information in press or other media coverage in making investment decisions as to whether to purchase our H Shares.

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

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

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## RISK FACTORS

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### **Future sales, or market perception of sales, of a substantial number of our H Shares in the public market could cause the market prices of our H Shares to fall**

The market price of our H Shares could decline as a result of future sales of a substantial number of our H Shares or other securities relating to our H Shares in the public market, or the issuance of new H Shares or other securities relating to our H Shares, or the perception that such sales or issuances may occur. Moreover, future sales, or perceived sales, of substantial amounts of our H Shares or other securities relating to our H Shares, including as part of any future offerings, could materially and adversely affect the prevailing market price of our H Shares and our ability to raise future capital at a favourable time and price.

### **We have discretion as to how we will use the net proceeds of the Global Offering**

Our management may spend the net proceeds from the Global Offering in ways that do not yield a favourable return. We plan to use the net proceeds from the Global Offering: (i) to finance partly the costs and expenses for establishment and construction of the Industrial Park to expand our Measuring and Cutting Tools industry coverage; (ii) finance the further development of the Third Floor; (iii) for partial repayment of the loan to be obtained to acquire the Land; and (iv) to be general working capital and other general corporate purposes. For details of our intended use of proceeds, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus. However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from this Global Offering.

### **If securities or industry analysts do not publish research reports about our business, or if they adversely change their recommendations regarding our H Shares, the market price and trading volume of our H Shares may decline**

The trading market for our H Shares will be influenced by research reports that industry or securities analysts publish about us or our business. If one or more analysts who cover us downgrade our H Shares or publish negative opinions about us, the market price of our H Shares may decline regardless of the accuracy of the information. If one or more of these analysts cease coverage of us or fail to regularly publish reports on us, we may lose visibility in the financial markets, which, in turn, may cause the market price or trading volume of our H Shares to decline.

### **Potential investors may experience immediate and substantial dilution as a result of the Global Offering and could face dilution as a result of future equity financings**

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

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

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

This prospectus contains certain forward-looking statements and information relating to us that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words “aim,” “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “going forward,” “intend,” “ought to,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “will,” “would” and the negative of these words and other and similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Investors should not place undue reliance on such forward-looking statements and information.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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

### MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules provides that an applicant applying for a listing on the Stock Exchange must have sufficient management presence in Hong Kong, and this normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong. Pursuant to Rule 19A.15 of the Listing Rules, the requirement of sufficient management presence in Hong Kong set out in Rule 8.12 of the Listing Rules is also applicable to issuers incorporated in the PRC, but may be waived by the Stock Exchange at its discretion. In exercising such discretion, the Stock Exchange will have regard to, among other conditions, the applicant's arrangement for maintaining regular communications with the Stock Exchange. Our operations are based in the PRC and our Group's headquarters situate in and substantially all of our executive Directors currently reside in the PRC. We do not, and in the foreseeable future will not, have sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rules 8.12 and 19A.15 of the Listing Rules. As a result, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Listing Rules, on the following conditions to ensure that regular and effective communication is maintained between the Stock Exchange and us:

- (a) *Authorised representatives:* We have appointed Mr. Pan Haihong, our executive Director and chief executive officer and Mr. Xu Yi, one of our joint company secretaries, as our authorised representatives (the “**Authorised Representatives**”) for the purpose of Rule 3.05 of the Listing Rules. They will act as our principal channel of communication with the Stock Exchange and will ensure that our Group complies with the Listing Rules at all times. Although Mr. Pan and Mr. Xu reside in the PRC, each of them possesses valid travel documents to visit Hong Kong. The Authorised Representatives will be available to meet with the Stock Exchange within a reasonable time period the request of the Stock Exchange and will be readily contactable by phone and email.
- (b) *Directors:* When the Stock Exchange wishes to contact our Directors on any matter, each of the Authorised Representatives has the necessary means to contact all the members of our Board (including our independent non-executive Directors) and of our senior management team promptly at all times. We will implement the following measures: (i) each Director must provide his/her mobile phone number, office phone number and email address to the Authorised Representatives and the Stock Exchange; (ii) in the event that a Director expects to travel and/or otherwise be out of office, he/she will provide the phone number of the place of his/her accommodation to the Authorised Representatives. In addition, all of our Directors who are not ordinary resident in Hong Kong have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and would be able to meet with the Stock Exchange within a reasonable period of time, if required.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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We have provided the mobile phone number, office phone number and email address of each of our Directors to the Stock Exchange.

- (c) *Compliance adviser:* We have appointed Cinda International Capital Limited as our compliance adviser (the “**Compliance Adviser**”) in compliance with Rule 3A.19 of the Listing Rules, who will act as our additional channel of communication with the Stock Exchange during the period from the Listing Date to the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date. The Compliance Adviser will have access at all times to the Authorised Representatives, our Directors and other members of the senior management of our Company, and will act as our alternative channel of communication with the Stock Exchange when the Authorised Representatives are not available. We will ensure that there are adequate and efficient means of communication among ourselves, the Authorised Representatives, Directors, other officers and the Compliance Adviser.
- (d) *Meetings with the Stock Exchange:* Meeting between the Stock Exchange and our Directors can be arranged through the Authorised Representatives or the Compliance Adviser, or directly with our Directors within a reasonable period. We will inform the Stock Exchange promptly in respect of any change in the Authorised Representatives and Compliance Adviser.

### APPOINTMENT OF JOINT COMPANY SECRETARIES

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

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

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

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

- (a) length of employment with the issuer and other issuers and the roles he played;

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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- (b) familiarity with the Listing Rules and other relevant law and regulations including the SFO, Companies Ordinance, Companies (WUMP) Ordinance and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

We have appointed Mr. Xu Yi to act as one of our joint company secretaries. He joined our Company in September 2016 and is the Group's personnel of information disclosure having a thorough understanding of the operation of the Board and our Company. For details of Mr. Xu, please see the section headed "Directors, Supervisors and Senior Management – Senior Management" of this prospectus. Mr. Xu, however, does not possess the specified qualifications required by Rule 3.28 of the Listing Rules. Given the important role of the company secretary in the corporate governance of a listed issuer, particularly in assisting the listed issuer as well as its directors in complying with the Listing Rules and other relevant law and regulations, we have made the following arrangements:

- (a) we have appointed Ms. Fok Po Yi, who possesses the requisite academic and professional qualifications and relevant experience as required under Rule 3.28 of the Listing Rules, as a joint company secretary to work closely with and to provide assistance to Mr. Xu in the discharge of his duties as a company secretary for an initial period of three years commencing on the Listing Date so as to communicate regularly with Mr. Xu on matters relating to the Listing Rules as well as other applicable laws and regulations, to inform Mr. Xu on a timely basis of any amendment to the Listing Rules and any new or amended laws, regulations and codes that are applicable to our Company and to enable Mr. Xu to acquire the relevant experience (as required under Note 2 to Rule 3.28 of the Listing Rules) to discharge the duties and responsibilities as company secretary;
- (b) our Hong Kong legal advisers have provided training on the Listing Rules and other applicable law and regulations to Mr. Xu. We will further ensure that Mr. Xu has access to the relevant training and support to enable him to familiarise himself with the Listing Rules and other relevant law and regulations, as well as the duties required of a company secretary of an issuer listed on the Stock Exchange. Moreover, both Mr. Xu and Ms. Fok will complete the professional training requirements set out under Rule 3.29 of the Listing Rules;
- (c) we have appointed Cinda International Capital Limited as the Compliance Adviser to assist Mr. Xu in relation to corporate governance practices and ongoing compliance with the Listing Rules and the applicable laws and regulations; and

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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- (d) before the expiry of the three-year period, the qualifications and experience of Mr. Xu will be re-evaluated. Mr. Xu is expected to demonstrate to the Stock Exchange's satisfaction that he, having had the benefit of Ms. Fok's assistance for three years, would then have acquired the "relevant experience" within the meaning of Note 2 to Rule 3.28 of the Listing Rules.

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



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

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

### **CSRC APPROVAL**

We have obtained approvals of the CSRC for the Global Offering and the making of the application to list our H Shares on the Stock Exchange on 7 November 2018. In granting such approval, the CSRC does not accept any responsibility for our financial soundness or for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

### **THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS**

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in it is correct as at any subsequent time.

### **UNDERWRITING**

For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set forth the terms and conditions of the Hong Kong Public Offering. The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to agreement on the Offer Price between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters). The International Placing is expected to be underwritten by the International Underwriters. The Global Offering is coordinated by the Sole Global Coordinator.

For further information about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

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

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### **DETERMINATION OF THE OFFER PRICE**

The Offer Shares are being offered at the Offer Price which will be determined by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us on or around Wednesday, 30 October 2019, and in any event no later than Monday, 4 November 2019.

If, for any reason, the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us are unable to reach an agreement on the Offer Price on or before Monday, 4 November 2019, or such later date or time as may be agreed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us, the Global Offering will not become unconditional and will lapse.

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

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

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offer and sale 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 OF OUR H SHARES ON THE STOCK EXCHANGE**

Our Company has applied to the Listing Committee for the granting of the listing of, and permission to deal in, our H Shares in issue and to be issued pursuant to the Global Offering (including the additional H Shares which may be issued pursuant to the exercise of the Over-allotment 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 proposed to be sought in the near future.

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

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### **REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES**

We have instructed the H Share Registrar, and the H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless the holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (a) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;
- (b) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers, agree with each Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;
- (c) agrees with us and each of our Shareholders that our H Shares are freely transferable by the holders of our H Shares; and
- (d) authorises us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

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

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, Joint Bookrunners and Joint Lead Managers, the Underwriters, or any of their respective directors, agents, employees, affiliates or advisors or any other party involved in the Global Offering. For further details of the structure of the Global Offering, including its conditions, and the procedures for applying for Hong Kong Offer Shares, please refer to the sections headed “Structure and Conditions of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this prospectus and the relevant Application Forms.

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

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### **H SHARE REGISTRAR AND STAMP DUTY**

All of our H Shares issued pursuant to applications made in the Global Offering will be registered on our H Share register of members to be maintained in Hong Kong by our H Share Registrar. Our principal register of members will be maintained by us at our head office in China. Dealings in our H Shares registered in our H Share register of members will be subject to the Hong Kong stamp duty.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of listing of, and permission to deal in, our H Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, our H 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 HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for our Shares to be admitted into CCASS.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding and dealing in our H Shares. None of our Company, the Sole Sponsor, the Sole Global Coordinator, Joint Bookrunners and Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchasing, holding, disposing of, or dealing in our H Shares or the exercise of any rights attaching to our H Shares.

### **PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES**

The procedure for applying for Hong Kong Offer Shares is set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

### **STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

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

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### OVER-ALLOTMENT OPTION AND STABILISATION

Details of the arrangements relating to the Over-allotment Option and the related stabilisation exercise are set out in the section headed “Structure and Conditions of the Global Offering” in this prospectus.

### LANGUAGE

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

### ROUNDING

In this prospectus, where information is presented in hundreds, thousands, ten thousands, millions, hundred millions or billions, certain amounts of less than one hundred, one thousand, ten thousand, one million, a hundred million or a billion, as the case may be, have been rounded to the nearest hundred, thousand, ten thousand, million, hundred million or billion, respectively. Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

### EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars at specified rates. No representation is made that the Renminbi amounts could actually be converted into any Hong Kong dollar amounts at the rates indicated or at all. Unless we indicate otherwise, the translation of Renminbi into Hong Kong dollars was made at the rate of RMB1.00 to HK\$1.109, the exchange rate prevailing on the Latest Practicable Date, set by the PBOC for foreign exchange transactions.

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**DIRECTORS**

<b>Name</b>	<b>Residential address</b>	<b>Nationality</b>
<i>Executive Directors</i>		
Mr. PAN Haihong (潘海鴻)	No. 19 5 Road Xinfu New Village, Zeguo Town Wenling City, Zhejiang Province PRC	Chinese
Mr. ZHOU Guilin (周桂林)	Lingxi Zhou Village Wenqiao Town Wenling City, Zhejiang Province PRC	Chinese
<i>Non-executive Directors</i>		
Mr. HUANG Qun (黃群)	Room 1206 Guangli Building Wenling City, Zhejiang Province PRC	Chinese
Mr. WANG Wenming (王文明)	No. 3 Gaoqiu Maoyang Village, Wenqiao Town Wenling City, Zhejiang Province PRC	Chinese
Mr. CHENG Jinyun (程錦雲)	No. 163 Xida Street Wenqiao Town Wenling City, Zhejiang Province PRC	Chinese
Mr. YE Yunzhi (葉雲志)	No. 118 Longming South Road Wenqiao Town Wenling City, Zhejiang Province PRC	Chinese

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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<b>Name</b>	<b>Residential address</b>	<b>Nationality</b>
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***Independent non-executive Directors***

Mr. Xu Wei (許偉)	Room 603, Block 1 Qiushui Yuan Jinyuan Unit Taiping Avenue Wenling City, Zhejiang Province PRC	Chinese
Mr. JIN Hongqing (金洪青)	No. 1 West Xida Street Wenqiao Town Wenling City, Zhejiang Province PRC	Chinese
Mr. TSOI Ka Shing (蔡嘉誠)	1/F No. 51 Sheung Wo Che Shatin New Territories Hong Kong	Chinese

**SUPERVISORS**

<b>Name</b>	<b>Residential address</b>	<b>Nationality</b>
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Ms. XIE Yanli (謝豔麗)	Room 301, Block 22 Chunshui Yuan Jinyuan Unit Taiping Avenue Wenling City, Zhejiang Province PRC	Chinese
Ms. YANG Mengjie (楊夢潔)	Room 301, Block 2 Henghuli Yuan Chengdong Street Wenling City Taizhou, Zhejiang Province PRC	Chinese
Mr. XIE Huihui (謝輝輝)	No. 12, Block 6 Bao Jing Road, Wenqiao Town Wenling City, Zhejiang Province PRC	Chinese

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## DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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For further information on the profile and background of our Directors and Supervisors, please refer to the section headed “Directors, Supervisors and Senior Management” in this prospectus.

### PARTIES INVOLVED IN THE GLOBAL OFFERING

**Sole Sponsor, Sole Global**

**Coordinator, Joint Bookrunner and  
Joint Lead Manager**

**Cinda International Capital Limited**

*A corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO*

45/F, Cosco Tower  
183 Queen’s Road Central  
Hong Kong

**Joint Bookrunner and Joint Lead  
Manager**

**ChaoShang Securities Limited**

*A corporation licensed to carry out type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities under the SFO*

Rooms 2206–10, 22/F  
China Resources Building  
26 Harbour Road, Wan Chai  
Hong Kong

**Co-lead Managers**

**Head & Shoulders Securities Limited**

*A corporation licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities under the SFO*

Rooms 2511, 25/F, Cosco Tower  
183 Queen’s Road Central  
Hong Kong

**Paragon Securities Limited**

*A corporation licensed to carry out type 1 (dealing in securities) regulated activities under the SFO*

Unit No.7, 11/F  
Commercial Emperor Group Centre  
No.288 Hennessy Road  
Hong Kong



**Solomon JFZ (Asia) Holdings Limited**

*A corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO*

19A, 19/F, Eton Building  
288 Des Voeux Road Central  
Central, Hong Kong

**China Galaxy International Securities (Hong Kong) Co., Limited**

*A corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO*

20/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

**I Win Securities Limited**

*A corporation licensed to carry out type 1 (dealing in securities) regulated activities under the SFO*

Room 1916, Hong Kong Plaza  
188 Connaught Road West  
Sai Wan, Hong Kong

**Legal advisers to our Company**

*As to Hong Kong Laws*

**Stevenson, Wong & Co.**

**in association with AllBright Law Offices**

39/F, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

*As to the PRC Laws*

**AllBright Law Offices**

9/F, 11/F–12/F, Shanghai Tower  
No. 501 Yincheng Middle Road  
Pudong New Area  
Shanghai  
PRC

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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

*As to Hong Kong Laws*  
**Chungs Lawyers**  
28/F, Henley Building  
5 Queen's Road Central  
Hong Kong

*As to the PRC Laws*  
**Jingtian & Gongcheng**  
Suite 45/F, K.Wah Centre  
1010 Huaihai Road(M)  
Xuhui District  
Shanghai 200031  
China

**Auditors and reporting accountants**

**KPMG**  
*Certified Public Accountants*  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

**Compliance adviser**

**Cinda International Capital Limited**  
45/F, Cosco Tower  
183 Queen's Road Central  
Hong Kong

**Property valuer**

**Colliers International (Hong Kong) Limited**  
5701, Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong

**Industry consultant**

**Frost & Sullivan (Beijing) Inc., Shanghai  
Branch Co.**  
1018, Tower B  
500 Yunjin Road  
Shanghai 200232  
China

**Receiving bank**

**Industrial and Commercial  
Bank of China (Asia)  
Limited**  
33/F, ICBC Tower,  
3 Garden Road  
Central  
Hong Kong

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## CORPORATE INFORMATION

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**Registered office and headquarters  
in the PRC**

Qianyangxia Village  
Wenqiao Town  
Wenling City  
Zhejiang Province  
PRC

**Principal place of business  
in Hong Kong**

40/F, Sunlight Tower  
No. 248 Queen's Road East  
Wanchai  
Hong Kong

**Joint company secretaries**

**Mr. Xu Yi (徐亦)**  
Room 1004, Unit 2  
Block 3, East District  
Jiayuan Community  
Wenling City  
Zhejiang Province  
PRC

**Ms. Fok Po Yi (霍寶兒) (HKICPA)**  
40/F, Sunlight Tower  
No. 248 Queen's Road East  
Wanchai  
Hong Kong

**Authorised representatives**

**Mr. Pan Haihong (潘海鴻)**  
No. 19, 5 Road  
Xinfu New Village, Zeguo Town  
Wenling City, Zhejiang Province  
PRC

**Mr. Xu Yi (徐亦)**  
Room 1004, Unit 2  
Block 3, East District  
Jiayuan Community  
Wenling City  
Zhejiang Province  
PRC

**Alternate to authorised representative  
Mr. Pan Haihong (潘海鴻)**

**Ms. Fok Po Yi (霍寶兒)**  
40/F, Sunlight Tower  
No. 248 Queen's Road East  
Wanchai  
Hong Kong

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## CORPORATE INFORMATION

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<b>Audit committee</b>	Mr. Tsoi Ka Shing (蔡嘉誠) ( <i>Chairman</i> ) Mr. Huang Qun (黃群) Mr. Xu Wei (許偉)
<b>Remuneration committee</b>	Mr. Jin Hongqing (金洪青) ( <i>Chairman</i> ) Mr. Tsoi Ka Shing (蔡嘉誠) Mr. Pan Haihong (潘海鴻)
<b>Nomination committee</b>	Mr. Huang Qun (黃群) ( <i>Chairman</i> ) Mr. Xu Wei (許偉) Mr. Jin Hongqing (金洪青)
<b>H Share Registrar and Transfer Office</b>	<b>Tricor Investor Services Limited</b> Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal bankers</b>	<b>China Construction Bank Corporation</b> <b>Wenling Wenqiao Sub-branch</b> Mo. 189 Middle Street Wenqiao Tower Wenling City, Zhejiang Province PRC  <b>Industrial Bank Co., Ltd. Taizhou</b> <b>Wenling Sub-branch</b> 1/F, Jianlian Building No. 820 Wanchang Middle Road Wenling City, Zhejiang Province PRC
<b>Company's website</b>	<b><a href="http://cnlj.com">http://cnlj.com</a></b> <i>(the information contained on this website does not form part of this prospectus)</i>

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## INDUSTRY OVERVIEW

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*The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the market research report prepared by F&S, which was commissioned by us. We believe that the information has been derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading in any material respect. The information has not been independently verified by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or any of our or their respective directors, officers or representatives or any other person involved in the Global Offering nor is any representation given as to its accuracy or completeness.*

### SOURCE OF INFORMATION

We have commissioned F&S, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on the China measuring and cutting tools market. The report prepared by F&S for us is referred to in this prospectus as the F&S Report. We agreed to pay F&S a fee of RMB480,000 which we believe reflects market rates for reports of this type.

Founded in 1961, F&S has 40 offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists globally. F&S's services include technology research, independent market research, economic research, corporate best practices advising, training, client research, competitive intelligence and corporate strategy.

We have included certain information from the F&S Report in this prospectus because we believe this information facilitates an understanding of the China measuring and cutting tools market for the prospective investors. The F&S Report includes information on the China measuring and cutting tools market as well as other economic data, which have been quoted in the prospectus. F&S's independent research consists of both primary and secondary research obtained from various sources in respect of the China measuring and cutting tools market. Primary research involved in-depth interviews 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. Projected data were obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the F&S Report, various official government publications and other publications.

In compiling and preparing the research, F&S assumed that the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period, which ensures the stable and healthy development of the China measuring and cutting tools market.

### INTRODUCTION OF MEASURING AND CUTTING TOOLS IN CHINA

#### **Definition**

Measuring and Cutting Tools refer to those tools or products which are used in the machine manufacturing process for measuring and cutting or as auxiliaries for measuring and cutting. They mainly include measuring tools, cutting tools, and other tools. For the purpose of improving production efficiency and reducing the probability of systematic error, high-quality measuring and cutting functioning are important for manufacturing process.

#### **Classification of Measuring and Cutting Tools**

##### ***Measuring Tools***

Measuring is the activity of obtaining and comparing with standard quantities. Measuring tools are used to measure the size, angle, thickness, radian, area or shape of machine parts. Measuring tools include measuring calliper, measuring gauge and measuring scale. It's important to note that all measuring tools are subject to various degree of systematic error and measuring uncertainty. The higher quality of measuring tools, the lower systematic error and measuring uncertainty.

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## INDUSTRY OVERVIEW

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### *Cutting Tools*

Cutting tools refer to the tools that are used to incise and process. Cutting tools include milling cutter, reamer and wheel gear. With the development of the modern mechanical engineering, the requirements for the quality and precision of cutting process are continuously improved.

### *Other Tools*

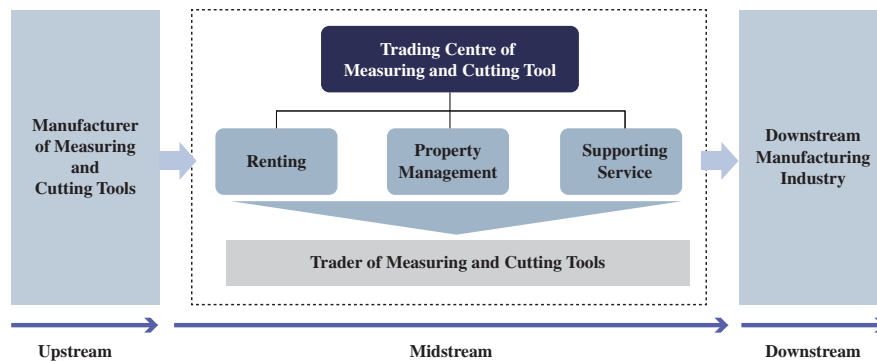
Other tools refer to the appliances that are used as auxiliaries for measuring and cutting in manufacturing. Other Tools include numerical control tools, drill tools and other accessory tools.

### **Value Chain of Measuring and Cutting Tools**

The upstream of measuring and cutting tools industry refers to manufacturers which provide measuring and cutting tools to traders of trading centre. The technology level, quality and price of products will have an influence on popularity of trading centre.

The midstream of measuring and cutting tools industry consists of traders of measuring and cutting tools and trading centres. The services of measuring and cutting tools trading centre mainly include shop renting, property management and other supporting service such as online shop service, information channel such as exhibition and enterprise information brochures or price index which is widely used and recognised. With the rapid development of e-commerce in recent years, a lot of merchants set up their online shops. However, the role of trading centres is so irreplaceable that it provides offline and online expo for measuring and cutting tool products to increase their popularity and broaden the market.

The downstream of measuring and cutting tools industry includes different kinds of manufacturing industries such as textile industry, paper industry, pharmaceutical industry, automobile industry, etc. The development of the downstream industries will directly impact the measuring and cutting tools manufacturing and trading centre market.



Source: F&S

### **The Position of Measuring and Cutting Tools Manufacturing and Trading Centre Market in National Economy**

Manufacturing plays an essential role in China's economic system. It is considered as the pillar industry and builds up the material basis for the whole society. China's government released the "China Manufacturing 2025", which emphasised the significance of manufacturing industry in China's economy and the goal to develop China into a powerful manufacturing country. High quality measuring and cutting tools can largely increase the production efficiency in manufacturing industry. High-performance and high-precision measuring and cutting tools have already become the key factors to increase the technology level in manufacturing. With the further development of high-end equipment manufacturing and information technology, the demands for high-quality measuring and cutting tools will keep growing, which may exert greater influence on China's economy.

There are more than 10,000 types of measuring and cutting tools products in the market. Generally, the purchasers need to buy varieties of products in the same time. As a concentrated

## INDUSTRY OVERVIEW

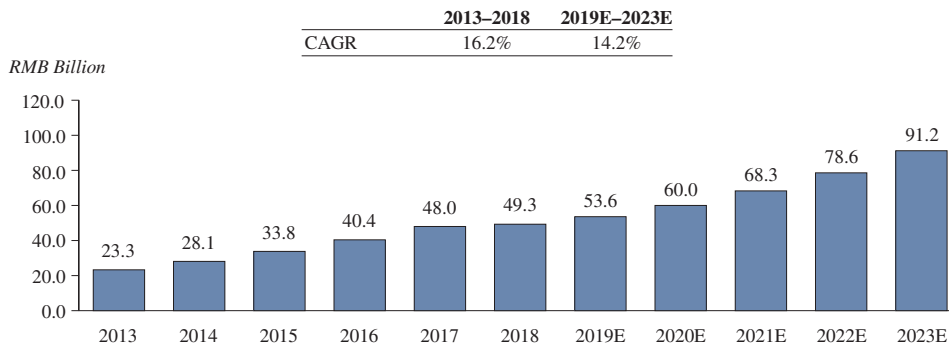
market, manufacturing and cutting tools trading centres which meet purchasers' demand, are indispensable to the whole manufacturing market. To enhance the purchasing and manufacturing efficiency, the purchasers prefer to buy measuring and cutting tools in trading centres, rather than in individual shops.

### OVERVIEW OF MEASURING AND CUTTING TOOLS IN CHINA

#### Market Size by Sales Revenue of Trading Measuring and Cutting Tools

In the PRC, there are a number of different industry sectors which have trading centres for their industry specifically. Measuring and Cutting Tools trading centres only represent a fraction of the entire trading centre market in the PRC. The sustained growth of macro economy and continuous demands from manufacturing industry stimulated the growth of Measuring and Cutting Tools market in China. The total sales revenue of trading Measuring and Cutting Tools by the tenants in the trading centres, independent shops and direct sales from manufacturers, rose from RMB23.3 billion in 2013 to RMB49.3 billion in 2018, representing a CAGR of 16.2%. Due to the economic cycle issues, the growth rate of the such sales revenue slowed down in 2018. However, considering the increasing investment on fixed assets, additional demand brought by the implementation of upgrading of machine tools and the steadily increasing price of Measuring and Cutting Tools, the total Measuring and Cutting Tools market is anticipated to witness a further expansion. It is estimated that the total sales revenue of trading the Measuring and Cutting Tools will reach RMB91.2 billion in 2023, with a CAGR of 14.2% during the period from 2019 to 2023.

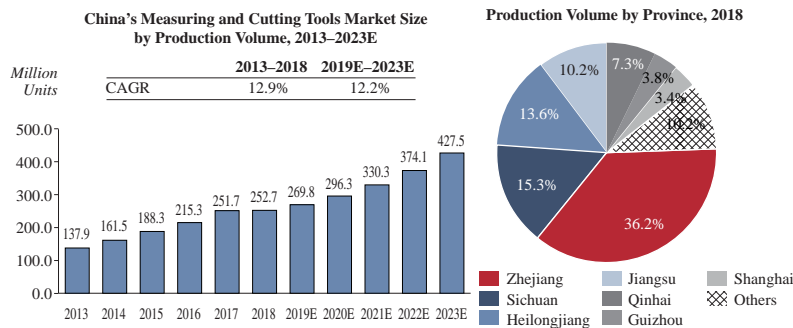
China's Measuring and Cutting Tools Market Size by Sales Revenue, 2013–2023E



Source: F&S

#### Market Size by Production Volume

Driven by the increasing needs from machine tools industry and growing demand for export, the total production volume of Measuring and Cutting Tools rose from 137.9 million units in 2013 to 252.7 million units in 2018, representing a CAGR of 12.9%. Due to the economic cycle issues, the growth rate of the Measuring and Cutting Tools production volume slowed down in 2018. However, considering the increasing investment on fixed assets and additional demand brought by the implementation of upgrading of machine tools, it is estimated that the total Measuring and Cutting Tools production volume will further expand to 427.5 million units in 2023, with a CAGR of 12.2% during the period from 2019 to 2023. Zhejiang is the province with the largest production volume in PRC in 2018 accounting for 36.2% of the total production volume in 2018.

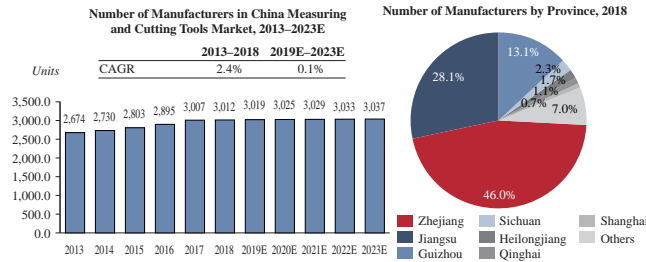


Source: F&S

# INDUSTRY OVERVIEW

## Number of Manufacturers

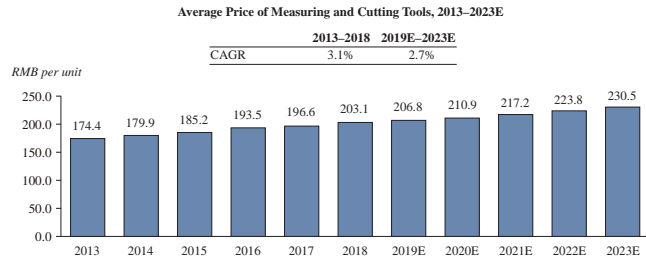
The number of manufacturers in Measuring and Cutting Tools market rose from 2,674 in 2013 to 3,012 in 2018, representing a CAGR of 2.4%. Due to the industrial upgrades of the Measuring and Cutting Tools industry, the market competition will become fiercer and manufacturers with lower production efficiency will be replaced or merged by large-scale enterprise with higher competitiveness in the market. It is estimated that the total number of manufacturers in Measuring and Cutting Tools market will be 3,037 in 2023, with a CAGR of 0.1% during the period of 2019 to 2023. Zhejiang is the province with the largest manufacturers in PRC in 2018 accounting for 46.0% of the total number of manufacturers in 2018.



Source: F&S

## Average Selling Price of Measuring and Cutting Tools

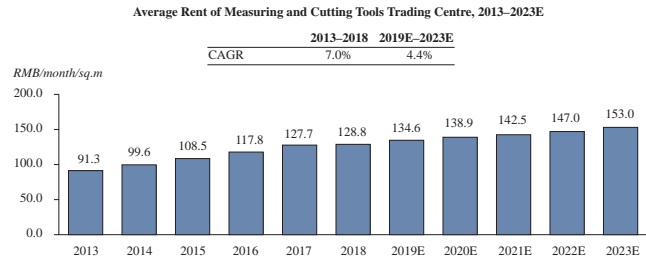
The unit average selling price of measuring and cutting tools market increased from RMB174.4 in 2013 to RMB203.1 in 2018, representing a CAGR of 3.1%. Stimulated by improvement of manufacturing technology and large demands from manufacturing industries, the unit average selling price of measuring and cutting tools market is anticipated to reach RMB230.5 in 2023 with a CAGR of 2.7% from 2019 to 2023.



Source: F&S

## Average Rent of Measuring and Cutting Tools Trading Centre

The monthly average rent per sq.m of Measuring and Cutting Tools trading centre increased from RMB91.3 in 2013 to RMB128.8 in 2018, representing a CAGR of 7.0%. Considering the effect of strong supervision of the real estate price, the monthly average rent per sq.m of Measuring and Cutting Tools trading centre is anticipated to reach RMB153.0 in 2023 with a CAGR of 4.4% from 2019 to 2023.



Source: F&S

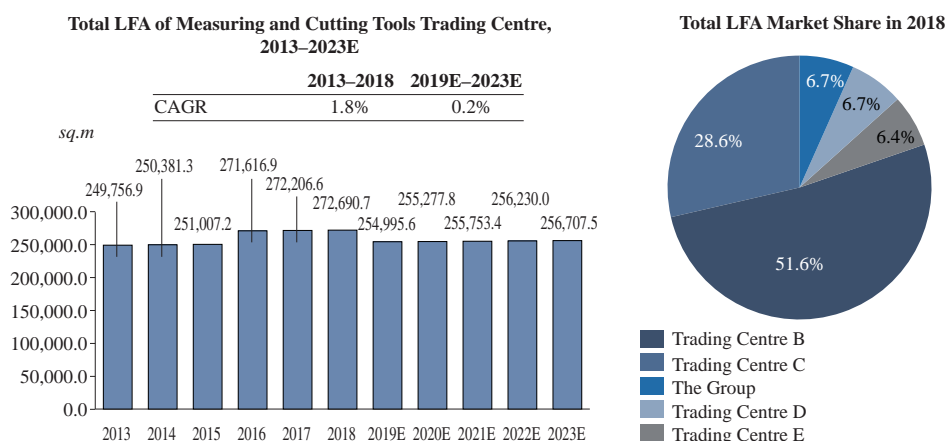


## INDUSTRY OVERVIEW

### Total LFA of Measuring and Cutting Tools Trading Centres

The total LFA of Measuring and Cutting Tools trading centres increased from 249,756.9 sq.m. in 2013 to 272,690.7 sq.m. in 2018, representing a CAGR of 1.6%. With the establishment of one new trading centre, the total LFA of Measuring and Cutting Tools Trading Centre rose from 251,007.2 sq.m. in 2015 to 271,616.9 sq.m. in 2016. Since one trading centre (i.e. Trading Centre D) has transformed into commercial town, the total LFA of Measuring and Cutting Tools trading centres will be decreased to 254,995.6 sq.m. in 2019, as the trading centre is not taken into account in the total LFA after 2018. In the next few years, it is expected that there will be no new Measuring and Cutting Tools trading centre to be established, the increase of the total LFA will be driven by the expansion of LFA of the four existing trading centres. The total LFA of Measuring and Cutting Tools trading centres is expected to increase to 256,707.5 sq.m. in 2023, with a CAGR of 0.2% from 2019 to 2023.

In 2018, Trading Centre B, Trading Centre C, the Group, Trading Centre D and Trading Centre E occupied 51.6%, 28.6%, 6.7%, 6.7% and 6.4% of the total LFA respectively. In the future, since Trading Centre D is no longer a market participant, only Trading Centre B, C and E and the Group will provide a concentrated leasing place for Measuring and Cutting Tools industry. The total LFA of these four trading centres is relatively stable.



*Note:* Trading Centre B and Trading Centre C are comprehensive hardware trading centres. The total LFA of these two trading centre does not only include measuring and cutting tools related LFA, but also other LFA.

*Note:* LFA of the basement of the Group is not included because the basement provides car parking spaces only and has no unit for lease for Measuring and Cutting Tools business.

*Source:* F&S

### Market Drivers

#### *Favourable Policies on Manufacturing Industry*

In recent years, China has introduced a lot of policies facilitating manufacturing industry. Machine tools industry is the foundation of industrial manufacturing. As the key components for machine tools, the Measuring and Cutting Tools manufacturing industry has been benefited from the prosperity of manufacturing industry which in turn has driven the development of trading centre as the trading centre provides centralised place for the trading of Measuring and Cutting Tools. For example, Development Plan of Intelligent Manufacturing (2016–2020)\* 《智能製造發展規劃(2016–2020)》 aims to expedite the process of intelligent manufacturing will accelerate the upgrade and replacement of outdated manufacturing machine and additional demand for Measuring and Cutting Tools of higher quality will be required by the market. Consequently, the trading centre, which provides the place for Measuring and Cutting Tools trading, will also benefit from the policy.

The additional demand of the Measuring and Cutting Tools industry brought by the intelligent manufacturing can be explained in three aspects: the domestic traditional manufacturing market, the domestic emerging manufacturing market and the domestic market share.

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## INDUSTRY OVERVIEW

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For the domestic traditional manufacturing market such as aerospace, the process of intelligent transformation will be accelerated. It is because pursuant to the Development Plan of Intelligent Manufacturing (2016-2020) 《智能製造發展規劃(2016-2020)》, the industry of high precision CNC (Computerized Numerical Control) machine tools equipment, being the sub-sector of intelligent manufacturing equipment industry, is considered to be a crucial area to be developed. As the Measuring and Cutting Tools are consumable components in the machine tools industry, the prevailing industrial upgrade of the upstream industry will speed up the product replacement which will in turn further accelerate the consumption of the Measuring and Cutting Tools products.

For the domestic emerging manufacturing market such as industrial robot, the integration of new generation of information technology and intelligent manufacturing will drive additional demand of the machine tools industry, which, similarly, will in turn further increase the demand for the Measuring and Cutting Tools industry.

With respect to domestic market share, at present, the supply of core components of precision manufacturing equipment in China is still dominated by foreign manufacturers, and the domestic supply of those qualified products is substantially insufficient to meet its overwhelming demand. To improve the competitiveness of domestic products and reduce the reliance of the core products from foreign manufacturers, the plan targets to increase the domestic market share of those core components. According to the plan, by 2020, more than 60 types of competent and qualified intelligent manufacturing technical equipment will be developed and more than 50% of their market share will be dominated by the domestic manufacturers. Therefore, it is expected that the policy enlarges the demands for Measuring and Cutting Tools for the domestic manufacturers to produce more intelligent manufacturing technical equipment.

### ***Mature Market Mechanism***

The measuring and cutting tools industry is operated under mature market mechanism which involves the trading centres, as well as manufacturers, government, industry association and traders. The measuring and cutting tools manufacturers are able to provide large amount and variety of products to traders in trading centre. The government has not only invested on the construction of the trading centre at the beginning but also attach great importance to the measuring and cutting tools. For example, the Wenling Government has listed the measuring and cutting tools industry as one of the pillar industries in Wenling. The trading centre which provides the trading environment for measuring and cutting tools manufacturers and traders will benefit from government support of the measuring and cutting tools industry. On the other hand, the industry associations are responsible for the administration of the measuring and cutting tools industry that may rely on the trading centre to work effectively, as the trading centre has a good relationship with other market players. In terms of traders, since the trading centre provide a concentrated and convenient place for purchasing measuring and cutting tools products, traders are more inclined to rent a shop in the trading centre to sell and promote the products. The mature market mechanism is beneficial for the sustainable development of measuring and cutting tools trading centre.

### **Market Trends**

#### ***Increasing Measuring and Cutting Tools Manufacturing Concentration that Drives the Development of Trading Centre***

In 2018, there are 3,012 measuring and cutting tools manufacturers in China. These manufacturers are generally small-scale and scattered. Due to the low concentration of measuring and cutting tools manufacturing industry, the whole industry currently lacks of capability to compete in global market. In order to expand business, these manufacturers need supports including offering facilities, advanced technology, testing platform, better materials, as well as places with low rent. In the future, the construction of industrial park which can provide supports as mentioned above will help manufacturers increase their competitiveness in global market. On the other hand, the increasing concentration in the measuring and cutting tools manufacturing industry is expected to stimulate the development of measuring and cutting tools trading centre.

#### ***Online Market Construction***

Owing to the rapid development of e-commerce in China, the measuring and cutting tools online shops are becoming more popular in recent years. The expansion of sales channels offer possibilities for measuring and cutting tools industry to target more specific groups and thus to drive the growth of the market. The trading centre as the market integrator and coordinator plays an

## INDUSTRY OVERVIEW

important role in the measuring and cutting tools industry and will benefit from the expansion of sales channel. Therefore, the prosperity of the online market and manufacturing industry will boost the demand for trading centre, as more products are transacted in trading centre.

### *Centralised Product Display Platform*

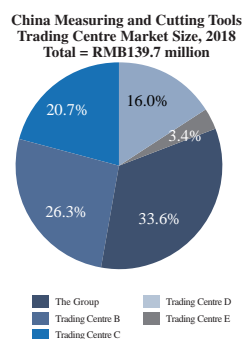
The prevailing industry upgrades in the downstream industry has accelerated the upgrade speed of the Measuring and Cutting Tools products. Considering the large variety and accelerating replacement rate of the Measuring and Cutting Tools products, a centralised place for product display is desired by both manufacturers and consumers. For downstream consumers, to increase their competitiveness, they prone to grasp the latest development of upstream industry and make strategic planning in advance for subsequent procurement and product updates. For manufacturers, to increase the market acceptance of new products, they expect to increase the exposure of advanced products and accelerate its market penetration process. A centralised display platform is capable of providing a convenient communication and display platform for both parties and increase the possibility of entering into transactions successfully.

## COMPETITIVE LANDSCAPE OF MEASURING AND CUTTING TOOLS TRADING CENTER MARKET

### Ranking and Market Concentration

There are three types of business models consisting of trading in (i) trading centres; (ii) independent shops; (iii) directly selling products from manufacturers. The total sales revenue of trading Measuring and Cutting Tools by the tenants of trading centres, independent shops and direct sales from manufacturers accounted for approximately 18.0%, 61.2% and 20.8% of the total Measuring and Cutting Tools market in the PRC in 2018, respectively. In 2018, in terms of trading centres, there were mainly five large-scale trading centres in China including two trading centres not only sell measuring and cutting tools, but also sell other hardwares. The five trading centres mainly located in Zhejiang, Jiangsu and Guangdong Province. There were three trading centres in Zhejiang Province and one trading centre in Jiangsu and Guangdong Provinces, respectively. In China measuring and cutting tools trading centres market, our Trading Centre ranked No.1 in China in terms of revenue with a value of RMB47.0 million, taking up approximately 33.6% in the total market in 2018.

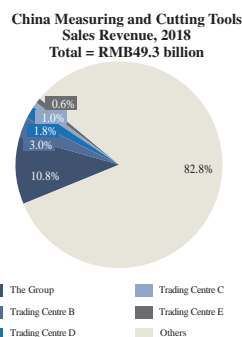
Trading Centre in China, 2018	
Trading Centre	Revenue (Million RMB)
The Group	47.0
Trading Centre B	36.8
Trading Centre C	28.9
Trading Centre D	22.3
Trading Centre E	4.7
<b>Total</b>	<b>139.7</b>



*Note:* Trading Centre B, Trading Centre C, Trading Centre D and Trading Centre E are not listed companies.

*Source:* F&S

Trading Centre in China, 2018	
Trading Centre	Sales Revenue (Billion RMB)
The Group	5.3
Trading Centre B	1.5
Trading Centre D	0.9
Trading Centre C	0.5
Trading Centre E	0.3
<b>Total</b>	<b>49.3</b>



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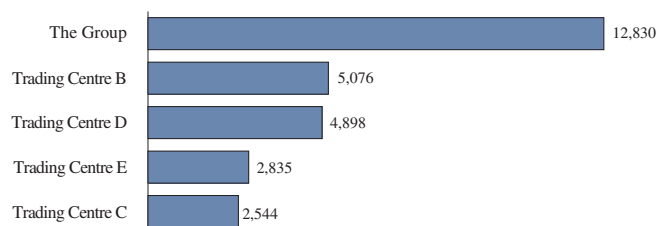
## INDUSTRY OVERVIEW

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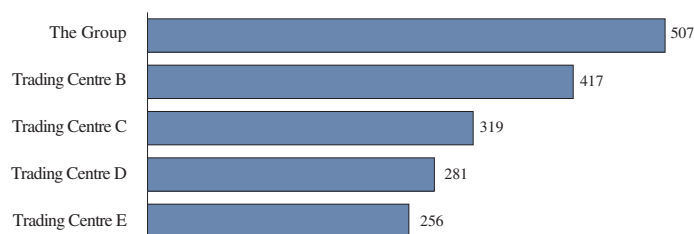
*Note:* Revenue of the trading centre refers to the rental revenue for leasing the units to the tenants; the sales revenue refers to the total sales revenue of trading Measuring and Cutting Tools by the tenants in the trading centres.

*Source:* F&S

**Number of Type of Measuring and Cutting Tools, as at 31 December 2018**



**Number of Measuring and Cutting Tools Brands  
(including International and domestic brands), as at 31 December 2018**



*Note:* Trading Center D was converted into an e-commerce town after 2018 as tenants engaged in measuring and cutting tools had moved out. Hence, it is not a competitor of our Group as at the Latest Practicable Date.

### Overview of Measuring and Cutting Tools Industrial Park in China

Nowadays, the majority of Measuring and Cutting Tools manufacturers in China are small-scale enterprises with low production efficiency and face fierce competition. To enhance regional competitiveness and improve the overall standard of the Measuring and Cutting Tools industry, local governments have been proactive in collaborating with major industry players and developers and setting up Measuring and Cutting Tools industrial parks. For example, on 31 October 2017, the local government of Wenling held a forum for accelerating the construction of Measuring and Cutting Tools industrial park. On the next day, it published a notice of “Opinions on Strengthening the Construction and Management of Small-scale Industrial Park to Promote the Upgrading and Transformation of Economy” (《關於加強小微企業園建設管理促進經濟轉型升級的意見》), pursuant to which guidance to municipal government on regulating the planning, construction and management of small-scale industrial parks was laid down. It is aimed to promote the sustainable development of industrial parks by resolving problems such as unreasonable layout plans, the lag of construction, and loose management. Many local governments are also prepared to allocate funding for the development of industrial parks. For example, the government of Wenling has planned to invest RMB7.0 billion for the establishment of small-scale industrial parks in 2016. The government of Xiamen City Haicang District has also signed a cooperation agreement with several developers and plans to jointly invest RMB3.7 billion in the construction of the Hard Alloy Industrial Park in 2018.

A Measuring and Cutting Tools industrial park is an area strategically planned and developed by governments and/or developers. Different from a trading centre, an industrial park typically comprises (i) manufacturing units, where industry players manufacture their products with their own tools, equipment and machines; (ii) a platform displaying a full range of products of the industry, serving both marketing and educational purposes; and (iii) laboratories and testing centres, where professional assessment and inspection of products manufactured in the industrial park are carried out in accordance with accredited standards to ensure the quality of products is up to standard. Therefore, a Measuring and Cutting Tools industrial park is expected to improve industry standard, create cluster effect by attracting new customers and ensure sustainable growth of the industry.

## INDUSTRY OVERVIEW

To encourage the development of Measuring and Cutting Tools industrial parks, local governments are willing to provide a wide range of support including (i) provision of land at favourable terms, such as long lease term and low rent; (ii) provision of financial assistance, such as financial subsidies, tax incentives, etc.; (iii) provision of consultation service through holding conferences, meetings and dialogues between industrial parks operators and industry experts who possess profound knowledge and experience in the administration and operation of Measuring and Cutting Tools industrial parks. On the other hand, the developers work closely with the governments in the construction and operation process. For example, on 24 August 2018, Agile Group has signed a cooperation agreement with the local government of Xixiashu on the construction and operation of the industrial park. The government and Agile Group collaborate on enhancing its attractiveness to manufacturers and capital investment. The industrial parks operators also meet with the local governments regularly so that the authorities are kept abreast of the up-to-date development of and benefits brought by the industrial park to the industry in general as well as the challenges and threats faced by the industrial parks operators and other industry players.

In China, the Measuring and Cutting Tools industrial parks (existing or in preparation) are mostly located in manufacturing clusters with established and solid trading practices, experience and reputation, particularly in Wenling City and Changzhou City. Industrial parks operators make profits primarily through the leasing and/or sale of manufacturing units. The following table shows two of the Measuring and Cutting Tools industrial parks developed or to be developed by recognised/reputable organisations.

Place	Name	Area	Investment Entities	Model (Leasing or Sale)	Operator
Wenling City, Zhejiang Province	Wenqiao Small and Micro Measuring and Cutting Tools Industry Parks	193,333m <sup>2</sup>	Local Government of Wenling	Leasing and sale	Local Government
Changzhou City, Jiangsu Province	Xixiasu New Technology Park	To be determined*	Local Government of Xixiashu and Agile Group	To be determined	Local Government of Xixiashu and Agile Group

\* The Cooperation Agreement between local government and Agile Group was signed on 24 August 2018, so details of the construction plan remain undetermined.

At present, the existing Measuring and Cutting Tools industrial parks in China only provide a place for production of goods. As at 31 December 2018, the average amount paid by the local enterprise to rent a place in an existing industrial park to manufacture Measuring and Cutting Tools products was approximately RMB25 to 35 sq.m.. However, small-scale manufacturers, which are the vast majority of the industry players, require various kinds of support, including more advanced production facilities, technological support and experienced personnels, provision of standardised testing service for the goods produced, etc. The Measuring and Cutting Tools industry is in need of an industrial park that can provide the above services, facilities and support to enhance the overall manufacturing capacity and production standard of the industry. As at 31 December 2018, only 479 manufacturers of Measuring and Cutting Tools in Wenling City, representing approximately 37.0% of the total number of manufacturers, established their place of business in the industrial park of Wenling. Approximately 63.0% of the manufacturers still produce and distribute their products in local factories scattered around Wenling City. However, this situation will change in the next two years. According to the “Notice on Three-Year Action Plan for the Construction and Reconstruction of Small and Micro Enterprise Industrial Parks in Taizhou City\* (2018–2020) (關於印發台州市小微企業工業園建設改造三年行動計劃(2018–2020年)的通知), the Wenling government plans to redevelop 9.7 million sq.m. of areas currently occupied by decayed factories and plants and the area planned for redevelopment in 2018, 2019 and 2020 represent 17.5%, 18.0% and 64.4% of the total area of 9.7 million sq.m., respectively. Those scattered small scale enterprises will have a pressing need to search for a new place to continue their business operation before the government clears out their decayed factories. Considering the strong governmental support, the expected benefits to be brought by an industrial park and the huge number of manufacturers not having established any production house or distribution channel at a industrial park, it is anticipated that an industrial park, if carefully planned and developed, will be attractive to the industry players and of great demand in the future.



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There are three reasons accounting for the demands of a new industrial park. First of all, as mentioned above, Wenling City plays an important role in Measuring and Cutting Tools industry. As at December 2018, 36.2% of the total production volume in China are attributed to the manufacturers in Zhejiang Province, with 85.1% were produced in Wenling City.

Second, as mentioned above, only 37.0% of the manufacturers of Measuring and Cutting Tools in Wenling City have established their places of business in the existing industrial park. More than 60% of the local manufacturers dispersedly set up their workshops and outlets around Wenling City selling and distributing thousands of types of products. Dispersive manufacturing and distribution makes it more difficult and less cost-efficient for consumers to procure the desired products. In the long run, the competitiveness of the overall Measuring and Cutting Tools industry in Wenling City will be undermined. Through the construction of a new industrial park with comprehensive facilities and extensive support, which is expected to house the majority of the manufacturers and distributors of Measuring and Cutting Tools, a cluster effect would be activated, more consumers would be attracted to procure their desired products and the aggregate total sales revenue of trading Measuring and Cutting Tools by the tenants in the trading centres, independent shops and direct sales from manufacturers, of the entire Measuring and Cutting Tools industry in Wenling City would be enhanced.

Furthermore, as mentioned above, the existing Measuring and Cutting Tools industrial park in Wenling City is relatively underdeveloped. It merely provides space for the manufacturers to undergo the production process without any supporting infrastructure and service such as equipment display centre, raw material service and advanced and integrated technology service that the Company plans to establish and provide in the Industrial Park. While an equipment display centre is expected to provide tenants with a place to share and learn advanced technology, with raw material service, the Industry Park targets to provide the tenants with high-quality raw material display and inspection platform to reduce quality control cost. With advanced and integrated technology services, the Industrial Park targets to provide tenants with various advanced technological innovation assistance such as technical personnel training programs to enhance manufacturing efficiency. Consequently, the existing industrial park in Wenling City is still not adequate for an industry whose majority of the manufacturers are small-scale manufacturers with outdated facilities and inexperienced technical staffs. With the accelerating industrial upgrade of the downstream participants, products from dispersed and small-scale manufacturers without sustainable quality guarantee could no longer meet consumers' higher standards. If no measures are adopted to enhance the standard of the products manufactured and distributed by these small enterprises and to extend the sales channel, there is a possibility that those manufacturers may be replaced by those global economic-scale enterprises. Those inexperienced small-scale manufacturers demand for professional service provided by industrial experts. The Industrial Park targets to provide a comprehensive and advanced infrastructure together with professional supporting services to assist those manufacturers to achieve industrial upgrade, which is conducive to the long-term development of the Measuring and Cutting Tools industry in Wenling City as a whole.

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A summary of certain major laws and regulations in relation to our business is set forth below. Information contained herein should not be construed as an all-inclusive summary of laws or regulations applicable to us.

### **LEASE OF PROPERTIES**

Both the Provisional Regulations of the PRC Concerning the Grant and Assignment of the Right to Use State-owned Land in Urban Areas (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例) (the “Urban Land Regulations”) and the Urban Real Estate Administration Law of the PRC (中華人民共和國城市房地產管理法) (the “Urban Real Estate Law”) permit the leasing of granted land use rights and of the buildings or houses erected on the land. In December 2010, the MOHURD promulgated the Administrative Measures for Commodity House Leasing (商品房租賃管理辦法) (the “New Lease Measures”), which become effective on 1 February 2011, and replaces the Administrative Measures for Urban House Leasing (城市房屋租賃管理辦法). Pursuant to the New Lease Measures, parties thereto shall register and file with the local property administration authority within 30 days after the execution of lease contract. In case of any change to the information of such registration and filing or any renewal or termination of the lease contract, the parties thereto shall go through the formalities with respect to the change, extension or cancelation of the registration and filing at the initial property administration authority which handled the registration and filing procedure within 30 days. Non-compliance with such registration and filing requirements shall be subject to fines up to RMB10,000. According to the Urban Real Estate Law, rental income derived from any building situated on allocated land, or land which the landlord has acquired only allocated land use rights, shall be turned over to the State.

Under the Contract Law of the PRC (中華人民共和國合同法) promulgated by the NPC in March 1999, a leasing contract is a contract whereby the lesser delivers to the lessee the lease item for it to use or accrue benefit from, and the lessee pays the rent. The term of a leasing contract shall not exceed 20 years. If the lease term exceeds 20 years, the portion of the lease term beyond the initial twenty year period is invalid. At the end of the lease term, the parties may renew the lease, provided that the renewed term may not exceed 20 years commencing on the date of renewal. Where the lease term is six months or longer, the lease shall be in writing. If the parties fail to adopt a writing form, the lease is deemed an indefinite lease.

### **PROPERTY MANAGEMENT ENTERPRISES**

In accordance with the relevant regulations of Property Rights Law of the PRC (中華人民共和國物權法) and Property Management Regulations (物業管理條例), selection and engagement of property service enterprises shall have the consent of not less than half of the total number of owners while the gross floor area in the exclusive possession of such owners shall not be less than half of the total gross floor area of the property. In the event that the construction department has selected the property service enterprise prior to the owners’ engagement of property service enterprise at the meeting of owners, a preliminary property management contract shall be signed.

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### LAND FOR PROPERTY DEVELOPMENT

In April 1988, the NPC amended the Constitution of the People's Republic of China (中華人民共和國憲法) to permit the transfer of land-use rights for value. And in December 1988, the Standing Committee of the NPC amended the Land Administration Law of PRC (中華人民共和國土地管理法) to permit the transfer of land-use rights for value. Under the Land Administration Law, any change to be lawfully made in land-use rights shall be registered.

Under the Urban Land Regulations promulgated by the State Council in May 1990, the PRC adopted a system to grant and assign the right to use state-owned land. A land user must pay a land premium as consideration for the grant of the right to use a land site within a specified period of time, and the land user may assign, lease out, mortgage or otherwise commercially exploit the land use rights within the term of use. The Interim Regulation on Grant and Assignment prescribes different maximum terms of granted land-use rights for different uses of land as follows: (i) land for commerce, tourism and entertainment: 40 years; (ii) land for residence: 70 years; (iii) land for industry: 50 years; (iv) land for education, science, technology, culture, public health and sports: 50 years; and (v) land for comprehensive utilization or other purposes: 50 years. The PRC government may not resume possession of lawfully granted land-use rights prior to expiration of the term of grant. If the public interest requires the resumption of possession under special circumstances during the term of grant, compensation must be paid by the PRC government. Subject to compliance with the terms of the land grant contract, a holder of land-use rights may hold, lease, transfer, mortgage and develop the land for sale or lease. Upon paying in full the land grant fee pursuant to the terms of the contract, the grantee may apply to the relevant land bureau for issuance of the land-use rights certificate. Upon expiration of the term of grant, renewal is possible subject to the execution of a new contract for the grant of land-use rights and payment of a new land grant fee. If the term of the grant is not renewed, the land-use rights and ownership of any buildings on the land will revert to the PRC government without compensation.

Under the Urban Real Estate Law, amended and came into effect on 27 August 2009, and the Urban Land Regulations, assignment of land use right may be carried out in the form of auction, tender or negotiation between two parties. Land use right for commercial, tourism, entertainment and luxury residential projects which satisfy the conditions shall be assigned by way of auction or tender; where land use right cannot be assigned by way of auction or tender, it may be assigned by way of negotiation between two parties. The assignment fee for assignment of land use right by way of negotiation between two parties shall not be lower than the minimum price determined pursuant to the provisions of the State. The land administration authority at the city or county level may enter into a land grant contract with the land user to provide for the grant of land use rights. The land user must pay the land premium as provided by the land grant contract. After payment in full of the land premium, the land user may register with the land administration authority and obtain a land-use rights certificate which evidences the acquisition of land use rights.



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According to the Urban Real Estate Law, those who have obtained the right of land use by way of grant for real estate development must develop the land in accordance with the land use and the construction period as prescribed in the grant contract. When the development has not started one year later than the date for starting the development as prescribed by the grant contract, an idle land fee no more than 20% of the land grant premium may be collected and when the development has not started two years later, the right to use the land may be confiscated without any compensation, except that the delays are caused by force majeure, the activities of government, or the necessary preparatory work for starting the development.

Pursuant to the Measures on Disposal of Idle Land (閒置土地處置辦法), which was promulgated in April 1999 by the Ministry of Land and Resources and revised in June 2012, land can be defined as idle land under any of the following circumstances:

- (a) development and construction of the state-owned idle land is not commenced after one year of the prescribed time limit in the land use right grant contract or allocation decision; or
- (b) the development and construction of the state-owned idle land has been commenced, but the developed land area is less than one third of the total land area under the land grant contract or the sum already expended on the development of the land is less than one fourth of the total investment of the project, and the suspension of development of the land has lasted for one year or more.

Where the delay of commencement of development is caused by the government's behavior or due to the force majeure of natural disasters, the land administrative authorities shall discuss with the holder of state-owned construction land use rights and choose the following methods for disposal:

- (a) extending the time limit of the start of development. The government and the holder of state-owned construction land use rights shall enter into the supplemental agreement and re-specify the time limit of the start of development and construction completion and the liability for breach of contract. The time limit of the start of development shall not be extended over one year from the date of the start of development specified on the supplemental agreement;
- (b) adjusting the land use and planning conditions. The relevant land use procedure shall be re-gone through and the land grant premium shall be checked, collected or returned according to the new land use or planning conditions;
- (c) the government arranges temporary use for the idle land. The holder of state-owned construction land use rights shall re-develop and construct the idle land till the former project satisfies the requirements of development and construction. The time limit of temporary use shall not exceed two years from the date of temporary use arranged;
- (d) getting back the use right of the state-owned construction land with compensation;

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- (e) exchanging the idle land. When the land grant premium of the idle land have been paid up, the project funding has been completed and the idleness is caused by the plan amendment according to the law, the government can exchange other state-owned construction land of same value and use for the holder of state-owned construction land use rights to develop and construct. As for the land grant, the holder of state-owned construction land use rights and the government shall reenter into land grant contract which shall specify the land as the exchange land; and
- (f) the city-level and county-level land administrative authorities can stipulate other disposal ways according to the actual situation.

Save for the above item (d), the time of the commencement of development shall be re-dated according to newly agreed or stipulated time.

In September 2007, the Ministry of Land and Resources promulgated the Notice on Strengthening the Disposing of Idle Land (國土資源部關於加大閒置土地處置力度的通知), providing that the surcharge on idle land shall be 20% of the land grant premium in principle and where the confiscation measure is required in accordance with the law, such measure shall be strictly implemented.

In January 2008, the State Council issued the Notice on Promoting the Saving and Intensive Use of Land (國務院關於促進節約集約用地的通知). This notice strictly enforces the policies for dealing with idle land. If a piece of land has been idle for two years or more, it must be taken back free of charge absolutely and rearranged for other uses. If the land does not meet the statutory conditions for recovery, it must be timely dealt with and fully used through changing its uses, replacement by parity value, temporary use or incorporation into government reserves. If a piece of land has been idle for more than one year but less than two years, the idle land surcharge must be collected at 20% of the land grant premium. If the land premium has not been completely paid off according to the contract, no land certificate may be granted, and it is also prohibited to grant the land certificate by dividing the land based on the proportion of the paid land grant premium.

### THE DEVELOPMENT OF REAL ESTATE PROJECTS

#### Planning of Real Estate Projects

Under Law of the PRC on Urban and Rural Planning (中華人民共和國城鄉規劃法), which was issued in October 2007 and revised in April 2015 and April 2019, if the right to use of State-owned land is extended through allocation for a construction project located within the area covered by the plan of a city or town, the developing unit shall, after the project is approved or verified and recorded by the relevant department, apply to the department in charge of urban and rural planning under the city or county people's government for a permit for planned use of land for construction (建設用地規劃許可證), and the said department shall, according to the detailed control plan, check and verify the location and area of the said land and the scope of area within which construction is permitted, before issuing the said permit. The developing unit may apply for land use to the department in charge of land under the local people's government at or above the county level only after obtaining the permit for planned use

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of land for construction. The said department shall allocate the land to it upon approval by the people's government at or above the county level. For the construction of buildings, structures, roads, pipelines and other projects in an area covered by the plan of a city or town, the developing unit or individual shall apply for a permit for a planned construction (建設工程規劃許可證) project to the department in charge of urban and rural planning under the people's government of the city or county concerned or to the township people's government designated by the people's government of the province, autonomous region, or centrally-administered municipality.

### **Construction Work Commencement Permit**

The real estate developer shall apply for a construction work commencement permit (施工許可證) from the relevant construction authority in accordance with the Regulations on Administration Regarding Permission for Commencement of Construction Works (建築工程施工許可管理辦法) promulgated by the Ministry of Construction in October 1999 and amended in July 2001, June 2014 and September 2018.

### **Acceptance and Examination upon Completion of Real Estate Projects**

The development of a real estate project must comply with various laws and legal requirements on construction quality, safety standards and technical guidance on architecture, design and construction work, as well as provisions of the relevant contracts. The State Council promulgated the Regulation on the Quality Management of Construction Projects (建設工程質量管理條例) in January 2000 and amended in October 2017 and April 2019, which sets out the respective quality responsibilities and liabilities for developers, construction companies, exploration companies, design companies and construction supervision companies.

Pursuant to the Administrative Measures for Reporting Details Regarding Acceptance Examination upon Completion of Buildings and Municipal Infrastructure (房屋建築和市政基礎設施工程竣工驗收備案管理辦法), promulgated by the Ministry of Construction in April 2000 and amended in October 2009, upon the completion of real estate development project, the real estate development enterprise shall submit an application to the competent department of real estate development of local people's government at or above county level, where the project is located, for examination upon completion of building and for filing purposes; and to obtain the Filing Form for Acceptance and Examination upon Completion of Construction Project.

### **INSURANCE OF REAL ESTATE PROJECTS**

There are no nationwide mandatory requirements in the PRC laws, regulations and government rules requiring a real estate developer to maintain insurance for its real estate projects. According to the Construction Law of the PRC (中華人民共和國建築法) promulgated by the Standing Committee of the NPC in November 1997 and effective in March 1998 and amended in April 2011 and April 2019, construction enterprises shall maintain accident and casualty insurance for workers engaged in dangerous operations and pay the insurance premium.

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## REGULATORY OVERVIEW

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### FIRE CONTROL

Pursuant to the Fire Prevention Law of the PRC (中華人民共和國消防法), which was promulgated by the NPCSC on 29 April 1998, amended on 28 October 2008 and 23 April 2019, public gathering places shall pass a fire prevention safety inspection conducted by the local public security fire-fighting department before the commencement of business operations.

### LABOR PROTECTION

#### Employment

The principal labour laws and regulations in the PRC include the PRC Labour Law (《中華人民共和國勞動法》), the PRC Labour Contract Law (《中華人民共和國勞動合同法》), the Implementation Rules of the PRC Labour Contract Law (《中華人民共和國勞動合同法實施條例》).

According to the Labor Law of the PRC (中華人民共和國勞動法) (Order No. 24 of the President) (the “Labor Law”), which was promulgated by NPCSC on 5 July 1994, came into effect on 1 January 1995 and was amended on 27 August 2009 and 29 December 2018, an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labor safety and health system, stringently implement national rules and standards on labor safety and health, provide labor safety and health education for workers, prevent labor accidents and reduce occupational hazards. Labor safety and health facilities must comply with relevant national standards. An employer must provide workers with the necessary labor protection gear that complies with labor safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Laborers engaged in special operations shall have received specialized training and obtained the pertinent qualifications. An employer shall develop a vocational training system. Vocational training funds shall be set aside and used in accordance with national regulations and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

The Labor Contract Law (勞動合同法), which was promulgated by the NPCSC on 29 June 2007, came into effect on 1 January 2008, and was amended on 28 December 2012, and the Implementation Regulations on Labor Contract Law (勞動合同法實施條例), which was promulgated on 18 September 2008 and became effective since the same day, regulate both parties to a labor contract, namely the employer and the employee, and contain specific provisions involving the terms of the labor contract. It is stipulated under the Labor Contract Law and the Implementation Regulations on Labor Contract Law that a labor contract must be made in writing. An employer and an employee may enter into a fixed-term labor contract, an un-fixed term labor contract, or a labor contract that concludes upon the completion of certain work assignments, after reaching agreement upon due negotiations. An employer may legally terminate a labor contract and dismiss its employee after reaching agreement upon due negotiations with the employee or by fulfilling the statutory conditions. Labor contracts concluded prior to the enactment of the Labor Contract Law and subsisting within the validity

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## REGULATORY OVERVIEW

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period thereof shall continue to be honored. With respect to a circumstance where a labor relationship has already been established prior to the enactment of the Labor Contract Law but no formal contract has been made, a written labor contract shall be entered into within one month from the effective date of the Labor Contract Law.

### Social securities

According to the Interim Regulations on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), the Regulations on Work Injury Insurance (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例) and the Trial Measures on Employee Maternity Insurance of Enterprises (企業職工生育保險試行辦法), the Decision of the State Council on Establishing a Unified Basic Pension System for Employees Working in Enterprises (國務院關於建立統一的企業職工基本養老保險制度的決定), the Decision of the State Council on Establishing the Urban Employees' Basic Medical Insurance System (國務院關於建立城鎮職工基本醫療保險制度的決定), enterprises in the PRC shall provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees.

According to the PRC Social Insurance Law (中華人民共和國社會保險法) (the “**Social Insurance Law**”) promulgated by NPCSC on 28 October 2010 and amended on 29 December 2018, enterprises and its employees shall pay social insurance premiums including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. Enterprises shall be solely responsible to pay insurance premiums of work-related injury insurance and maternity insurance for their employees, while enterprises and their employees shall be jointly responsible to pay insurance premiums of basic pension insurance, basic medical insurance and unemployment insurance. An employer shall complete social security registration with the social security agency for its employee within 30 days from the date of recruitment. Where an employer does not complete social security registration, the social security agency shall assess the social security premiums payable by the employer. Employers which failed to complete social security registration shall be ordered by the social security administrative authorities to make correction within a stipulated period; where correction is not made within the stipulated period, the employer shall be subject to a fine ranging from one to three times the amount of the social security premiums payable, and the person(s)-in-charge who is/are directly accountable and other directly accountable personnel shall be subject to a fine ranging from RMB500 to RMB3,000. Employers who failed to promptly contribute social security premiums in full amount shall be ordered by the social security premium collection agency to make or supplement contributions within a stipulated period, and shall be subject to a late payment fine computed from the due date at the rate of 0.05% per day; where payment is not made within the stipulated period, the relevant administrative authorities shall impose a fine ranging from one to three times the amount of the amount in arrears.

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## REGULATORY OVERVIEW

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According to the Regulation of Insurance for Labour Injury (工傷保險條例) promulgated by the State Council and came into effect on 1 January 2004 and the amendment thereto which came into effect on 1 January 2011 (collectively, the “Insurance Regulation”), enterprises shall, in accordance with the provision of the Insurance Regulation, take out work-related injury insurance and pay work-related injury insurance premiums for all their employees on time. Where an employee is injured in an accident related to his employment or suffers from an occupational disease, he is entitled to work-related injury insurance paid by the labour injury fund, which covers costs, including but not limited to medical treatment bills, board wages and traffic expenses resulting from such accident or occupational disease. Such employee or the family of such employee (as the case may be) is also entitled to disability or death subsidy if the work related accident or occupational disease causes disability or death.

According to the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例) promulgated by the State Council on 22 January 1999 and amended on 24 March 2019, the people’s governments of the provinces, autonomous regions and directly administered municipalities will determine the agencies for the levy and collection of social insurance premiums. They may be either tax authorities or social insurance handling agencies (“social insurance agencies”) established by the administrative departments for labour security in accordance with State Council regulations. Contributing work units must carry out social insurance registration with the local social insurance agency and must participate in social insurance. Such enterprises shall report to the social insurance agency the amount of social insurance premiums payable and pay its social insurance premiums every month within the prescribed time limit upon assessment by the social insurance agency. The social insurance premiums payable by the individuals shall be withheld from their wages and paid for them. All premiums shall be paid in full by cash. If a contributing work unit fails to carry out social insurance registration, change its registration or cancel its registration in accordance with the regulations, or fails to report the amount of the social insurance premiums in accordance with the regulations, then the administrative department for labour security will order it to correct the situation within a set period; in serious cases, a fine of not less than RMB1,000 and not more than RMB5,000 may be imposed on the persons in charge who are directly responsible and other directly responsible persons; in particularly serious cases, a fine of not less than RMB5,000 and not more than RMB10,000 may be imposed on the persons in charge who are directly responsible and on other directly responsible persons.

According to the Regulations on the Administration of Housing Provident Fund (住房公積金管理條例) (Order No. 262 of the State Council), which was promulgated and became effective on 3 April 1999, and was amended on 24 March 2002 and 24 March 2019, housing provident fund contributions by an individual employee and housing provident fund contributions by his or her employer shall belong to the individual employee.



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## REGULATORY OVERVIEW

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The employer shall timely pay up and deposit housing provident fund contributions in full amount and late or insufficient payments shall be prohibited. The employer shall process housing provident fund payment and deposit registrations with the housing provident fund administration centre. With respect to companies who violate the above regulations and fail to process housing provident fund payment and deposit registrations or open housing provident fund accounts for their employees, such companies shall be ordered by the housing provident fund administration centre to complete such procedures within a designated period. Those who fail to process their registrations within the designated period shall be subject to a fine ranging from RMB10,000 to RMB50,000.

### INTELLECTUAL PROPERTY

#### Trademark law

In accordance with the PRC Trademark Law (《中華人民共和國商標法》) promulgated on 23 August 1982, most recently amended by NPCSC on 30 August 2013 and effective on 1 May 2014, The Trademark Bureau of the Administration for Industry and Commerce Department of the State Council shall be in charge of trademark registration and administration nationwide. The Administration for Industry and Commerce Department of the State Council shall establish a trademark review and adjudication board to be responsible for handling trademark disputes.

Any of the following acts shall be deemed as infringement of exclusive rights to use registered trademarks:

(1) use of a trademark identical to a registered trademark on the same type of commodities without licensing by the trademark registrant; (2) use of a trademark similar to a registered trademark on the same type of commodities without licensing by the trademark registrant, or use of a trademark identical or similar to the registered trademark on similar commodities which easily causes confusion; (3) sale of commodities which infringe upon exclusive rights to use registered trademarks; (4) forgery or unauthorised manufacturing of labels of other's registered trademark or sale of forged or unauthorised labels of other's registered trademark; (5) change of a registered trademark without the consent of the trademark registrant, and sale of commodities bearing the changed trademark in the market; (6) intentionally facilitating infringement of other's exclusive rights to use trademarks, assisting others in implementation of infringement of exclusive rights to use trademarks; or (7) causing harm to other's exclusive rights to use registered trademarks.

A registered trademark shall be valid for 10 years, commencing from the date of registration. Upon expiry of the validity period of a registered trademark, where the trademark registrant intends to continue using the trademark, it shall complete renewal formalities pursuant to the provisions within the 12-month period before the expiry date; where renewal formalities are not completed within the stipulated period, a six-month extension may be allowed. The validity period of each renewal shall be 10 years, commencing from the date following expiry of the preceding validity period of the said trademark. Where renewal formalities are not completed upon expiry of the validity period, the registered trademark shall be cancelled.

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The trademark bureaux shall gazette renewed registered trademarks.

### **Domain Name**

Pursuant to Administrative Measures on Internet Domain Names (互聯網域名管理辦法), which was promulgated on 24 August 2017 and with effect from 1 November 2017, the principle of “first come, first serve” is followed for the domain name registration service. After completing the domain name registration, the applicant becomes the holder of the domain name registered by him/it. No organization or individual shall maliciously point a domain name to others’ IP address.



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## HISTORY, DEVELOPMENT AND REORGANISATION

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### OVERVIEW

We are an established Measuring and Cutting Tools trading centre operator in China. Our history can be traced back to May 2003 when our Company was established in the PRC by Market Development Service Centre, Wenqiao Town People's Government, Shangjie Village Committee and Zhongjie Village Committee as a company with limited liability. Leveraging on the extensive experience in site management, cost control and quality control accumulated by our management, in 2009, we officially launched our Trading Centre.

We are positioned to capture the business opportunities arising from China's Measuring and Cutting Tools market. According to the F&S Report, the total sales value of Measuring and Cutting Tools rose from RMB23.3 billion in 2013 to RMB49.3 billion in 2018, representing a CAGR of 16.2% from 2013 to 2018. The total sales value of China's Measuring and Cutting Tools market is anticipated to further expand, reaching RMB91.2 billion in 2023, with an expected CAGR of 14.2% during the period of 2018 to 2023.

For the preparation of the Listing, in May 2018, our Company was converted into a joint stock limited liability company. On 7 November 2018, we obtained approvals of the CSRC for the Global Offering and the making of the application to list our H Shares on the Stock Exchange.

### BUSINESS DEVELOPMENT MILESTONES

The following table outlines our key business development milestones:

<b>Year</b>	<b>Key business development milestones</b>
2003	We established our Company under the name of Wenling City Wenxi Measuring and Cutting Tools Trading Centre Company Limited* (溫嶺市溫西工量刀具交易中心有限公司) with a registered capital of RMB100,000
2006	The registered capital of our Company was increased to RMB1.80 million and we changed our name to Wenling City Zhejiang Measuring and Cutting Tools Trading Centre Company Limited* (溫嶺市浙江工量刀具交易中心有限公司)
2009	<ul style="list-style-type: none"><li>• Our Company's registered capital was increased to RMB18 million</li><li>• Our Trading Centre was launched</li></ul>
2011	We established Wenling Measuring and Cutting Tools Network Company Limited* (溫嶺工量刀具網有限公司) to provide maintenance support services to our website

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## HISTORY, DEVELOPMENT AND REORGANISATION

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Year	Key business development milestones
2014	<ul style="list-style-type: none"><li>• We were awarded “Famous Brand in Taizhou City* (台州市著名商標)” by Taizhou Market Supervisory Authority* (台州市市場監督管理局)</li><li>• We were awarded “Taizhou Service Brand* (台州服務品牌)” by Taizhou Famous Brand Certification Committee* (台州名牌產品認定委員會)</li></ul>
2015	<ul style="list-style-type: none"><li>• We were awarded “2015 Wenling City Service Industry Key Enterprise* (2015年度溫嶺市服務業重點企業)” by Wenling City People’s Government (溫嶺市人民政府)</li><li>• We were awarded “2014 Advanced Party Organisation* (2014年度先進黨組織)” by Wenqiao Town CPC Committee (中共溫嶺委員會)</li><li>• We were awarded “Chinese Commodity Market Top 100* (中國商品市場百強)” by Chinese Academy of Social Sciences (中國社會科學院)</li></ul>
2018	<ul style="list-style-type: none"><li>• Our Company was converted into a joint stock limited liability company with a registered capital of RMB60 million and renamed as Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited* (溫嶺浙江工量刀具交易中心股份有限公司)</li><li>• We obtained approvals of the CSRC for the Global Offering and the making of the application to list our H Shares on the Stock Exchange</li><li>• We successfully won the bid of the Land for the construction of the Industrial Park and entered into the Development and Construction Agreement</li></ul>
2019	<ul style="list-style-type: none"><li>• Commencement of the pre-construction preparation works for the Industrial Park</li></ul>

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### OUR CORPORATE HISTORY AND DEVELOPMENT

#### Our Company

##### *Establishment of our Company*

Our history can be traced back to May 2003, when our Company was established as a company in the PRC with limited liability. At the time of our establishment, we had a registered capital of RMB100,000, details of which are set out below:

Name of Shareholders	Capital contribution (RMB)	Shareholding percentage (%)
Market Development Service Centre	34,000	34.00
Wenqiao Town People's Government	33,000	33.00
Zhongjie Village Committee	16,500	16.50
Shangjie Village Committee	16,500	16.50
<b>Total</b>	<b>100,000</b>	<b>100.00</b>

##### *First capital increase, and change of name and shareholders*

In June 2006, the name of our Company was changed to Wenling City Zhejiang Measuring and Cutting Tools Trading Centre Company Limited\* (温岭市浙江工量刃具交易中心有限公司). The registered capital of our Company was also increased, together with the addition of new Shareholders, to RMB1,800,000. The following table sets out the shareholding structure immediately after completion of the first capital increase:

Name of Shareholders	Capital contribution (RMB)	Shareholding percentage (%)
Market Development Service Centre	358,200	19.90
Wenqiao Town People's Government	347,400	19.30
Qianyangxia Village Committee	315,000	17.50
Maoyang Village Committee	207,000	11.50
Zhongjie Village Committee	173,700	9.65
Shangjie Village Committee	173,700	9.65
Xuzhai Village Committee	117,000	6.50
Zhang Laoqiao Village Committee	54,000	3.00
Mr. Huang Yugen <sup>(Note)</sup>	54,000	3.00
<b>Total</b>	<b>1,800,000</b>	<b>100.00</b>

*Note:* Mr. Huang Yugen is an Independent Third Party.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### *Second capital increase*

In March 2009, the registered capital of our Company was further increased to RMB18,000,000. The following table sets out the shareholding structure immediately after completion of the second capital increase:

<b>Name of Shareholders</b>	<b>Capital contribution</b> (RMB)	<b>Shareholding percentage</b> (%)
Market Development Service Centre	3,582,000	19.90
Wenqiao Town People's Government	3,474,000	19.30
Qianyangxia Village Committee	3,150,000	17.50
Maoyang Village Committee	2,070,000	11.50
Zhongjie Village Committee	1,737,000	9.65
Shangjie Village Committee	1,737,000	9.65
Xuzhai Village Committee	1,170,000	6.50
Zhang Laoqiao Village Committee	540,000	3.00
Mr. Huang Yugen <sup>(Note)</sup>	540,000	3.00
<b>Total</b>	<b>18,000,000</b>	<b>100.00</b>

*Note:* Mr. Huang Yugen is an Independent Third Party.

### *Transfers of equity interests relating to our Shareholders*

In December 2017, certain Shareholders underwent certain equity interest transfers such that they hold equity interests in our Company through their respective PRC companies, details of which are as follows:

- (a) on 8 December 2017, Market Development Service Centre transferred its entire 19.90% equity interest in our Company to Market Group, which is directly and wholly owned by Market Development Service Centre, at nil consideration;
- (b) on 18 December 2017, Wenqiao Town People's Government transferred its entire 19.30% equity interest in our Company to Qiaoling Investment, which is directly and wholly owned by Wenqiao Town People's Government, at nil consideration;
- (c) on 18 December 2017, Qianyangxia Village Committee transferred its entire 17.50% equity interest in our Company to Qianyang Investment, which is indirectly and wholly owned by Qianyangxia Village Committee, at nil consideration;
- (d) on 18 December 2017, Maoyang Village Committee transferred its entire 11.50% equity interest in our Company to Maowei Investment, which is indirectly and wholly owned by Maoyang Village Committee, at nil consideration;

## HISTORY, DEVELOPMENT AND REORGANISATION

- (e) on 18 December 2017, Zhongjie Village Committee transferred its entire 9.65% equity interest in our Company to Zhongjie Hede Investment, which is indirectly and wholly owned by Zhongjie Village Committee, at nil consideration;
- (f) on 18 December 2017, Shangjie Village Committee transferred its entire 9.65% equity interest in our Company to Shangyu Investment, which is indirectly and wholly owned by Shangjie Village Committee, at nil consideration;
- (g) on 18 December 2017, Xuzhai Village Committee transferred its entire 6.50% equity interest in our Company to Botao Investment, which is indirectly and wholly owned by Xuzhai Village Committee, at nil consideration; and
- (h) on 18 December 2017, Zhang Laoqiao Village Committee transferred its entire 3.00% equity interest in our Company to Zhang Laoqiao Investment, which is indirectly and wholly owned by Zhang Laoqiao Village Committee, at nil consideration.

The following table sets out the shareholding structure immediately after completion of such equity interest transfers:

Name of Shareholders	Capital contribution (RMB)	Shareholding percentage (%)
Market Group	3,582,000	19.90
Qiaoling Investment	3,474,000	19.30
Qianyang Investment	3,150,000	17.50
Maowei Investment	2,070,000	11.50
Zhongjie Hede Investment	1,737,000	9.65
Shangyu Investment	1,737,000	9.65
Botao Investment	1,170,000	6.50
Zhang Laoqiao Investment	540,000	3.00
Mr. Huang Yugen <sup>(Note)</sup>	540,000	3.00
<b>Total</b>	<b>18,000,000</b>	<b>100.00</b>

*Note:* Mr. Huang Yugen is an Independent Third Party.

### ***Background of our ultimate Shareholders***

Immediately prior to the completion of the Global Offering, our Group was ultimately owned by Market Development Service Centre, Wenqiao Town People's Government, Qianyangxia Village Committee, Maoyang Village Committee, Shangjie Village Committee, Zhongjie Village Committee, Xuzhai Village Committee, Zhang Laoqiao Village Committee and Mr. Huang Yugen.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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Market Development Service Centre is a public institution\* (事業單位) organised by Wenling City Market Supervision and Administration Bureau\* (溫嶺市市場監督管理局) pursuant to the Regulations on the Administration of the Registration of Public Institutions\* (事業單位登記管理暫行條例) and the Rules of Implementation of the Regulations on the Administration of the Registration of Public Institutions\* (事業單位登記管理暫行條例實施細則), under which a public institution shall be organised by the authorities with state-owned assets to engage in social activities, including education, technology, culture or hygiene, for public interests and benefit. There is no equivalent concept of shareholding in respect of a public institution.

Each of Qianyangxia Village Committee, Maoyang Village Committee, Shangjie Village Committee, Zhongjie Village Committee, Xuzhai Village Committee and Zhang Laoqiao Village Committee is an autonomous organisation of the grassroot level (基層群眾性自治組織) with separate legal status established pursuant to the Organic Law of the Villagers' Committees of the People's Republic of China\* (中華人民共和國村民委員會組織法). Each village committee has its self-regulated articles and shall comprise three to seven members, including a chairman\* (主任), a vice-chairman\* (副主任) and other committee members\* (委員), who are elected by all members of the relevant village who are 18 years old or above. The responsibilities of each village committee include, among others, representing the interests of the village members, reporting at the meeting of village members or their representatives, executing the decisions made during the meeting of village members or their representatives, and assisting the PRC town or township governmental bodies generally. There is no equivalent concept of shareholding in respect of the village committee.

Save for the positions held by Mr. Wang Wenming, Mr. Cheng Jinyun and Mr. Ye Yunzhi, who are our non-executive Directors, in Maoyang Village Committee, Shangjie Village Committee and Zhongjie Village Committee, respectively, details of which are set out in the section headed "Relationship with Controlling Shareholders – Independence From Controlling Shareholders – Management independence" in this prospectus, none of our ultimate Shareholders have any relationships with our Group except for their respective interests in our Shares.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### Our subsidiaries

As at the Latest Practicable Date, our Company had two wholly-owned subsidiaries, details of which are as follows:

Name	Place of establishment	Date of establishment	Registered capital	Scope of business
Wenling Measuring and Cutting Tools Network Company Limited* (溫嶺工量刃具網有限公司)	the PRC	27 July 2011	RMB100,000	E-commerce technology development services
Wenling Xuri Investment Company Limited* (溫嶺市旭日投資有限公司)	the PRC	12 June 2018	RMB10,000,000	Investment business permitted by national laws, regulations and policies, real estate development and management, conference and exhibition and related services

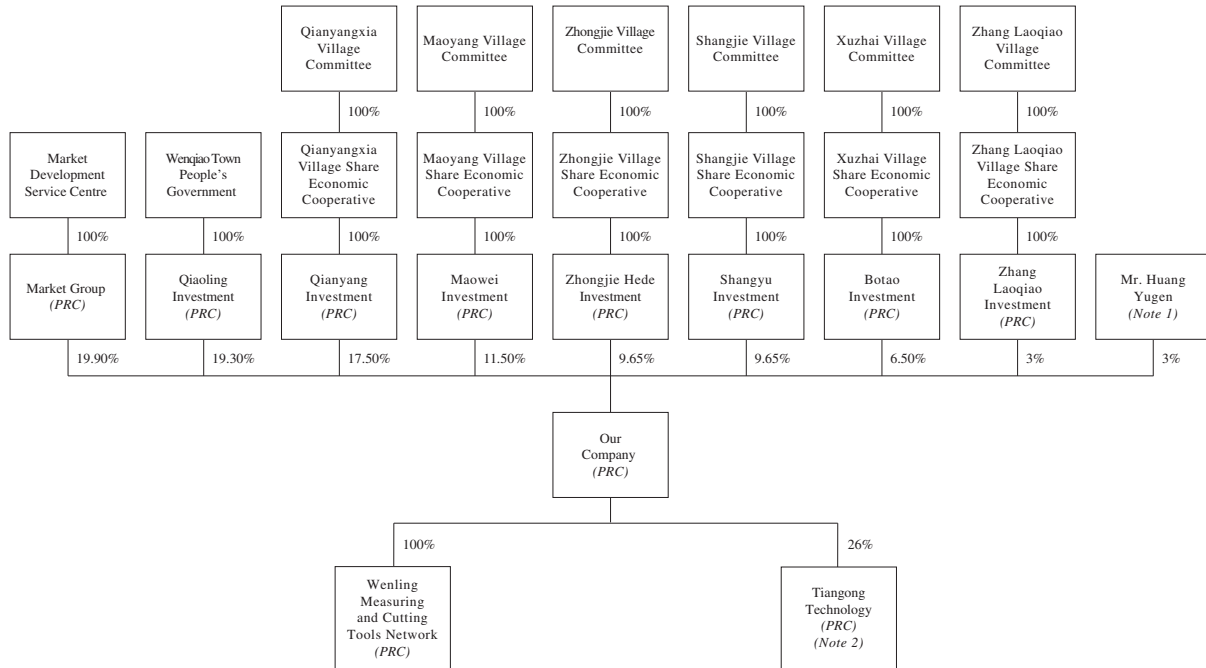
### CONCERT PARTY ARRANGEMENT

Pursuant to the Concert Party Agreement and the Concert Party Supplemental Agreement (together, the “**Concert Party Agreements**”), eight of our Controlling Shareholders, namely Market Development Service Centre, Wenqiao Town People’s Government, Qianyangxia Village Committee, Maoyang Village Committee, Shangjie Village Committee, Zhongjie Village Committee, Xuzhai Village Committee and Zhang Laoqiao Village Committee and their respective controlled corporations, who in aggregate will hold 72.75% equity interest in our Company after completion of the Global Offering (assuming the Over-allotment Option is not exercised), have confirmed that since the respective dates of their becoming a Shareholder, they have been cooperating and acting in concert with one another in respect of all material management matters. The abovementioned Shareholders have further undertaken that during the period wherein each party is holding the Shares, they shall first communicate, discuss and reach a unanimous decision before any party of the Concert Party Agreements proposes relevant matters to be considered at the Shareholders’ meeting or prior to the voting on the respective matters at the Shareholders’ meeting when exercising their shareholders’ rights (including but not limited to proposal right in shareholders’ meetings, voting rights and nomination rights). In case no consensus can be reached, they shall take the decision of Market Group and Market Development Service Centre as the final decision and the abovementioned Shareholders shall exercise their shareholders’ rights in accordance with their decision. In view of the concert party arrangement above, the abovementioned Shareholders are a group of Controlling Shareholders within the meaning of the Listing Rules.

# HISTORY, DEVELOPMENT AND REORGANISATION

## REORGANISATION

The corporate structure of our Group immediately prior to the Reorganisation was as follows:



Notes:

1. Mr. Huang Yugen is an Independent Third Party.
2. Immediately prior to Reorganisation, Tiangong Technology was owned as to 26% by our Company and 25%, 25%, 14% and 10% by Jiang Zhongrong\* (蔣忠榮), Lin Xinyuan\* (林新源), Zhejiang Shangyou Daoju Co., Ltd.\* (浙江上優刀具有限公司) and Sun Guomei\* (孫國美), respectively, who are Independent Third Parties. The scope of business of Tiangong Technology is the research, development, inspection, manufacturing and sale of measuring and cutting tools.



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## HISTORY, DEVELOPMENT AND REORGANISATION

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In preparation for the Listing, our Group underwent the Reorganisation to rationalise the corporate structure of our Group. The Reorganisation involved the following major steps:

### 1. Conversion into a joint stock limited liability company

On 3 May 2018, our Company was converted into a joint stock limited liability company and the name of our Company was changed to our current name, i.e. Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited\* (温岭浙江工量刃具交易中心股份有限公司). Upon the conversion, our Company had a registered capital of RMB60,000,000 comprising 60,000,000 Domestic Shares with a nominal value of RMB1.00 each, which had been subscribed and paid up by the then existing Shareholders in proportion to their then respective equity interests in our Company immediately prior to such conversion.

The following table sets out the shareholding structure and details of our Company after the above conversion:

Name of Shareholders	Number of Domestic Shares	Shareholding percentage (%)
Market Group	11,940,000	19.90
Qiaoling Investment	11,580,000	19.30
Qianyang Investment	10,500,000	17.50
Maowei Investment	6,900,000	11.50
Zhongjie Hede Investment	5,790,000	9.65
Shangyu Investment	5,790,000	9.65
Botao Investment	3,900,000	6.50
Zhang Laoqiao Investment	1,800,000	3.00
Mr. Huang Yugen <sup>(Note)</sup>	1,800,000	3.00
<b>Total</b>	<b>60,000,000</b>	<b>100.00</b>

*Note:* Mr. Huang Yugen is an Independent Third Party.

### 2. Transfer of equity interest of Tiangong Technology

For the purpose of better allocation of resources and streamlining our Group's corporate structure, in June 2018, we took part in a bid invitation auction and listing to dispose of our entire equity interest in Tiangong Technology, representing 26% of the total equity interest therein, to Qiaoling Investment, one of our Controlling Shareholders and Promoters, for a consideration of RMB279,000, which was determined with reference to the net asset value of Tiangong Technology as at 31 December 2017 based on a valuation by an

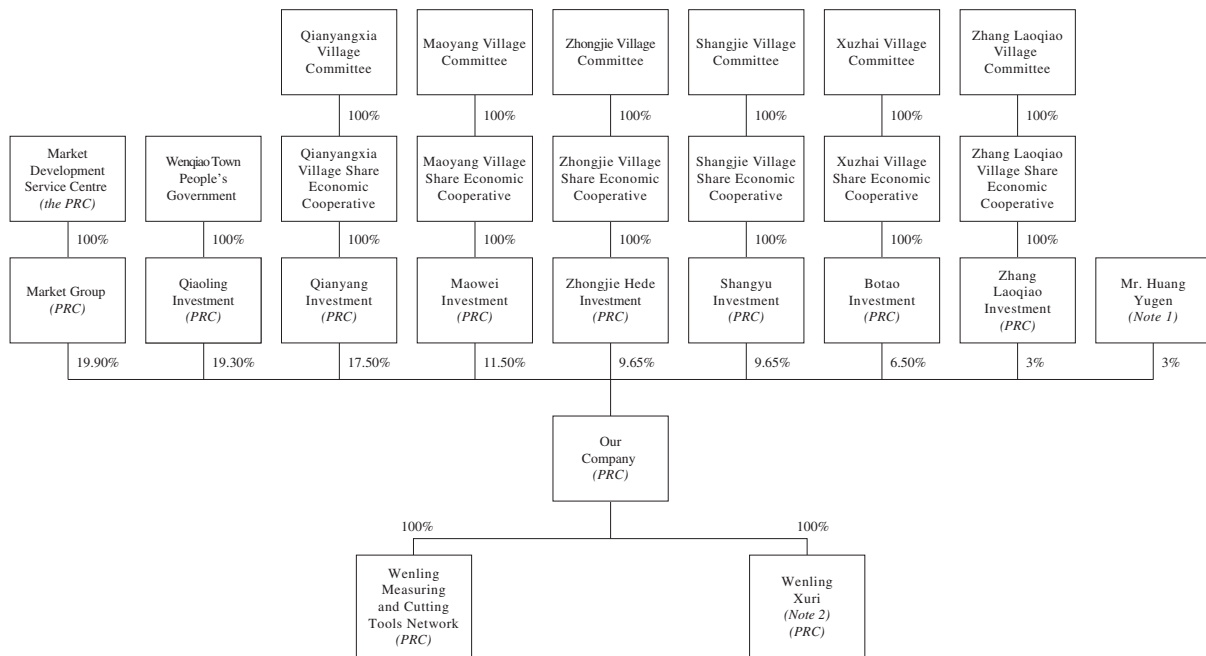
## HISTORY, DEVELOPMENT AND REORGANISATION

independent valuer and was settled on 13 June 2018. The registration of change of shareholding in Tiangong Technology in the relevant authorities was completed on 2 July 2018.

As advised by our PRC Legal Advisers, all the necessary internal and external approval for the Reorganisation set out above have been legally obtained and the Reorganisation has been duly completed in full compliance with the applicable PRC laws and regulations.

### OUR CORPORATE STRUCTURE

As at the Latest Practicable Date, our Company had issued 60,000,000 Domestic Shares and had a registered share capital of RMB60,000,000. The registered share capital is expected to increase to RMB80,000,000, comprising 60,000,000 Domestic Shares and 20,000,000 H Shares upon the Listing (assuming the Over-allotment Option is not exercised). The following chart sets out our corporate structure, immediately after completion of the Reorganisation but prior to completion of the Global Offering:

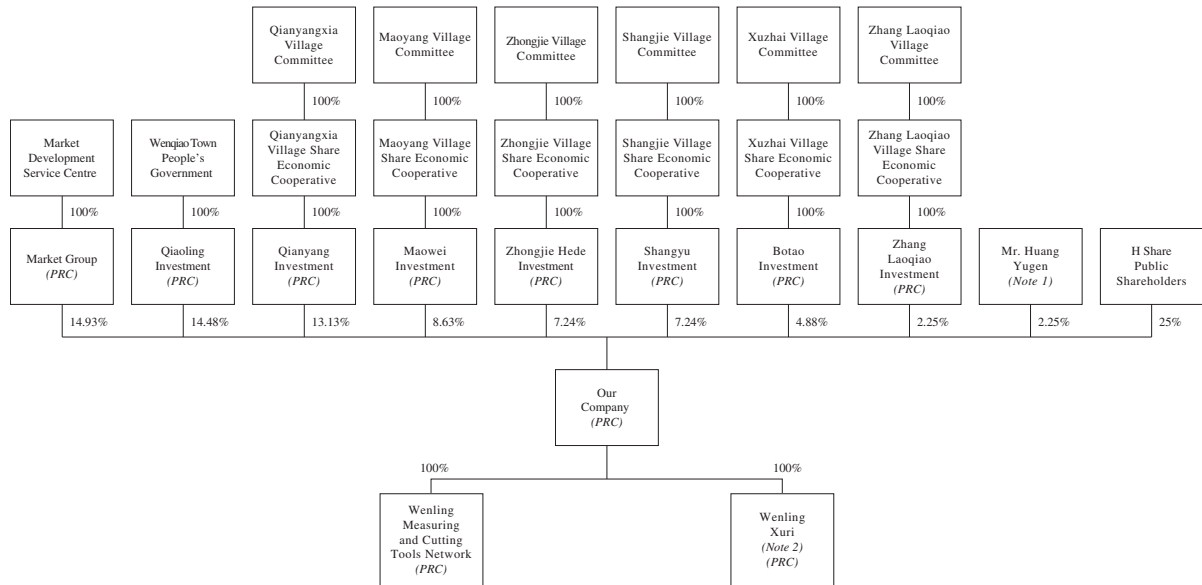


Notes:

1. Mr. Huang Yugen is an Independent Third Party.
2. Wenling Xuri was established on 12 June 2018.

## HISTORY, DEVELOPMENT AND REORGANISATION

The following chart sets out our corporate structure immediately following completion of the Global Offering, assuming no exercise of the Over-allotment Option and no change in shareholding by each of our Shareholders listed below subsequent to the Latest Practicable Date:



*Notes:*

1. Mr. Huang Yugen is an Independent Third Party.
2. Wenling Xuri was established on 12 June 2018.
3. The percentage figures of our Controlling Shareholders in the chart above are rounded to two decimal places. Any discrepancies in any reference to the aggregate percentage holding of Shares by our Controlling Shareholders in this prospectus and the individual percentage holding of Shares by each of them in the chart above are due to rounding.

**OVERVIEW**

We are an established Measuring and Cutting Tools trading centre operator in China. According to the F&S Report, the total sales revenue of trading Measuring and Cutting Tools by the tenants in the trading centres, independent shops and direct sales from manufacturers, rose from approximately RMB23.3 billion in 2013 to approximately RMB49.3 billion in 2018 in China, representing a CAGR of approximately 16.2% from 2013 to 2018. In 2018, the sales revenue of our Trading Centre was approximately RMB5.3 billion, representing approximately 10.8% of the total sales revenue of trading the Measuring and Cutting Tools in the PRC.

According to F&S, China has introduced a number of policies facilitating manufacturing industry in recent years. Machine tools industry is the foundation of industrial manufacturing. As the key components for machine tools, the Manufacturing and Cutting Tools manufacturing industry has been benefited from the prosperity of manufacturing industry which in turn has driven the development of Measuring and Cutting Tools trading centre as the same provides a centralised place for the trading of Measuring and Cutting Tools. In particular, according to The Thirteenth Five-year Plan of Intelligent Manufacturing (2016–2020)\* (《智能製造「十三五」發展規劃(2016–2020年)》), the Chinese government put forward a “two-step strategy\* (兩步走)”, pursuant to which intelligent manufacturing will become a long-term plan and strategy, traditional manufacturing will need to gradually transform into digital manufacturing. This policy which aims to expedite the process of intelligent manufacturing will, according to F&S, accelerate the upgrade or replacement of outdated manufacturing machine, in turn requiring additional demand for the Measuring and Cutting Tools of higher product quality. For example, traditional manufacturing market, such as aerospace which demands intelligent transformation, is expected to have increased demand of Measuring and Cutting Tools products to develop high precision CNC (Computerised Numerical Control) machine tools equipment industry and products replacement. In addition, emerging manufacturing market, such as industrial robot using new generation of information technology and intelligent manufacturing, will require additional demand of the machine tools and thus inspire the demand of the Measuring and Cutting Tools. As a result of the increased demand of machine tools abovementioned, it is expected that the manufacturers in the Measuring and Cutting Tools industry will be stimulated to offer larger production volumes and higher product quality of Measuring and Cutting Tools, and thus boosting the demands of the Measuring and Cutting Tools.

We own, operate and manage our Trading Centre located in Qianyangxia Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC\* (中國浙江省溫嶺市溫嶠鎮前洋下村). During the Track Record Period and as at the Latest Practicable Date, our principal activity and source of revenue were primarily derived from property leasing business through our operation of the Trading Centre for the Measuring and Cutting Tools industry. We aim to expand such property leasing business in the Measuring and Cutting Tools industry into the Industrial Park. Please refer to the paragraph headed “Business – Our Business Expansion – Measuring and Cutting Tools Industrial Park” in this section for further details. Our Trading Centre is a four-storey commercial complex with basement with a total GFA of approximately 74,204.7 sq.m., of which a total GFA of approximately 71,817.5 sq.m. is held for investment purpose and a total GFA of approximately 2,387.2 sq.m. is held for our own offices. As at 30 April 2019, we have 715 units

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in our Trading Centre and 617 tenants. According to the Property Valuer, the market value of our Trading Centre held for investment purpose and the Land were RMB912.5 million as at 31 August 2019. For the years ended 31 December 2015, 2016, 2017, 2018 and for the four months ended 30 April 2019, the average occupancy rates for our Trading Centre were approximately 100%, 94.1%, 94.8%, 98.5% and 99.0% respectively.

We have received numerous awards in recognition of our high-quality development and superior management, including “2018 Wenling City Key Service Enterprise\*” (2018年度溫嶺市重點服務業企業), “Taizhou City Key Service Enterprise\*” (台州市服務業重點企業) (2018), “Four-star Civilised and Regulated Market\*” (四星級文明規範市場) (2016–2018), “Chinese Top 100 Commodity Market\*” (中國商品市場百強) (2015), “2015 Wenling City Key Enterprise of the Service Industry\*” (2015年度溫嶺市服務業重點企業), “2014 Advanced Party Organisation\*” (2014年度先進黨組織), “Famous Brand in Taizhou City\*” (台州市著名商標) (2014), and “Taizhou Famous Service Brand\*” (台州服務品牌) (2014). Please refer to the paragraph headed “Awards and Accreditations” in this section for further details.

For the years ended 31 December 2015, 2016, 2017, 2018 and for the four months ended 30 April 2019, we generated a revenue of approximately RMB25.4 million, RMB45.1 million, RMB43.5 million, RMB47.0 million and RMB16.5 million, respectively. Our profits for the same periods were approximately RMB85.2 million, RMB46.7 million, RMB44.9 million, RMB37.0 million and RMB10.8 million respectively. The valuation gains on our investment property amounted to approximately RMB99.9 million, RMB18.4 million, RMB27.0 million, RMB17.0 million and RMB4.0 million, respectively, during the same periods.

### COMPETITIVE STRENGTHS

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

#### **Established position of our Trading Centre in the PRC to capitalise on the Measuring and Cutting Tools market in China**

We officially launched our Trading Centre in 2009. Over the years, we believe that our position has allowed us to become an established trading centre for Measuring and Cutting Tools in terms of revenue and the total sales revenue of trading Measuring and Cutting Tools by the tenants in our Trading Centre as well as number of type and brand of Measuring and Cutting Tools in the PRC according to the F&S Report.

China’s Measuring and Cutting Tools market has experienced substantial growth in recent years. According to the F&S Report, the total sales revenue of trading the Measuring and Cutting Tools rose from approximately RMB23.3 billion in 2013 to approximately RMB49.3 billion in 2018, representing a CAGR of approximately 16.2% from 2013 to 2018. Due to the increasing investment on fixed assets and implementation of upgrading of machine tools, as well as the steadily increasing price of the Measuring and Cutting Tools, the total sales revenue of trading the Measuring and Cutting Tools market is anticipated to

further expand, reaching to approximately RMB91.2 billion in 2023, with an expected CAGR of approximately 14.2% during the period of 2019 to 2023.

China has introduced a number of policies facilitating manufacturing industry in recent years, which will eventually benefit the Measuring and Cutting Tools market. In particular, The Thirteenth Five-year Plan of Intelligent Manufacturing (2016–2020)\* (《智能製造「十三五」發展規劃(2016–2020年)》) provided that the development of intelligent manufacturing will become the long-term strategic mission. Traditional manufacturing will need to gradually transform into digital manufacturing. By 2020, the development basis and supporting capacity of China's manufacturing will have to be remarkably strengthened. As the leader of the Measuring and Cutting Tools trading centre operator market in the PRC, we believe that we are well-positioned to benefit from intelligent manufacturing transformation stimulating our tenants to offer larger production volumes and improving product quality of their Measuring and Cutting Tools in our Trading Centre.

**Strong positioning to capture the growth potential of the Measuring and Cutting Tools market in China**

We are well-positioned in the Measuring and Cutting Tools market in the PRC. According to the F&S Report, the purchasers in the Measuring and Cutting Tools industry generally need to buy varieties of Measuring and Cutting Tools products at the same time. As a concentrated market, Measuring and Cutting Tools trading centres which meet purchasers' demand are indispensable to the whole manufacturing market. To enhance the purchasing and manufacturing efficiency, the purchasers prefer buying Measuring and Cutting Tools in trading centres rather than in individual shops. As at 31 December 2018, our Trading Centre was able to offer close to 13,000 types of Measuring and Cutting Tools from more than 500 different brands, including international and domestic brands, ranking the top among the Measuring and Cutting Tools trading centres in the PRC.

According to the F&S Report, the PRC Measuring and Cutting Tools market size by the total sales revenue of trading Measuring and Cutting Tools by the tenants in the trading centres, independent shops and direct sales from manufacturers has increased from approximately RMB23.3 billion in 2013 to RMB49.3 billion in 2018, in which our Trading Centre contributed approximately RMB5.3 billion in 2018. Wenqiao Town in Wenling City has been regarded as the Hometown of the Measuring and Cutting Tools Industry\* (中國工量刃具之鄉) and named as China Famous City for Tools\* (中國工具名城) by the China Machinery Industry Federation\* (中國機械工業聯合會). In 2018, according to the F&S Report, there are more than 1,400 manufacturers in the Measuring and Cutting Tools market in Zhejiang Province and a number of them are renting a place in and relying on our Trading Centre to develop and expand their businesses.

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Therefore, we believe that not only the development of our Trading Centre has been benefited from the development of Measuring and Cutting Tools industry in Wenqiao Town, our Trading Centre also has vigorously bolstered and promoted the expansion and development of the Measuring and Cutting Tools industry in the PRC as a whole which would in turn further capitalise the potential growth of our Group.

### **Distinctive Controlling Shareholder and government support**

Our history can be traced back to May 2003 when our Company was founded. Our Trading Centre was opened in 2009. Since our establishment, Market Group has been one of our Controlling Shareholders. Market Group is a well-established and sizeable state-owned enterprise in Wenling City, Zhejiang Province, which is wholly-owned by the Market Development Service Centre with the registered capital of RMB100 million. Market Group is principally engaged in investment and development and utilisation of major commodity market project. Its main responsibility includes financing, construction and management of various types of commodity trading market. In addition, our Trading Centre has enjoyed support from the Wenling City Government\* (溫嶺市政府) and Taizhou Municipal Government\* (台州市政府). Furthermore, our Controlling Shareholders comprise Wenqiao Town People's Government (溫嶠鎮人民政府), as well as several villagers' committees residing in near Wenqiao Town, Wenling City, Zhejiang Province, which have agreed to cooperate and act in concert with one another in respect of all material management matters of our Company pursuant to the Concert Party Agreements. As a result, we believe that we are in a position to utilise various government initiatives and earn the trust of our tenants. Please refer to the paragraph headed "Our Business – Supports by the Government" in this section for further details.

### **Our awards and accreditations consolidating our brand equity**

We have received numerous awards in recognition of our high-quality developments and superior management, including "2018 Wenling City Key Service Enterprise\*" (2018年度溫嶺市重點服務業企業), "Taizhou City Key Service Enterprise\*" (台州市服務業重點企業) (2018), "Four-star Civilised and Regulated Market\*" (四星級文明規範市場) (2016–2018), "Chinese Top 100 Commodity Market\*" (中國商品市場百強) (2015), "2015 Wenling City Key Enterprise of the Service Industry\*" (2015年度溫嶺市服務業重點企業), "2014 Advanced Party Organisation\*" (2014年度先進黨組織), "Famous Brand in Taizhou City\*" (台州市著名商標) (2014), and "Taizhou Famous Service Brand\*" (台州服務品牌) (2014). Please refer to the paragraph headed "Awards and Accreditations" in this section for further details. We believe our established position and brand recognition in the Measuring and Cutting Tools market will consolidate our tenants' confidence and enhance the chance for our Group to obtain further support from the local governments in negotiating arrangements relating to the future development of Wenling City and its Measuring and Cutting Tools market.



### **Stable tenant base allowing stable and recurring revenue source**

For the years ended 31 December 2015, 2016, 2017 and 2018 and for the four months ended 30 April 2019, we have achieved stable and high average occupancy rates of approximately 100%, 94.1%, 94.8%, 98.5% and 99.0%, respectively, for our Trading Centre. Our rental income increased from approximately RMB22.7 million for the year ended 31 December 2015 to approximately RMB45.9 million for the year ended 31 December 2018. We enjoy a relatively long term of four to 20 years lease term with our tenants. We provided value added and support services to our tenants, such as property management service and the implementation of the Index, the latter of which serves as an important indicator and reference to the selling price of the major Measuring and Cutting Tools for our tenants as well as their customers. Please refer to the paragraph headed “Support Services – Wenling • China Measuring and Cutting Tools Index” in this section for further details. Such arrangements allow us to build up and secure our tenant base, thereby ensuring a stable and recurring revenue source.

### **Our experienced management team**

We believe that the extensive experience in a broad range of functions comprising site management, cost control and quality control as well as efficient execution capability that our management team has accumulated are instrumental to achieving our past success and capturing future business opportunities as they arise.

Our senior management team consists of a group of skilled and knowledge adepts with an average of over nine years of experience and average tenure of over five years with our Group. For example, Mr. Pan Haihong, our executive Director, chief executive officer and general manager, has more than 21 years of management related experience of business development, corporate governance and administration. Mr. Zhou Guilin, our executive Director, chief operating officer and deputy general manager, is experienced in the areas of business operation and financial management. Throughout the operation and management of our business, we have been able to maintain effective and efficient management and operational control and supervision over our Group. For the biographies of our Directors, Supervisors and members of our senior management, please refer to the section headed “Directors, Supervisors and Senior Management” in this prospectus.

We believe our management team have led our Group through its growth and advancement, and they have been actively deliberating and contemplating further development plans to optimise our Trading Centre and expand our business to other territories in the Measuring and Cutting Tools industry. Please refer to the paragraph headed “Business Strategies” in this section for further details.

In addition to the experienced senior management team, our management is well-structured with eight departments with three deputy general managers overseeing different areas of our business and who shall report to our general manager before reporting to the Board. We believe our well-structured management allows clear division of labour, effective overseeing of our Group’s performance, and efficient implementation of our Group’s business strategies.



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### **Diverse Measuring and Cutting Tools products offerings by our Trading Centre effectively and extensively distributed regionally and nationally in the PRC**

We believe we have successfully established a distinctive brand recognition of our Trading Centre in the Measuring and Cutting Tools market in the PRC. According to the F&S Report, in 2018, Zhejiang Province, where our Trading Centre locates, has the largest production volume of Measuring and Cutting Tools by province, taking up approximately 36.2% of the total production volume by province in the PRC. In addition, Zhejiang Province also has the largest number of manufacturers of Measuring and Cutting Tools by province, taking up approximately 46.0% of the total number of manufacturers by province in the PRC.

Our Trading Centre offers close to 13,000 different types of Measuring and Cutting Tools from more than 500 international and domestic brands available for sale, ranking the top among the Measuring and Cutting Tools trading centres in the PRC in terms of number of type and brand of Measuring and Cutting Tools as at 31 December 2018. We believe that our ability to provide a large variety of Measuring and Cuttings Tools products to the industry players and other customers has contributed to the strong brand recognition of our Trading Centre in the Measuring and Cutting Tools in the PRC.

In addition, the Measuring and Cutting Tools products from our Trading Centre are effectively and extensively distributed in different parts of the PRC through the nationwide distribution and sales network and channels of the Wenling Business League. As the Measuring and Cutting Tools products from our tenants are readily traded and exchanged across China, we are confident that our Trading Centre's position and reputation in the domestic Measuring and Cutting Tools market have been further strengthened, therefore making our Trading Centre an established domestic trading and distribution centre for the Measuring and Cutting Tools.

### **BUSINESS STRATEGIES**

We intend to maintain and further strengthen our position in the Measuring and Cutting Tools industry and to expand our business by implementing the following business strategies:

#### **Further strengthen our market position in the Measuring and Cutting Tools market**

Given our competitive strengths in terms of our market position in the Measuring and Cutting Tools market, and the background of our Controlling Shareholders as well as various support of the Wenling City Government\* (温岭市政府), Taizhou Municipal Government\* (台州市政府) and Wenqiao Town People's Government (温峤镇人民政府), we are well-positioned to further strengthen and enhance our market position in the Measuring and Cutting Tools market as a whole. Moreover, we believe that a key to our continued success is our capability to manage various functions and operations of our Trading Centre. We are confident that we could replicate our success by capitalising our core competitive

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competencies when we from time to time consider acquisition, expansion opportunities to further expand our market positioning coverage.

We are selective in considering expansion opportunities in order to further develop our market presence. When evaluating such opportunities, we would consider the following selection criteria: (a) proximity to our office and tenants; (b) existence of untapped demand; and (c) availability of preferential governmental initiatives and rebates.

We are currently in the process of constructing and developing the Industrial Park which will be located in Wenqiao Town Chenshan Village\* (温嶠鎮琛山村). Please refer to the paragraph headed “Business – Our Business Expansion – Measuring and Cutting Tools Industrial Park” in this section for further details. With such strategic acquisitions and investments aforesaid, we believe it would allow us to scale up our operations and achieve greater success in developing our business in the Measuring and Cutting Tools market.

We are also exploring potential opportunities to expand our business into new markets in the PRC when and where necessary.

### **Further development of the Third Floor**

We plan to utilise the exhibition hall on the Third Floor to provide the Products Display Platform as well as the Product Testing Service Centre. Please refer to the paragraph headed “Our Business – Layout of our Trading Centre – Third Floor” in this section for further details regarding the layout plan of the Third Floor.

#### ***1. Refurbishment and renovation of the Third Floor***

With respect to the refurbishment and renovation of the Third Floor, we will use our banking facilities and/or internal resources to finance such refurbishment and renovation apart from the proceeds from the Global Offering. The following table sets forth the indicative timetable and particulars of the phases for such refurbishment and renovation:

		Expected	Expected	Expected total	
	Phases	timeframe	commencement	expenditure	Details of the major works
		(months)	date	(RMB)	
1.	Pre-construction	Two	January 2020	RMB2,442,000	Project management fees, design and surveying fees
2.	Construction	Seven	March 2020	RMB6,549,000	Commencement of the construction and relevant refurbishment works
3.	Equipment	Two	October 2020	RMB333,000	Purchasing relevant tools and equipment

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Phases	Expected timeframe <i>(months)</i>	Expected commencement date	Expected total expenditure <i>(RMB)</i>	Details of the major works	
4.	Setting up	Three	October 2020	RMB1,443,000	Installation of electrical power and equipment as well as water supply and drainage
5.	Completion	One	December 2020	RMB333,000	Completion of the construction by engaging external professional parties to perform completion inspection and acceptance of the same and payment of miscellaneous fees
			Total:	<u>RMB11,100,000</u>	

### ***2. Establishment of the Products Display Platform***

We are minded to utilise the Third Floor to provide the area for the establishment of the Measuring and Cutting Tools Products Display Platform. Set out below is how we contemplate the Products Display Platform can (a) work along with the e-commerce trading with respect to the trading of Measuring and Cutting Tools products; (b) facilitate the learning of the latest development of the Measuring and Cutting Tools industry.

#### ***(a) E-commerce trading and Products Display Platform***

- (i) According to F&S, generally speaking, e-commerce platforms and the Products Display Platform are targeting at two different categories of customers. The former is targeting at the customers who use the B2C e-commerce platform while the latter one who may use B2B e-commerce platform but usually have large procurement volume of Measuring and Cutting Tools products with high quality from reputable and reliable manufacturers;
- (ii) According to F&S, the customers in B2C e-commerce platform are retailers and individual customers with a smaller amount of procurement in general, and the B2C e-commerce platform is considered maturely developed as payments through mobile device are commonly used by the customers in China. On the other hand, corporate consumers with large procurement volume who consider quality, stability and after-sale service of the products from reputable and reliable manufacturers as their priority, generally need to

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physically take a look at their desirous products or communicate with the officers of the manufacturers in physical shops or through B2B e-commerce platform; and

- (iii) Therefore, we consider that the Products Display Platform may serve to showcase and advertise the latest Measuring and Cutting Tools products of high quality from the reputable and reliable manufacturers, for the corporate consumers to consider and have sufficient information (including their shape, dimensions, functions and specifications in details) of the desirous Measuring and Cutting Tools products before making bulk purchases.

According to F&S, a Measuring and Cutting Tools trading centre which is capable of providing a reputable professional e-commerce trading platforms with the synergistic effect of the online and offline channels such as the Products Display Platform in the industry will be more competitive than the others in the Measuring and Cutting Tools market. As such, we consider that it is necessary to establish the Products Display Platform in our Trading Centre to showcase and advertise the modern products in the Measuring and Cutting Tools industry to the corporate customers with large procurement volume.

*(b) Facilitate the learning of the latest development of the Measuring and Cutting Tools products through the Products Display Platform*

- (i) According to the F&S Report, considering the variety and fast replacement rate of the Measuring and Cutting Tools products nowadays, manufacturers are required to closely attend to downstream market changes and technology upgrades. However, the ineffective information exchange and sharing hinder manufacturers in the Measuring and Cutting Tools industry to promptly respond to downstream market changes which currently exist in the industry. The Products Display Platform aims to provide a more convenient communication platform for interested parties to exchange the latest information, technology and development of the Measuring and Cutting Tools industry so as to reduce the ineffectiveness of information exchange and sharing. For further details on how the Products Display Platform may benefit both the Measuring and Cutting Tools downstream consumers as well as the manufacturers, please refer to the section headed “Industry Overview – Overview of Measuring and Cutting Tools in China – Market Trends – Centralised Product Display Platform” in this prospectus.
- (ii) We believe that the manufacturers will be able to better handle the technical issues they may encounter in their business operations in the future through understanding the latest products and technology in the Products Display Platform. Following the Products Display Platform gaining industrial

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reputation gradually, it is expected that the regional competitiveness of the Measuring and Cutting Tools industry in Wenling City, Zhejiang Province as a whole is expected to be further strengthened.

- (iii) Our Directors consider that according to the practice and trend in the Measuring and Cutting Tools industry, attending relevant exhibitions or promotional events is one of the major channels where the individuals and corporations learn the latest development and update of the Measuring and Cutting Tools market. Furthermore, given the wide variety of the Measuring and Cutting Tools products, our Directors are also of the view that our Trading Centre is in need of an area to demonstrate the Measuring and Cutting Tools products to the customers of our Trading Centre.
- (iv) In light of the above, we intend to establish the Products Display Platform and expect that the Products Display Platform will be able to illustrate a variety of the Measuring and Cutting Tools products available in our Trading Centre more directly to our customers, as well as to enhance customers' experience and increase the publicity and reputation of our Trading Centre. We plan to encourage our tenants to illustrate and showcase and advertise the latest products of local, national and international brands in the Measuring and Cutting Tools industry in the Products Display Platform, which will allow our tenants, their customers and the stakeholders to understand the recent and latest development of the Measuring and Cutting Tools industry. Furthermore, we believe that the Products Display Platform will introduce additional customer flow to our Trading Centre, which will help increase the popularity and reputation of our Trading Centre as well as strengthening our established position amongst the trading centres in the Measuring and Cutting Tools industry.

We contemplate that the Products Display Platform will not have an adverse impact to the Group's rental income derived from leasing units on the First Floor and the Second Floor because we intend that (a) only our tenants (including manufacturers, suppliers, distributors and wholesalers of Measuring and Cutting Tools) will be permitted to showcase and advertise the Measuring and Cutting Tools products in the Products Display Platform; and (b) if there are buyers intending to purchase the Measuring and Cutting Tools products showcased therein, they will have to purchase through our tenants. We expect that fees for showcasing the Measuring and Cutting Tools products in the Products Display Platform will become part of the revenue of our Trading Centre.

In addition, we believe that the Products Display Platform serves as a strategic venue not only to enable the visiting parties to exchange the latest information and development of the Measuring and Cutting Tools industry with other attendees and our tenants, but also a convenient location for them to interact and network with each other.

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Apart from the proceeds from the Global Offering, we will use our banking facilities and/or internal resources to finance the construction of the Products Display Platform. The following table sets forth the indicative timetable and particulars of the phases for the construction of the Products Display Platform:

Phases	Expected timeframe (months)	Expected commencement date	Expected total expenditure (RMB)	Details of the major works
1. Construction	Two	January 2021	RMB918,000	Design and construction of the Products Display Platform
2. Equipment	Two	March 2021	RMB119,000	Purchasing equipment and furnishings
3. Setting up	Three	March 2021	RMB544,000	Setting up and installation of equipment
4. Completion and preparation of opening of the Products Display Platform	One	June 2021	RMB119,000	Completion of the construction, acceptance of the same and payment of miscellaneous fees.
Total:			<u>RMB1,700,000</u>	

### ***3. Establishment of the Product Testing Service Centre***

According to the F&S Report, the variety of the Measuring and Cutting Tools products are wide with uneven quality as at the Latest Practicable Date, no official and unified industrial standard has been established in the PRC. From a long-term perspective, this may not be conducive to the future development of the Measuring and Cutting Tools industry. As such, we consider that both the consumers and manufacturers in the Measuring and Cutting Tools industry demand the establishment of the Product Testing Service Centre. For corporate consumers which require a higher standard on product quality and precision, professional inspection conducted by accredited independent third parties will reduce the additional costs that may be incurred on quality control and unnecessary time for obtaining the high quality products. For manufacturers with advanced technology, professional inspection conducted at the Product Testing Service Centre will provide credit endorsement for the quality and precision of their products, thereby enhancing their competitiveness.

As advised by the PRC Legal Advisers, article 12 of the Product Quality Law provides, inter alia, that a product shall undergo inspection until its quality passes the standard. No sub-standard product shall be disguised itself as an up-to-standard one. In addition, article 27 of the same provides, inter alia, that the product shall possess a

certificate showing that the product has passed quality inspection. To the best of the knowledge and belief of our Directors, our tenants will submit the Measuring and Cutting Tools products for inspection and obtain the applicable compliance certificates before selling them in our Trading Centre. We have received a certificate issued by Wenling City Protection of Consumer Rights Committee\* (溫嶺市消費者權益保護委員會) certifying that they have not received any complaints from the consumers of our tenants regarding the sales conducted in our Trading Centre from 1 January 2015 to early January 2019. However, our Trading Centre currently lacks the advanced techniques, facilities and professionals to certify that the Measuring and Cutting Tools products are of higher quality and standard or with accreditations, which may not be able to satisfy the consumers with such requests. As such, our tenants currently may need to send the Measuring and Cutting Tools products to the suitable testing centres which are located far away from our Trading Centre or overseas, thereby causing certain inconvenience to the business operations of our Trading Centre and our tenants. In order to further strengthen the established position of our Trading Centre in the Measuring and Cutting Tools industry, we aim to improve the standard and quality of the Measuring and Cutting Tools available in our Trading Centre as well as in the Measuring and Cutting Tools industry overall. We contemplate to establish a national-level Product Testing Service Centre for the Measuring and Cutting Tools sold by our tenants and other Measuring and Cutting Tools manufacturers and build a professional and comprehensive inspection platform where accreditations from both China National Accreditation Service for Conformity Assessment\* (中國合格評定國家認可委員會) and China Metrology Accreditation\* (中國計量認證) qualifications may be obtained. We target to develop the Product Testing Service Centre to provide a service platform for the development of the Measuring and Cutting Tools industry and support for industrial upgrade and advancement, and help solve quality-related issues of our tenants as well as other Measuring and Cutting Tools manufacturers. We also expect that the product testing fees will become part of the revenue of our Trading Centre.

Upon consultation with the PRC Legal Advisers, we shall comply with the following laws and regulations of the PRC for operating the Product Testing Service Centre:

- (a) article 19 of the Product Quality Law provides, inter alia, that institutions for product quality inspection shall have the corresponding testing facilities and capabilities, and shall conduct product quality testing only after the examination and approval of the market regulatory authorities under the people's governments at and above the provincial level or of the organisations they have authorised;
- (b) articles 8 and 9 of the Notice on “Measures for the Categorisation and Supervision of Work Quality for Product Quality Inspection Institutions” (《產品質量檢驗機構工作質量分類監管辦法》) issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC\* (國家質量監督檢驗檢疫總局) (the “**General Administration**”) provide, among other things, that the institutions for product quality inspection shall pass the assessment under the Rules for Categorisation and Assessment of Work Quality for Product Quality Inspection Institutions\* (產品質量檢驗機構工作質量分類評價細則) (the “**Rules**”



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**for Categorisation and Assessment**”) developed by the General Administration and be categorised accordingly, before such institutions can commence the quality inspection works based on the category that they belong to; and

- (c) article 21 of the Product Quality Law of the PRC provides, inter alia, that institutions for product quality inspection shall, based on the relevant standards, be objective and impartial in issuing the result of inspection or authentication certificate. Such institution shall conduct follow-up inspection on the products bearing the certification mark (認證標誌). In the event that the inspected products do not meet the relevant standards, the institution shall demand rectification. If the circumstances are serious, the products shall be disqualified from using the certification mark.

In light of the above and as advised by the PRC Legal Advisers, we anticipate that the Product Testing Service Centre shall possess the requisite inspection capability with competent testing facilities, and pass the assessment under the Rules for Categorisation and Assessment in order to commence operation.

It is expected that the Product Testing Service Centre will provide testing and certification services. Further, we anticipate that the Product Testing Service Centre will conduct follow-up inspection on the relevant products in accordance with the relevant laws and regulations of the PRC abovementioned.

With the engagement of external professional parties to perform the testing and inspection procedures, the Product Testing Service Centre is expected to provide the following major testing platforms:

- (a) product geometry inspection platform – capable of testing the geometric parameters of the Measuring and Cutting Tools;
- (b) raw material inspection platform – capable of inspecting the composition, purity, microstructure and mechanical properties of high-speed steels\* (高速鋼), hard alloys\* (硬質合金), cermet\* (金屬陶瓷) and superhard materials\* (超硬材料);
- (c) heat treatment quality inspection platform – capable of inspecting the hardness and phase structure\* (相結構) after heat treatment and conducting failure analysis;
- (d) coating quality inspection platform – capable of inspecting the composition, thickness, bonding force and frictional wear and tear\* (摩擦磨損) of the coating; and
- (e) cutting test platform – capable of inspecting the precision and service life of the Measuring and Cutting Tools.



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Apart from the proceeds from the Global Offering, we will use our banking facilities and/or internal resources to finance the construction of the Product Testing Service Centre. The following table sets forth the indicative timetable and particulars of the phases for the construction of the Product Testing Service Centre:

Phases	Expected timeframe <i>(months)</i>	Expected commencement date	Expected total expenditure <i>(RMB)</i>	Details of the major works
1. Construction	Three	January 2021	RMB1,760,000	Design and construction of the Product Testing Service Centre
2. Equipment	Three	March 2021	RMB680,000	Renovation, decoration and purchasing relevant equipment
3. Setting up	Three	March 2021	RMB1,280,000	Renovation, decoration and installation of necessary equipment
4. Completion and preparation of opening of the Product Testing Service Centre	One	June 2021	RMB280,000	Completion of the construction, acceptance of the same and payment of miscellaneous fees
Total:			<u>RMB4,000,000</u>	

### **Transforming into the internet-enabled trading centre**

We intend to gradually transform into an internet-enabled trading centre in order to help our tenants improve their core business capabilities through internet technology. One of the initial internet-enabled facilities that we are minded to offer include an online trading platform.

The main goals of the implementation of an online trading platform are to (a) through our designated e-commerce website, effectively promote the Measuring and Cutting Tools offered by our tenants online; and (b) allow the customers of our tenants to directly and conveniently purchase the desired Measuring and Cutting Tools through the designated e-commerce website of our Trading Centre.

This designated e-commerce website of our Trading Centre is expected to have the following essential functions: (a) customer referral system, that the tenant can refer a customer to another tenant of our Trading Centre where the desired Measuring and Cutting Tools product is available; (b) marketing promotion (e.g. offering discount coupons and

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cash rebate when purchasing online by the customer); and (c) data analysis (e.g. website traffic analysis and customers behaviour analysis).

Our Directors are of the view that the online trading platform can help our tenants effectively market and sell their Measuring and Cutting Tools products online, and thus worldwide. We believe that it can also serve to enhance the brand image and popularity of our Trading Centre in the Measuring and Cutting Tools industry. While we do not expect that there will be any material change in the business model and revenue stream of our Trading Centre upon the transformation, we believe that the online trading platform can eventually improve the business capabilities of our tenants through potentially increasing the overall turnover and sale volume of the Measuring and Cutting Tool products in our Trading Centre.

We will use our banking facilities and/or internal resources to finance the transformation of our Trading Centre to an internet-enabled one. The following table sets forth the indicative timetable and particulars of the phases for such transformation:

Phases	Expected timeframe <i>(months)</i>	Expected commencement date	Expected total expenditure <i>(RMB)</i>	Details of the major works
1. Development of a marketing system	Six	March 2020	RMB1,800,000	Developing a marketing system including setting up a designated e-commerce website which serves multiple functions such as (a) data analysis system; (b) customers referral system; and (c) marketing promotion.
2. Development of a supply chain system	Four	September 2020	RMB1,200,000	Establishing the Measuring and Cutting Tools supply chain system that can systematically arrange and separate different Measuring and Cutting Tools suppliers according to their type, in order to provide product and tenant recommendations and manage the relevant purchase orders when the customers search for and purchase the specific Measuring and Cutting Tools products in the system.

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Phases	Expected timeframe <i>(months)</i>	Expected commencement date	Expected total expenditure <i>(RMB)</i>	Details of the major works
3. Development of a trading platform system	Six	January 2021	RMB1,800,000	Instituting the Measuring and Cutting Tools online trading website which serves to provide a platform for our tenants and their customers to sell and purchase the Measuring and Cutting Tools products online.
		Total:	<u>RMB4,800,000</u>	

### **Further strengthening our brand recognition**

We will continue to enhance our brand recognition through active and targeted promotions. Such marketing activities may involve a combination of leveraging the government initiative events and those that we develop in-house with the objective of consolidating our tenant bases and attracting new tenants.

We will continue to develop marketing initiatives in promoting and increasing our brand awareness, which may include event sponsorship, loyalty programmes, media advertising, industry exhibitions, e-commerce initiatives and other promotional activities. The ability to maintain the image of our brand in line with the Measuring and Cutting Tools market in China is and will continue to be a key factor in enhancing our brand recognition.

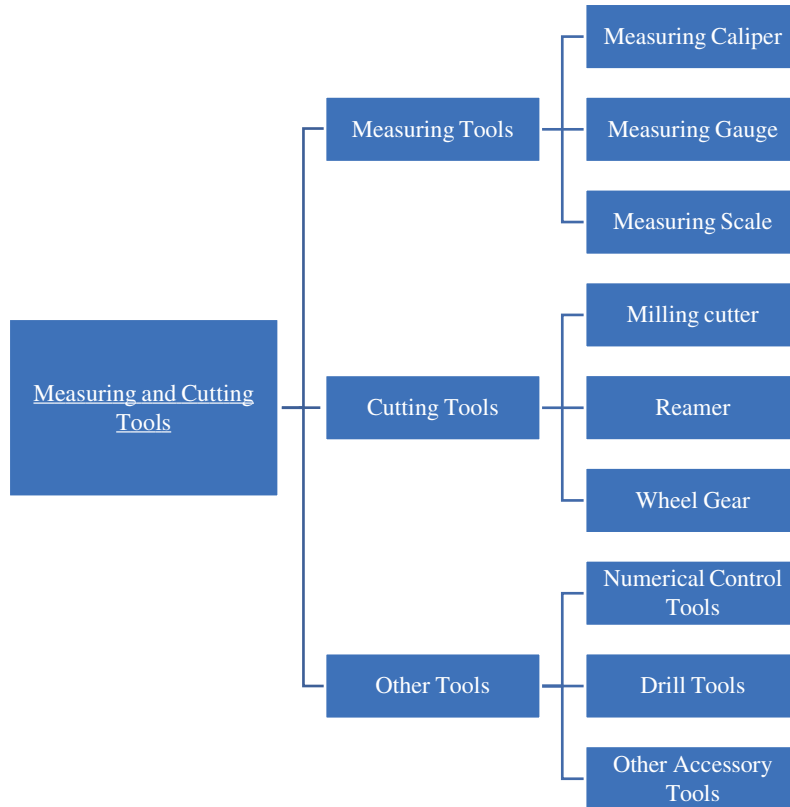
### **Development of the Industrial Park**

We have commenced the construction and development of the Industrial Park as part of our business expansion plan. Please refer to the paragraph headed “Our Business Expansion – Measuring and Cutting Tools Industrial Park” in this section for further details.

**OUR BUSINESS**

**Measuring and Cutting Tools**

According to the F&S Report, the Measuring and Cutting Tools refer to those tools or products which are always used in the machine manufacturing process. They mainly include measuring tools, cutting tools and other tools. Our tenants offer both domestic and international brands of Measuring and Cutting Tools. Set out below is a diagram summarising the major categories of Measuring and Cutting Tools:



As a general description, measuring tools are used to measure the size, angle and shape of machine parts, cutting tools refer to the tools that are used to incise and process, and other tools refer to the appliances that are used as auxiliaries for measuring and cutting in manufacturing. For further details, please refer to the section headed “Industry Overview – Introduction of Measuring and Cutting Tools in China – Classification of Measuring and Cutting Tools” in this prospectus.

### Development of our Trading Centre



We own, operate and manage our Trading Centre located in Qianyangxia Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC\* (中國浙江省溫嶺市溫嶠鎮前洋下村) since 2009 named as China Zhejiang Measuring and Cutting Tools Trading Centre\* (中國浙江工量刃具交易中心).

At present, our Trading Centre is a four-storey commercial complex with basement with a total GFA of approximately 74,204.7 sq.m., of which a total GFA of approximately 71,817.5 sq.m. is held for investment purpose and a total of GFA of approximately 2,387.2 sq.m. is held for our own use. We lease the units in the First and the Second Floors to corporations and individuals selling Measuring and Cutting Tools. We designate part of the Third Floor as the Electronic Business Park to lease to the Measuring and Cutting Tools e-commerce business operators. We use the Fourth Floor as our office and the basement as the car park.

According to the Property Valuer, the market value of our Trading Centre held for investment purpose was RMB849.0 million as at 31 August 2019.

Transportation Network

Below is a map that sets out the location of our Trading Centre and the surrounding transportation network in Wenling City:







Our Trading Centre conveniently situates in Wenling Industrial Park District, Wenqiao Town, Wenling City\* (温岭市温嶠鎮(温嶠工業園區)), a strategic location that is close to the major roads of Wenling City such as Jiulong Main Road\* (九龍大道), 104 Guo Dao Xian\* (104 國道線) and Yong Tai Wen Highway\* (甬台温高速公路). It is only 25 kilometres away from Taizhou Luqiao Airport\* (台州路橋機場) in which direct flights to and from major cities of the PRC such as Shanghai, Guangzhou and Beijing are available, and 13 kilometres away from Wenling Railway Station\* (温嶠火車站). We are of the view that our Company benefits from the advantageous location where our Trading Centre locates as the current or potential customers can easily access to our Trading Centre by air, train and drive.

### Supports by the government

We have received supports from the Wenling Government. In accordance with the official people’s government document of Wenling City titled “Opinions on the support to the development of Zhejiang trading centre for Measuring and Cutting Tools provided by Wenling Government\* (温岭市人民政府關於扶持浙江工量刀具交易中心發展的若干意見)” (Wen Zheng Fa [2009] 159 Hao\* (温政發[2009] 159號)), we benefited from the following:

1. our Trading Centre was confirmed to be an important corporation in the tertiary sector that has been the primary focus of Wenling City. There was preferential policy with respect to use of land and tax, under which government subsidy was granted to us;

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2. the Wenling Government had proactively supported and directed the establishment of our Group companies and such establishment was led and prepared by the Industry and Commerce Bureau\* (工商局) of Wenling City;
3. the Wenling Government concurred that a testing centre should be constructed in our Trading Centre, aiming to provide quality control for the Measuring and Cutting Tools manufactured and available for sale in Wenling City; and
4. the Wenling Government actively supported our Trading Centre and our tenants to do brand building:
  - (a) when our Trading Centre or our tenants registered a trademark, the Wenling Government would provide a one-time subsidy in the amount of RMB1,000;
  - (b) when a famous trademark\* (著名商標) of Taizhou city, a famous trademark of Zhejiang Province or a well-known trademark\* (馳名商標) of China was created, the Wenling Government would give a one-time award in the amount RMB50,000, RMB100,000 and RMB500,000, respectively; and
  - (c) when a famous brand at Taizhou city level, province level or national level\* (台州市級、省級及國家級名牌) was created, the Wenling Government would give a one-time award in the amount of RMB20,000, RMB50,000 and RMB300,000, respectively.

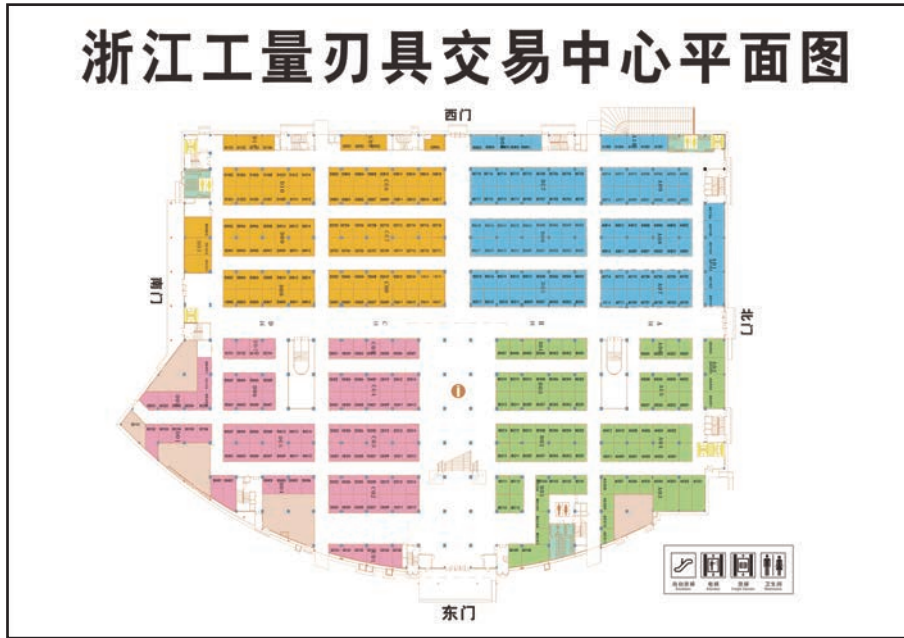
Historically, between 2009 and 2013 we received several government subsidies and the land use rights and property tax rebate with reference to the above policy.

In addition, during the Track Record Period, we received government grants of RMB0.5 million in relation to quality merit for the year ended 31 December 2018 and the grants of RMB0.5 million in relation to e-commerce incentive for the year ended 31 December 2017.

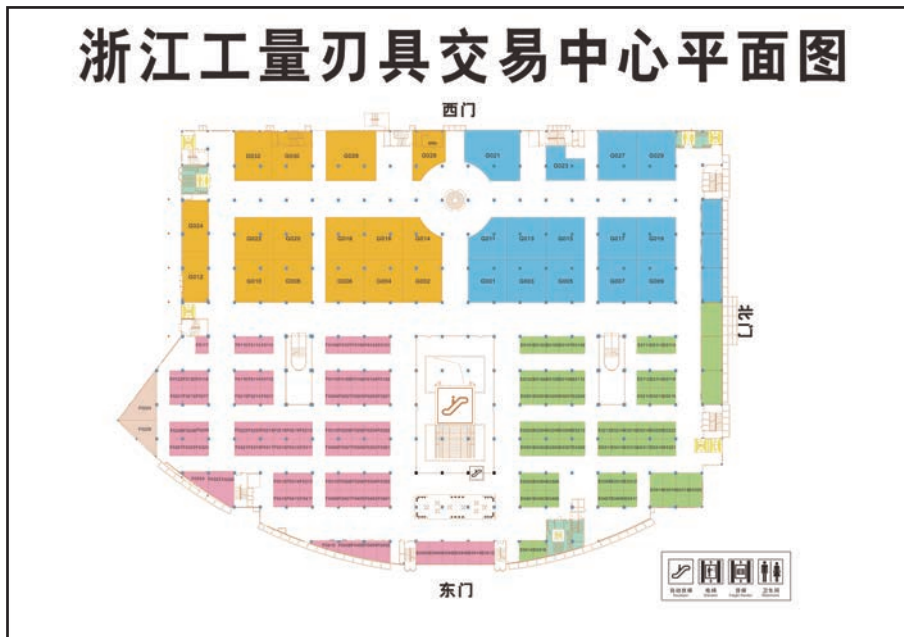


Layout of our Trading Centre

*First Floor*



*Second Floor*



For the purposes of effective administration and better management of our Trading Centre, we divide the floors into a number of zones. Zone A, Zone B, Zone C and Zone D are on the First Floor, while Zone E, Zone F and Zone G are on the Second Floor.

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Set out below shows the number and size of the units in each zone as at 30 April 2019:

### *First Floor*

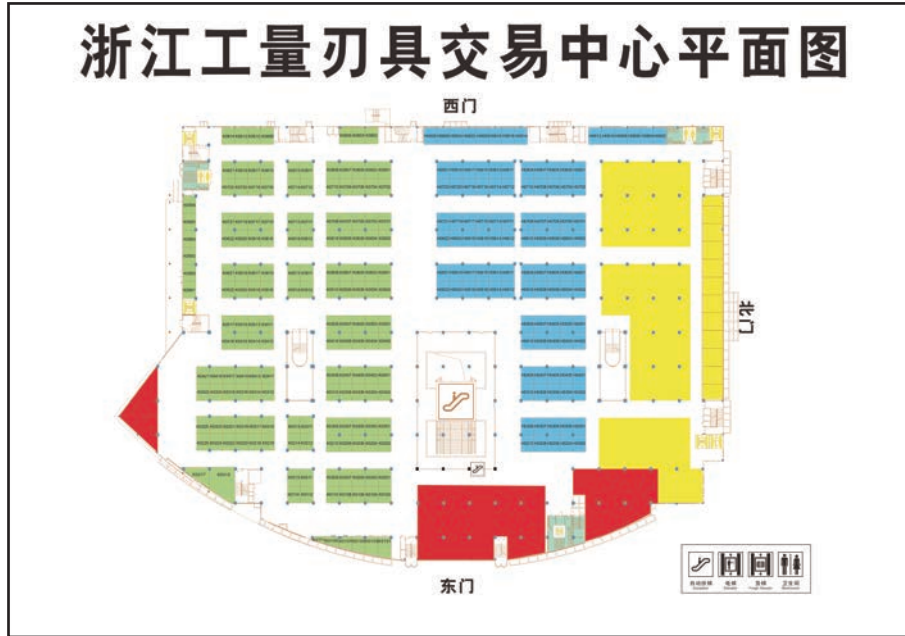
<b>Zone</b>	<b>LFA (sq.m.)</b>	<b>Number of units</b>	<b>Approximate size of each unit (sq.m.)</b>
Zone A	1,805.1	92	19.6
Zone B	1,920.4	107	17.9
Zone C	2,025.6	112	18.1
Zone D	1,800.2	94	19.2
<b>Total</b>	<b>7,551.3</b>	<b>405</b>	

### *Second Floor*

<b>Zone</b>	<b>LFA (sq.m.)</b>	<b>Number of units</b>	<b>Approximate size of each unit (sq.m.)</b>
Zone E	1,590.5	70	22.72
Zone F	1,764.5	89	19.8
Zone G	4,358.0	38	114.7
<b>Total</b>	<b>7,713.0</b>	<b>197</b>	

As the industry of Measuring and Cutting Tools is a relatively specialised industry, each of our tenants usually provide a comprehensive range of different types of Measuring and Cutting Tools to their customers. Generally speaking, the size of each unit on the First Floor and the Second Floor is approximately the same except for Zone G, in which we have relatively large corporate tenants who rent larger units.

*Third Floor*



The Third Floor mainly consists of the Electronic Business Park, a business centre and an exhibition hall.

The grand opening of the Electronic Business Park on the Third Floor took place in August 2016. Its main purpose is to provide an open, low-cost and convenient trading platform for the e-commerce business operators in the Measuring and Cutting Tools industry. As at 30 April 2019, we have 69 tenants renting 113 units on the Third Floor, taking up LFA of approximately 2,040.0 sq.m. and have successfully attracted certain remarkable Measuring and Cutting Tools e-commerce business operators, one of which was Tools Union\* (刀具聯盟), which was chosen by Wenling Bureau of Commerce\* (溫嶺商務局) as the e-commerce model enterprise\* (電子商務示範企業) in 2016.

The business centre on the Third Floor, occupying LFA of approximately 519 sq.m. serves not only to provide support service such as photocopying service to facilitate our tenants to do business discussions, but also an entertaining area for social networking. In addition, we tend to utilise the exhibition hall, the LFA of which is approximately 10,000 sq.m., to provide the Products Display Platform and the Product Testing Service Centre. Please refer to the paragraph headed “Business Strategies – Further development of the Third Floor” in this section for further details.

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### *Fourth Floor*

The Fourth Floor is where our office locates. There are a number of offices on the Fourth Floor including the office of the chairman of our Board, the office of general manager and secretary and the finance department. The members of our senior management as well as supporting staff work together to ensure that our Trading Centre operates smoothly on a daily basis and provide imminent support and customer service to our tenants and their customers.

### *Basement*

The basement of our Trading Centre, with the LFA of approximately 6,383.7 sq.m., mainly serves as a car park of our Trading Centre. As at 30 April 2019, we have 242 car parking spaces available.

The table below provides a summary of the number of tenants as well as the rental income generated by different floors (excluding the Fourth Floor) and the basement of our Trading Centre for the years ended 31 December 2015, 2016, 2017 and 2018 and for the four months ended 30 April 2019:

	As at/For the year ended 31 December						As at/for the four months ended 30 April			
	2015		2016		2017		2018		2019	
	No. of tenants	Rental income generated <i>RMB'000</i>	No. of tenants	Rental income generated <i>RMB'000</i>	No. of tenants	Rental income generated <i>RMB'000</i>	No. of tenants	Rental income generated <i>RMB'000</i>	No. of tenants	Rental income generated <i>RMB'000</i>
First Floor <sup>(1)</sup>	371	15,854	351	34,666	354	33,553	360	35,654	365	12,132
Second Floor <sup>(1)</sup>	180	5,624	159	7,849	167	7,315	183	8,455	183	2,879
Third Floor <sup>(2)</sup>	-	-	68	226	69	703	69	704	69	245
Basement	-	1,184	-	1,082	-	1,142	-	1,094	-	377
<b>Total:</b>	<b>551</b>	<b>22,662</b>	<b>578</b>	<b>43,823</b>	<b>590</b>	<b>42,713</b>	<b>612</b>	<b>45,907</b>	<b>617</b>	<b>15,633</b>

#### *Notes:*

- (1) The rental income generated from the First Floor was more than the same from the Second Floor primarily because the First Floor has a higher customer flow, giving it overall a more prime location than the Second Floor. Therefore, the minimum bidding amount to rent a unit on the First Floor is higher than that on the Second Floor. Please refer to the paragraph headed “Our Business – Our business model – Workflow of our property leasing business – (1) tenant selection – public tender” in this section for further details.
- (2) The figure for the Third Floor was nil for the year ended 31 December 2015 because the grand opening of the Third Floor took place in August 2016. Please refer to the paragraph headed “Our Business – Layout of our Trading Centre – Third Floor” in this section for further details.

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### *Value added services*

We also complement our Trading Centre by facilitating and making available to our tenants and their customers a full range of value added services including provision of venues for conference, business and commercial centre, supermarket, car park, banking and advertising services as well as food and beverage services. Except for the complementary conference venue, we entered into separate rental agreements with each of the providers or users of the value added services (as the case may be). Set out below is the pricing policy for each of the value added services:

<b>Value added services</b>	<b>Parties to the rental agreement</b>	<b>Pricing policy</b>
Business and commercial centre	User of the business and commercial centre	Public tender
Supermarket	Operator of the supermarket	Public tender
Parking spaces in the car park	User of the parking spaces	In the range of RMB13.0 per sq.m. to RMB16.0 per sq.m. in general during the Track Record Period
Banking service	Banks	Commercial negotiations with the banks considering factors such as the location and size of the area to be rented
Advertising service	Interested tenants	Commercial negotiations with the interested tenants considering factors such as the location and size of the advertisement
Food and beverages service	Restaurant	Public tender

**OUR BUSINESS MODEL****Our Trading Centre**

We lease the units in our Trading Centre to corporations and individuals, essentially for product displaying and trading purposes, such that it primarily targets to provide units for use as shops for the tenants to display, trade and promote their Measuring and Cutting Tools products to their downstream customers. We also provide property management service to our tenants through subcontracting and car parking service to them. In addition, support services, namely the Index and the Measuring and Cutting Tools Financing Service, are also provided to our tenants.

**Tenant profile**

Our Trading Centre had 617 tenants as at 30 April 2019. Our tenants include an array of manufacturers and suppliers of Measuring and Cutting Tools, distributors of domestically and internationally renowned brands for Measuring and Cutting Tools as well as wholesaler, seeking to display, trade and promote their products in our Trading Centre. Our tenants include both domestic companies with (a) long-term experience in the PRC's Measuring and Cutting Tools market, as well as (b) new market entrants seeking to gain a share in the Measuring and Cutting Tools market.

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The following table sets forth the information during the Track Record Period relating to our five largest tenants in terms of rental income.

Tenant <sup>(1)(3)</sup>	Approximate years of relationship	For the year ended 31 December				For the four months ended 30 April 2019					
		2015	2016	2017	2018	2019	2018	2019	2019		
		Rental Income (RMB'000)	Percentage to our total rental income <sup>(2)</sup> (%)	Rental Income (RMB'000)	Percentage to our total rental income <sup>(2)</sup> (%)	Rental Income (RMB'000)	Percentage to our total rental income <sup>(2)</sup> (%)	Rental Income (RMB'000)	Percentage to our total rental income <sup>(2)</sup> (%)	Rental Income (RMB'000)	Percentage to our total rental income <sup>(2)</sup> (%)
Taizhou Shuguangxing Measuring and Cutting Tools Sale Centre Co., Ltd.* (台州曙光星工量刃具銷售中心有限公司)	8	199	0.8	-	-	-	-	-	-	-	-
Cai Luxin* (蔡露欣)	8	185	0.7	229	0.5	243	0.6	248	0.5	83	0.5
Wenling City Dongnai Tools Sale Co., Ltd.* (溫嶺市東耐工具銷售有限公司)	7	174	0.7	-	-	-	-	-	-	-	-
Li Xinlin* (李新林)	10	152	0.6	-	-	-	-	-	-	-	-
Wang Xuening* (王雪明)	6	130	0.5	-	-	-	-	-	-	-	-
Wenling City Xingke Tools Co., Ltd.* (溫嶺市星科工具有限公司)	4	-	-	297	0.7	306	0.7	316	0.7	105	0.7
Wenling City Hongzhong Shukong Cutting Tools Co., Ltd. Wenjiao Branch* (溫嶺市宏中數控刀具有限公司溫嶺分公司)	4	-	-	291	0.6	301	0.7	310	0.7	103	0.6
Taizhou City Ruian Hard Alloy Co., Ltd.* (台州市銳安硬質合金工具有限公司)	4	-	-	291	0.6	301	0.7	310	0.7	103	0.6
Yu Dingcheng* (俞鼎城)	4	-	-	268	0.6	-	-	-	-	-	-
Shao Xiaoming* (邵小明)	8	-	-	-	-	237	0.5	247	0.5	83	0.5
<b>Total</b>		840	3.3	1,377	3.0	1,389	3.2	1,431	3.1	477	2.9



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*Notes:*

- (1) None of our tenants, whether the five largest or not, is a Connected Person as at the Latest Practicable Date.
- (2) Calculated on the basis of each tenant's contribution to total rental income of our Trading Centre.
- (3) For the rental income information of the tenant that is not available, it may be due to the fact that either the rental income of such tenant did not make to our five largest tenants as at the relevant period, or such tenant was no longer our tenant.

### Rental rate

The following table sets forth the information regarding the average monthly effective rent per sq.m. for the leased area in our Trading Centre for the Track Record Period.

	For the year ended 31 December				For the four months ended 30 April
	2015	2016	2017	2018	2019
	Average Monthly Effective Rent <sup>(1)</sup>	Average Monthly Effective Rent <sup>(1)</sup>	Average Monthly Effective Rent <sup>(1)</sup>	Average Monthly Effective Rent <sup>(1)</sup>	Average Monthly Effective Rent <sup>(1)</sup>
	<i>(in RMB per sq.m.)</i>				
First Floor	273.9	412.2	410.6	412.6	413.6
Second Floor	92.0	120.7	117.3	121.4	120.5
Third Floor	–	28.6	28.7	28.7	28.1
Basement	14.5	14.4	14.4	14.4	14.3

*Note:*

- (1) Average monthly effective rent is calculated by total rental income dividend by the weighted average leased LFA during the periods indicated.

### ***First Floor***

The average monthly effective rent per sq.m. increased by approximately 50.5% from approximately RMB273.9 for the year ended 31 December 2015 to approximately RMB412.2 for the year ended 31 December 2016 since we renewed all of the rental agreements that were expired in October 2015 with higher rental rates.

The average monthly effective rent per sq.m. remained relatively stable at RMB410.6, RMB412.6 and RMB413.6 for the years ended 31 December 2017 and 2018 and for the four months ended 30 April 2019.

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### ***Second Floor***

The average monthly effective rent per sq.m. increased by approximately 31.2% from approximately RMB92.0 for the year ended 31 December 2015 to approximately RMB120.7 for the year ended 31 December 2016 since we renewed all of the rental agreements that were expired in October 2015 with higher rental rates.

The average monthly effective rent per sq.m. remained relatively stable at RMB117.3, RMB121.4 and RMB120.5 for the years ended 31 December 2017 and 2018 and for the four months ended 30 April 2019.

### ***Third Floor***

The average monthly effective rent per sq.m. remained relatively stable at RMB28.6, RMB28.7, RMB28.7 and RMB28.1 for the years ended 31 December 2016, 2017 and 2018 and for the four months ended 30 April 2019.

### ***Basement***

The average monthly effective rent per sq.m. remained relatively stable at approximately RMB14.5, RMB14.4, RMB14.4, RMB14.4 and RMB14.3 for the years ended 31 December 2015, 2016, 2017, 2018 and for the four months ended 30 April 2019, respectively.

The average monthly effective rent per sq.m. remained relatively stable for the years ended 31 December 2017 and 2018 and for the four months ended 30 April 2019.

### **Delinquency rate**

In accordance with the tenancy agreement with our tenants, we in general demand full-year payment of rent prior to the commencement of the subsequent year. Therefore, we do not experience any delinquency with respect to the rental income by our tenants.

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### Occupancy rate

The following table sets forth the information regarding the LFA of our Trading Centre and the percentage of LFA leased to our tenants during the Track Record Period.

	As at 31 December						As at 30 April			
	2015		2016		2017		2018		2019	
	LFA (sq.m.)	LFA leased <sup>(1)</sup> (%)	LFA (sq.m.)	LFA leased <sup>(1)</sup> (%)	LFA (sq.m.)	LFA leased <sup>(1)</sup> (%)	LFA (sq.m.)	LFA leased <sup>(1)</sup> (%)	LFA <sup>(6)</sup> (sq.m.)	LFA leased (%)
First Floor <sup>(2)</sup>	8,043.3	100	8,043.3	95.2	8,043.3	93.9	8,043.3	95.5	8,043.3	96.9
Second Floor <sup>(3)</sup>	7,665.5	100	7,665.5	87.2	7,665.5	89.9	7,713.0	100.0	7,713.0	100.0
Third Floor <sup>(4)</sup>	-	-	2,040.0	97.1	2,559.0	100.0	2,559.0	100.0	2,559.0	100.0
Basement <sup>(5)</sup>	6,499.3	100	6,522.0	100.0	6,522.0	100.0	6,383.7	100.0	6,383.7	100.0
Total/Weighted average	22,208.1	100	24,270.8	94.1	24,789.8	94.8	24,699.0	98.5	24,699.0	99.0

*Notes:*

- (1) LFA leased is calculated as the percentage of LFA retained and leased to our tenants comparing to the LFA for each of the periods.
- (2) The First Floor comprised (a) Zone A, Zone B, Zone C and Zone D with a total area of approximately 7,551.3 sq.m.; and (b) value added service including a restaurant, a supermarket and banking facilities with a total area of approximately 492 sq.m..
- (3) The LFA of the Second Floor increased by approximately 0.6% from 7,665.5 sq.m. as at 31 December 2017 to 7,713.0 sq.m. as at 31 December 2018 primarily because of a slight rearrangement and modification of the usable area in the Second Floor.
- (4) The figures for the Third Floor are nil for the year ended 31 December 2015 because the grand opening of the Third Floor took place in August 2016. The business and commercial centre with a size of 519 sq.m. was available for lease at 8 January 2017. Please refer to the paragraph headed “Our Business – Layout of our Trading Centre – Third Floor” in this section for further details.
- (5) The LFA of the basement increased by approximately 0.3% from approximately 6,499.3 sq.m. as at 31 December 2015 to 6,522.0 sq.m. as at 31 December 2016 and decreased by approximately 2.1% from approximately 6,522.0 sq.m. as at 31 December 2017 to 6,383.7 sq.m. as at 31 December 2018 primarily because of a slight rearrangement and modification of the usable area in the basement.
- (6) The LFA leased on the First Floor, the Second Floor and the Third Floor as at 30 April 2019 were approximately 7,796.2 sq.m., 7,713.0 sq.m. and 2,559.0 sq.m. respectively, with the total LFA leased of approximately 18,068.2 sq.m..

The LFA leased of the First Floor decreased from 100% as at 31 December 2015 to 95.2% as at 31 December 2016 primarily because 21 tenants terminated the rental agreement in October 2016 before expiry and the Group could not lease out lease units as at 31 December 2016.

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As a result of the collective hard work of our effective leasing management team as well as our renowned reputation as an established Measuring and Cutting Tools Trading Centre in terms of revenue and the total sales revenue of trading Measuring and Cutting Tools by the tenants in our Trading Centre in the PRC, we have been able to maintain stable and high average occupancy rates of our Trading Centre during the Track Record Period.

### **Workflow of our property leasing business**

We lease the units in our Trading Centre primarily through public tender. Subsequently, in the event that there are units still available for rent, we will enter into the tenancy agreements with the approaching and interested tenants directly. With respect to the public tender, our leasing management department is primarily responsible for (1) tenant selection – public tender; (2) preparation of tenancy agreements; and (3) execution of tenancy agreements.

#### ***(1) Tenant selection – public tender***

Our Group believes that marketing and imaging our Trading Centre as an established Measuring and Cutting Tools trading centres in the PRC is crucial to the development of our Trading Centre as well as our Group. An essential component of market positioning and images involves, in our opinion, a good and diversified Measuring and Cutting Tools tenant mix offered in our Trading Centre. We welcome different types of individuals and corporations in the Measuring and Cutting Tools industry through public tender, whether they are reputable corporations with many branches all over the PRC, or individuals or niche companies which do not have long operating history, in order to create diversified tenant mix in our Trading Centre.

Set out below is the principal terms in the public tender announcement that we used for the tenant selection:

- (a) target tenants – (i) for the First Floor and the Second Floor: any individuals or corporations that are interested in selling Measuring and Cutting Tools; (ii) for the Third Floor: e-commerce operators in the Measuring and Cutting Tools industry;
- (b) units available – units in the First Floor, the Second Floor and the Third Floor;
- (c) method of tender – (i) for the First Floor and Second Floor: sealed-bidding. The bidding amount corresponds to the priority of the unit selection by the successful bidder. The higher the bidding amount offered by the successful bidder, the earlier such bidder to choose the unit; (ii) for the Third Floor: casting lots. Each of the individual or corporation who already paid the deposit took a piece of paper with number from a covered container. The larger the number taken, the earlier that such individual or corporation to choose the unit;

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- (d) minimum bidding amount – (i) for the First Floor: RMB4,000 per month per unit for tenancy agreements with term of five years and RMB2,833.3 per month per unit for tenancy agreements with term of 20 years for the units in Zones A, B, C, and D; (ii) for the Second Floor: RMB2,000 per month per unit for tenancy agreements with term of five years for the units in Zones E and F, and no minimum bidding amount for tenancy agreements with terms of three years or six years for the units in Zone G as the rent was fixed at RMB60 per month per sq.m.; (iii) for the Third Floor: no minimum bidding amount as the rent was fixed at RMB30 per month per sq.m. for the units in Zone H;
- (e) payment method: (i) for the First Floor: immediate payment of the first year rent upon successful bidding. After the first year, payment of the rent for the whole year before the commencement of the subsequent year; (ii) for the Second Floor: immediate payment of the amount of RMB30,000, RMB10,000 of which will be the deposit and the remaining RMB20,000 will be used for the payment of rent. After that, payment of the rent for the whole year before the commencement of the subsequent year; (iii) for the Third Floor: immediate payment of the first year rent upon successful bidding. After that, payment of the rent for the whole year before the commencement of that year; and
- (f) deposit: (i) in general, for the First Floor and Second Floor: RMB10,000; (ii) for the Third Floor: RMB5,000.

### ***(2) Preparation of tenancy agreements***

Our tenants on the First Floor have entered into the tenancy agreements with us with terms ranging from four to six years and 20 years, while the tenancy agreements entered into with the tenants on the Second Floor have terms ranging from three to six years. When determining the term of the tenancy, our Directors had considered a number of factors including: (a) the type and size of the potential tenants; and (b) the benefits of having both short-term and long-term rental income. The tenancy agreements with shorter terms ranging from four to six years were targeted at smaller size tenants, which they would consider as flexible not having the comparatively prolonged rental payment obligation; whereas the tenancy agreements with a longer term of 20 years were targeted at larger size or reputable tenants, which our Trading Centre would have a stable and steady rental income from them. For our tenants on the Third Floor, their tenancy agreement has a term for five years. The key terms of our tenancy agreements are substantially the same and typically include the following:

- (a) particulars – including the identity and the LFA of the units to be leased to our tenants, the amount of rent and the business scope for our tenants.

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- (b) fee – our tenant is responsible for paying the rent on a yearly basis. Please refer to the paragraph headed “Our business – Our business model – Workflow of our property leasing business – (1) Tenant selection – public tender” in this section for details of determination of the amount of rent.
- (c) advertisement fee – our tenants shall advertise our Trading Centre in order to increase the popularity of the same. In addition, upon our approval, our tenants can advertise their merchandise at the designated pillars and walls of our Trading Centre. Supplemental agreements with respect to such advertisement and the advertising fee will be entered into between our Trading Centre and the tenants. All the relevant fees shall be borne by our tenants.
- (d) term – our standard tenancy agreement has a fixed term ranging from four to six years and 20 years.
- (e) termination – the termination clause generally entitles either party to terminate the tenancy agreement upon the other party’s material breach of the same, including but not limited to the following: (i) the failure of our tenants to pay the rental fee on time; (ii) our tenants carrying out unlawful business activities and their business licenses are revoked as a result thereof; and (iii) our inability to provide the agreed units of our Trading Centre to our tenants in accordance with the relevant tenancy agreement.

### *Lease expirations*

The following table sets forth the information with respect to lease expirations of our Trading Centre tenants that are scheduled to take place during the calendar years indicated.

Calendar Year	Number of Leases <sup>(1)</sup>	LFA leased <sup>(2)</sup> <i>(in sq.m.)</i>	Percentage of Leased Area <i>(%)</i>
2019	2	284.0	1.6
2020	489	13,830.0	76.5
2021	70	2,090.0	11.6
2022	2	669.0	3.7
2025 (and afterwards)	54	1,195.2	6.6
Total	<u>617</u>	<u>18,068.2</u>	<u>100.0</u>

#### *Notes:*

- (1) Assuming that new tenancy agreements are not entered into upon expiration of the initial leases.
- (2) The LFA leased included the LFA leased on the First Floor, the Second Floor and the Third Floor only, excluding the basement of our Trading Centre.

**(3) Execution of tenancy agreements**

For the successful bidders, they need to pay the fee equivalent to the sum of full-year rent, the property management service fee and the air-conditioning fee to us immediately. After that, we will arrange them to select the unit in our Trading Centre based on their bidding amount. After payment and selection aforementioned, they will execute the relevant tenancy agreements and other relevant documents.

As advised by our PRC legal advisers, during the Track Record Period and up to the Latest Practicable Date, all of the tenancy agreements that we entered into with our tenants were legally binding and enforceable.

*Our pricing policy*

With respect to rental fee, depending on the location of the units in our Trading Centre, we charge them based on the successful bidding amount that they offered during the relevant public tender as well as based on fixed rental rates. Please refer to the paragraph headed “Our Business – Our business model – Workflow of our property leasing business – (1) Tenant selection – public tender” in this section for the details of the relevant public tender, the bidding amount and the fixed rental rates.

We strategically determine the rental rates of different units in our Trading Centre by considering the following factors:

- (i) the minimum bidding amounts for tender for the units in Zones A, B, C and D on the First Floor are the highest among all floors primarily because the First Floor has a higher customer flow, giving it overall a more prime location than other floors of our Trading Centre;
- (ii) as the units in Zone G on the Second Floor are larger than other units in our Trading Centre in order to cater for larger corporations, the relevant rental rate is fixed at RMB60 per month per sq.m. with no upward rental adjustment during renewal of the relevant tenancy agreements in November 2017 in order to achieve 100% occupancy rate for this zone; and
- (iii) as Zone H on the Third floor is designated as the Electronic Business Park aiming to provide an open, low-cost and convenient trading platform for e-commerce business operators in the Measuring and Cutting Tools industry, the rental rate is fixed at RMB30 per month per sq.m. to attract tenants.

With respect to property management service fee, we charge them based on a fixed ratio stipulated in the tenancy agreement that we entered into with such tenants after their successful bidding. Please refer to the paragraph headed “Our Business – Our business model – Workflow of our property leasing business – (2) Preparation of tenancy agreements” in this section for further details.

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We charge our tenants rental fee and property management service fee on a lump sum basis pursuant to the relevant tenancy agreements. Any adjustment on the rental fee and property management service fee will be determined based on our internal assessment.

### SALES, MARKETING AND PROMOTION

We use promotion and brand building events from time to time not only to stimulate consumption but also to increase the popularity of our Trading Centre and enhance our brand name and market image. Our tenants can also advertise their products in the designated areas of our Trading Centre at their own costs. We also stipulate in the tenancy agreement with our tenants that they should promote our Trading Centre in order to increase the popularity and attract more customers to visit the same.

Set out below is a summary of major marketing promotions that we are involved in or conduct:

**1. Exhibition – China Measuring and Cutting Tools Exhibition\* (中國工量刃具展覽會)**

Since 2006, the China Measuring and Cutting Tools Exhibition was held each year on or around 28 September and we have been one of the sponsoring parties of the Exhibition in recent years. The exhibiting area for the Exhibition held from 28 to 30 September 2017 was approximately 20,000 sq.m. presenting a wide range of products including Measuring and Cutting Tools, the raw materials and packaging materials in the Measuring and Cutting Tools industry as well as the related application tools such as lathes and milling machines.

As one of the sponsoring parties that assisted in the Exhibition throughout, our Directors are of the view that our Trading Centre has successfully gained positive publicity as well as popularity in the Measuring and Cutting Tools market, reinforced our established position in the Measuring and Cutting Tools industry as well as attracted more corporations and procurers, local and international, to visit our Trading Centre after the Exhibition.

**2. Wechat public platform\* (微信公眾平台) – China•Zhejiang Measuring and Cutting Tools Trading Centre Wechat Public Platform\* (中國•浙江工量刃具交易中心微信平台)**

We promote our Trading Centre through Wechat, a multi-purpose messaging, social media and mobile payment application for smart phones that is popular among the citizens in the PRC.



Set out below is an indication of the layout of the China•Zhejiang Measuring and Cutting Tools Trading Centre Wechat public platform:



The main functions of China•Zhejiang Measuring and Cutting Tools Trading Centre Wechat public platform are summarised as follow:

- (a) Shop search on the main page – the search function and the optimised search results aim to provide convenience to our users and give them better user experience;
- (b) “Like\*” (讚好) function and shop hot list\* (商鋪熱門榜) – “Like” our tenants that the users appreciate. The number of “like” that each unit earns from our Wechat followers is an important indicator for keyword search. The top 20 tenants with most “like” by our followers will be listed on the shop hot list, and the top five tenants with the most “like” will be displayed at the front page of our Wechat public platform;
- (c) Shop information – displaying the basic information of our tenants; and
- (d) Branding categories – categorising different brands of Measuring and Cutting Tools geographically, such as from United States of America, Japan, Korea, China and so on.

### 3. Shops register\* (商戶通)

We publish a shops register\* (商戶通) each year since 2011. It contains the essential information of our Trading Centre including but not limited to an introduction of our Trading Centre, the floors and layout information of our tenants such as name, contact methods, location etc. as well as advertisement of the products that they offer.

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Our shops register was first issued during the sixth Exhibition in September 2011 as an official gift from our Company, and we issued approximately 50,000 copies to the participants of the Exhibition and other strategic cooperative institutions. It serves as an important platform for our tenants to display their image and showcase their products as well as to communicate and interact with each other.

### OUR CUSTOMERS

During the Track Record Period, our Group's customers were our tenants, who are manufacturers, suppliers, distributors as well as wholesalers of Measuring and Cutting Tools. The top five customers of our Trading Centre accounted for approximately 3.3%, 3.0%, 3.2%, 3.1% and 2.9% of our Group's total revenue, respectively, for the years ended 31 December 2015, 2016, 2017, 2018 and for the four months ended 30 April 2019, respectively. Please refer to the paragraph headed "Our Business Model – Tenant profile" in this section for further details.

To the best of our Directors' knowledge, having made reasonable enquiries, none of our Directors, their respective close associates or any Shareholders holding more than 5% of our issued share capital has had any interest in our five largest customers, or subcontractors for the years ended 31 December 2015, 2016, 2017, 2018, for the four months ended 30 April 2019 and as at the Latest Practicable Date.

### OUR SUPPLIER

Due to the nature of our business, we do not have any supplier.

### Subcontractor

In order to enhance the competitiveness of our Trading Centre and provide value added services to our tenants, during the Track Record Period, we have engaged a property management service company, an Independent Third Party, to provide ongoing property management service to our tenants. Salient terms of the property management subcontracting agreement are provided as follows:

1. duration – one year, starting from 1 December to 30 November next year;
2. responsibility of the property management service provider – providing, among others, security service, cleaning service, water and electricity repair and maintenance service to our tenants;
3. service fee – approximately RMB729,000, RMB1,407,000, RMB1,616,000, RMB1,798,000 and RMB650,000 for the years ended 31 December 2015, 2016, 2017, 2018 and for the four months ended 30 April 2019, respectively; and

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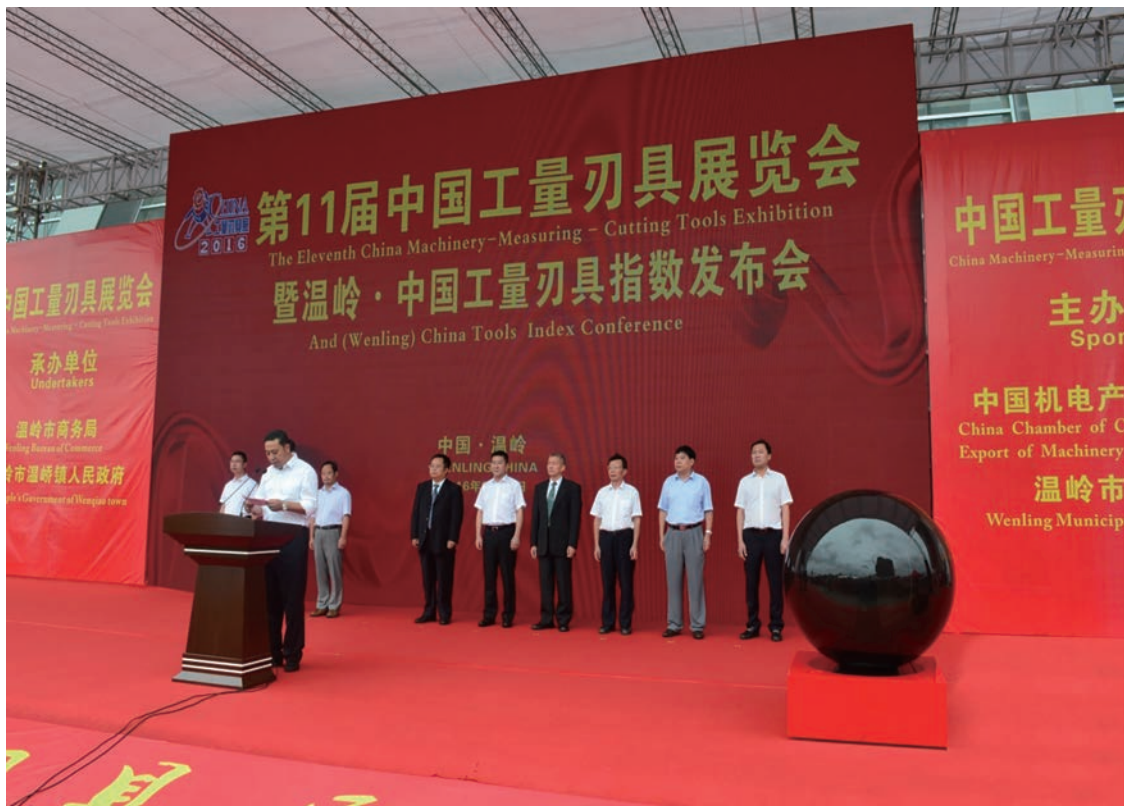
4. circumstances leading to termination – the property management subcontracting agreement can be terminated by the non-defaulting party when the agreed management performance target is not reached because of the defaulting party, or direct economic loss is caused by the defaulting party.

Save as disclosed above, due to the nature of our business, we did not engage any other major suppliers or subcontractors during the Track Record Period.

### SUPPORT SERVICES

In addition to leasing the units and providing property management service to our tenants, support services including the Wenling (China) Measuring and Cutting Tools Index and the Measuring and Cutting Tools Financing Service are complementary services provided to our tenants.

#### Wenling (China) Measuring and Cutting Tools Index



In 2016, we launched the Index. It is the first national Measuring and Cutting Tools index that we engaged Shuliang Technology, an Independent Third Party, to invent and develop. The Index describes and analyses the national-wide Measuring and Cutting Tools products price-changing trend as well as the prosperity and confidence level of the Measuring and Cutting Tools industry.

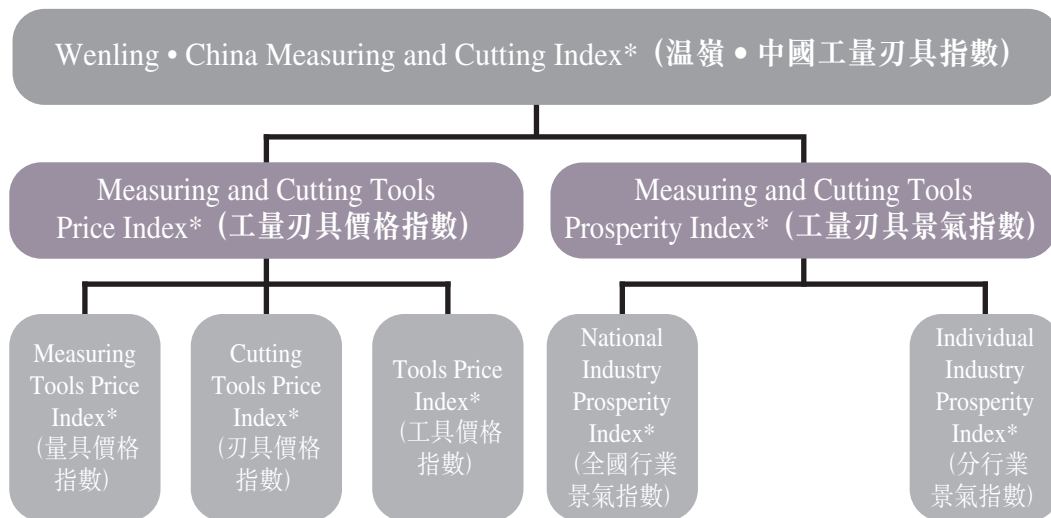
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The research team of Shuliang Technology chose a series of different types of indicators that can reflect the operating conditions of the Measuring and Cutting Tools market, and processed them to reflect the degree of price change of the Measuring and Cutting Tools. After advanced research, application of theories in relation to statistics and evaluation, consultation with experts and performing numerous trials, Shuliang Technology successfully developed the Index that can reflect the price of the Measuring and Cutting Tools and the prosperity of the Measuring and Cutting Tools industry.

The Index is updated and published on a monthly basis. Set out below is the major composition and a summary description of the Index:



1. Measuring and Cutting Tools Price Index – it is further subdivided into Measuring Tools Price Index, Cutting Tools Price Index and Tools Price Index, which altogether serve as the pricing index for the Measuring and Cutting Tools in the PRC. The raw data of the prices of different types of Measuring and Cutting Tools is collected once per month from 79 representative tenants of our Trading Centre.
2. Measuring and Cutting Tools Prosperity Index – it serves to statistically reflect the degree of prosperity of the Measuring and Cutting Tools industry in the PRC. The research team of Shuliang Technology adopted the same statistics analysis and index calculation method as the National Corporations Prosperity Index\* (國家企業景氣指數) to compose the Measuring and Cutting Tools Prosperity Index. They collected the data by distributing questionnaires to our tenants and compose the prosperity index.



Our Directors are of the view that the Index can provide reliable and accurate market information including the price trend of the major products in the Measuring and Cutting Tools industry to the relevant procurers and customers. In addition, we are of the view that it can further strengthen the established position of our Trading Centre as well as the brand and reputation of the Measuring and Cutting Tools products that are made in Wenling.

### Measuring and Cutting Tools Financing Service

On 30 August 2018, we entered into a strategic cooperation agreement with one of the largest banks in the world by total assets (the “**Bank**”), pursuant to which the Bank agreed, among others, to (a) actively support the daily operations of our Trading Centre and our major construction projects; and (b) use their best endeavours to provide our Trading Centre and our tenants with all-round comprehensive financial services under the most favourable conditions.

In addition, the Bank provided the Measuring and Cutting Tools Financing Service in favour of our tenants. Under the Measuring and Cutting Tools Financing Service, the Bank will provide unsecured loan to our tenants secured by guarantee provided by the ultimate beneficial owners of our tenants, if they can satisfy the following terms and conditions:

- (a) they have the rights to operate their businesses legally and able to provide valid business licence to the Bank;
- (b) they already have experience in operating their businesses in the Measuring and Cutting Tools industry for at least five years; and
- (c) our tenants, the legal representatives and their spouses, the ultimate beneficial owners and their spouses (if applicable) all possess good credit records.



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In addition, such financing shall only be used for the purpose of alleviating the tenants' short-term liquidity problem from their ordinary course of business and the Bank will bear the risks arising from and out of such financing.

Our Directors consider that the Measuring and Cutting Tools Financing Service is a convenient and efficient way to provide instant financing to our tenants who are expanding or maintaining their businesses, as well as a prominent and privileged characteristic of our Trading Centre that allows us to attract a variety of potential tenants and to enhance our established position in the industry.

### OUR BUSINESS EXPANSION

#### Introduction

As disclosed in the sections headed “Business – Business Strategies – Further strengthen our market position in the Measuring and Cutting Tools market” and “Support Services” above, we would from time to time consider opportunities to further consolidate our market share and positioning and offer new services to the industry. Furthermore, we believe that our relationships with the Wenling City Government\* (温岭市政府), Taizhou Municipal Government\* (台州市政府) and Wenqiao Town People's Government\* (温峤镇人民政府) would provide us with the opportunity to better capitalise various governmental initiatives in the industry.

#### Business expansion and site selection criteria

With the view to further expand our business, we have been proactively and carefully searching for new business opportunities to carry out our business plans with the following selection criteria in mind:

*1. Proximity to our office and tenants*

For selection of a new venue of expanding our business, we prefer sites which are in proximity to our office and our tenants. Since our Company has been an established Measuring and Cutting Tools trading centre operator in China with high reputation among the local Measuring and Cutting Tools market, our Directors are of the view that our current customers and tenants would consider to lease in such new venue if they need further space and such initiative could be further encouraged if the venue of our new business is convenient to and accessible by them. Furthermore, due to the nature of our business which often involves frequent transportation of Measuring and Cutting Tools materials, we would also consider ease and convenience of access in selecting the location suitable for our business expansion.

## ***2. Existence of untapped demand***

When considering commencement of a business in a new area, we will conduct site visits on the potential venue whenever possible, as well as research on the market conditions to ascertain if there is any untapped demand. In particular, we expect to further reach out to the Measuring and Cutting Tools manufacturers should the expansion so require. According to the F&S Report, the Measuring and Cutting Tools industry is in need of an industrial park that can provide various types of support services. For further details, please refer to the section headed “Industry Overview – Competitive Landscape of Measuring and Cutting Tools Trading Center Market – Overview of Measuring and Cutting Tools Industrial Park in China” in this prospectus.

## ***3. Availability of preferential governmental initiatives and rebates***

In order to carry out our development plans in the most cost-efficient and economical manner, we may also take into account whether there are any preferential governmental initiatives and rebates available for the implementation of our expansion. For instance, certain preferential treatments or rebates from the local government may be available so long as our Group are able to fulfil the applicable conditions.

## **Measuring and Cutting Tools Industrial Park**

### ***Background***

According to the F&S Report, the Measuring and Cutting Tools industry is in demand of an industrial park because of the following major reasons:

1. Wenling City plays an important role in the Measuring and Cutting Tools industry and there is strong government support to develop a Measuring and Cutting Tools industrial park;
2. an industrial park with comprehensive facilities and extensive support which houses the majority of the manufacturers and distributors in the Measuring and Cutting Tools industry will attract more consumers to procure their desired products and enhance the aggregate sales revenue of trading Measuring and Cutting Tools by the tenants in the trading centres, independent shops and direct sales from manufacturers; and
3. the existing Measuring and Cutting Tools industrial park in Wenling City is immaturely developed.

For further details, please refer to the section headed “Industry Overview – Competitive Landscape of Measuring and Cutting Tools Trading Center Market – Overview of Measuring and Cutting Tools Industrial Park in China” in this prospectus.

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Considering the above and leveraging our experience, knowledge and network through years of being an active market player in the Measuring and Cutting Tools industry, we are currently considering a business expansion opportunity involving the development of the Industrial Park. The expansion tentatively consists of three major phases: (a) the acquisition of the Land; (b) the pre-construction preparation works; and (c) the construction of the Industrial Park.

After applying our business opportunity selection criteria disclosed above and careful consideration, our Directors believe that the development of the Industrial Park is an excellent opportunity for us to expand our business and capitalising our market positioning in the Measuring and Cutting Tools industry.

We contemplated that the Industrial Park is mainly for manufacturing purpose that it targets to provide units for use as factories and workshops, where upstream manufacturers would conduct manufacturing and production of Measuring and Cutting Tools. It is expected that the size of the manufacturing units in the contemplated Industrial Park is comparatively large, ranging from approximately 500 sq.m. to 2,000 sq.m. or larger.

Considering the operation of the Industrial Park will primarily involve property leasing and management, which is the type of business that our Trading Centre is principally engaged in, our Directors are of the view that there will be no material difference in operating our Trading Centre and the Industrial Park.

### *1. Acquisition of the Land*

On 28 November 2018, pursuant to planning conditions provided by the Wenling City Housing and Urban Rural Construction Planning Bureau\* (溫嶺市住房和城鄉建設規劃局), and as approved by the Wenling Municipal People's Government\* (溫嶺市人民政府), the Wenling Bureau of Land and Resources\* (溫嶺市國土資源局) published the Tender Announcement for Transfer of Land Use Right under the State-owned Construction Land (Wentu Gonggaozi [2018] Zheng No. 75\*) (國有建設用地使用權掛牌出讓公告 (溫土公告字[2018]整第75號)) (the “**Tender Announcement**”), under which the Wenling Bureau of Land and Resources intended to assign the land use right of the Land through public tender.

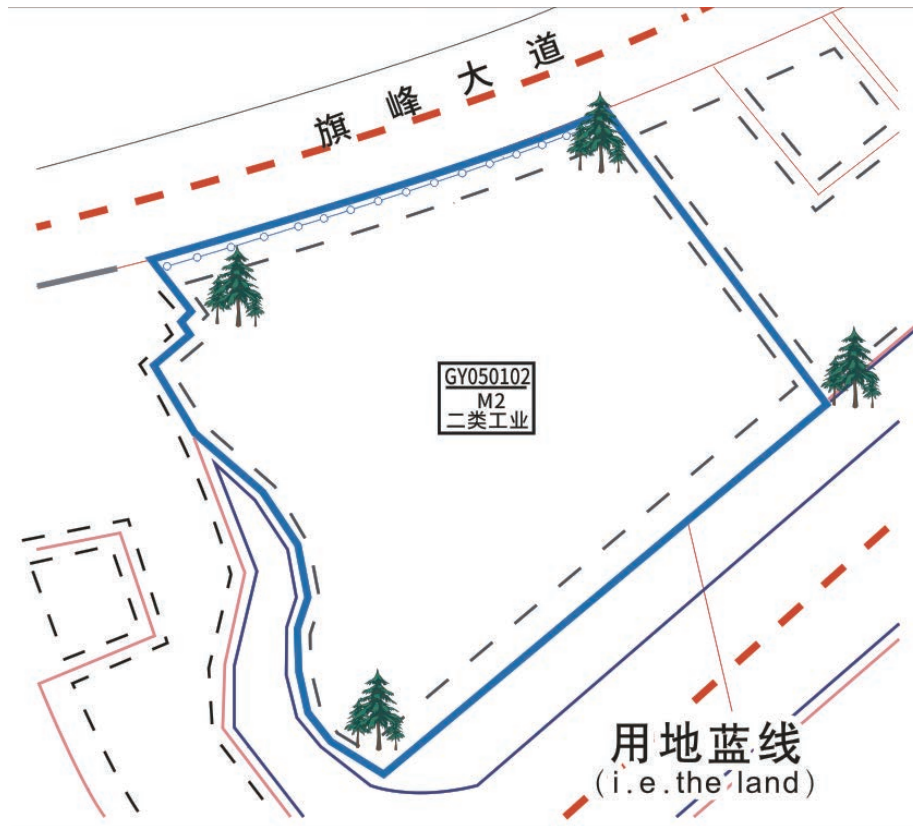


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Below is an indication of the location of the Land (as indicated and framed in blue below) and the overall layout of the Industrial Park:



On 28 December 2018, we successfully won the bid of the Land for the construction of the Industrial Park. The terms of various contracts disclosed below are fixed and set out in the relevant tender documents. On 29 December 2018, we entered into the Land Contract with the Wenling City Bureau of Land and Resources\* (温岭市国土资源局), which includes the following major terms:

Parties	:	(1) Wenling Bureau of Land and Resources; and (2) Our Group
Description of the Land	:	Wenqiao Town Lot No. GY050102* (温嶠鎮GY050102地塊)
Location	:	Wenqiao Town Chenshan Village* (温嶠鎮琛山村)
Saleable area	:	approximately 50,757 sq.m.
Consideration	:	RMB63,500,000

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Performance bond (履約保證金)	:	RMB6,350,000
Term	:	50 years
Tenant type	:	corporations in the industry of metallic tools manufacturing
Commencement date of the construction project on the Land Contract	:	within 12 months upon the signing of the Land Contract
Completion date of the construction project on the Land Contract	:	within 36 months upon the signing of the Land Contract

On 18 December 2018, we paid the bidding security deposit (競買保證金) of RMB13,000,000 from our own internal resources. In January 2019, we paid RMB58,846,000 composed of (a) RMB50,500,000, being the remaining balance of the total consideration of the acquisition of the Land; (b) RMB1,996,000, being the related tax and surcharges; and (c) RMB6,350,000, being the performance bond of the Land Contract. We obtained bank loans with amount of approximately RMB40.0 million and RMB57.0 million respectively in January 2019 under corresponding banking facilities of approximately RMB100.0 million and RMB233.0 million from two third-party banks in the PRC to finance the aforesaid payment.

### ***2. Pre-construction preparation works***

On 29 December 2018, we entered into the Development and Construction Agreement which provides certain requirements including, among others, planning, construction and tenant selection for the Industrial Park as well as the rights and obligations of the parties thereto. Set out below are the principal terms of the Development and Construction Agreement:

Parties	:	(a) Wenling City New District Management Committee; and  (b) our Group
Name of the project	:	Wenqiao Town Measuring and Cutting Tools Industrial Park

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- Industrial Park tenant requirements and restrictions : (a) belonging to the Measuring and Cutting Tools industry;
- (b) companies with sales revenue (銷售收入) exceeding RMB5 million or paying more than RMB100,000 for tax in the PRC;
- (c) not applicable for companies that is highly polluting and energy consuming;
- (d) no assignment of tenancy shall be allowed within five years upon the Industrial Park tenant receiving the Title Deed
- Basic construction and development requirements : complying with the requirements for Industrial Park planning, design, fire safety, environmental protection and construction

As part of our preparation works, we will prepare the feasibility report and obtain the environment assessment report.

Wenling Xuri, the project company and a wholly-owned subsidiary of our Group, established in June 2018, shall be the main operating body of the Industrial Park and be fully responsible for its development as well as attraction of potential tenants.

### ***3. Tentative details of the construction of the Industrial Park***

The floor area of the Industrial Park shall be approximately 111,000 sq.m. and total estimated investment cost shall be approximately RMB406.1 million. We contemplate that the Industrial Park will have the following features:

- (a) we shall offer a development platform for the enterprises in the Measuring and Cutting Tools industry. According to F&S, as at 31 December 2018, the average amount paid by the local enterprises to rent a place in the other industrial park to manufacture Measuring and Cutting Tools products was approximately in the range from RMB25 to 35 per sq.m.. Based on current estimation, in addition to making reference to the local market rate at the relevant time, our Directors contemplated that the rent of the Industrial Park manufacturing units will be comparable to or lower than the range abovementioned with discounts which may be offered to the potential tenants on a case-by-case basis, subject to the then economic and market conditions. In addition, we may offer financial incentives such as subsidy to the potential tenants of the Industrial Park. Therefore we expect that the Industrial Park is capable of offering low-costs manufacturing units for us as factories and workshops for small to medium manufacturer enterprises to conduct and develop their manufacturing businesses. Please refer to the paragraph headed “Business – Our Business Expansion – Measuring

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and Cutting Tools Industrial Park – Demand for the Industrial Park and Measures to Attract Measuring and Cutting Tools manufacturers to relocate – 5. Measures to attract Measuring and Cutting Tools manufacturers to relocate to the Industrial Park – Financial incentives to be offered by our Company” in this section for further details as to the financial incentives to be offered to the potential tenants of the Industrial Park;

- (b) we shall expedite the upgrading of the Measuring and Cutting Tools industry. We expect that the Industrial Park can increase the ability of the Measuring and Cutting Tools industry participants to bolster the upgrade of traditional manufacturing, as well as to innovate through learning advanced technology and modern management model. We anticipate to provide various services, including metal coating, chemical composition analysis and display of the modernised Measuring and Cutting Tools equipment to the Industrial Park tenants. We intend to recruit talents as well as provide training with competitive remuneration packages available to them;
- (c) we shall improve the facilities in the Industrial Park to support the Industrial Park tenants including the establishment of an innovation centre. We envisage to progressively set up several departments in the innovation centre including finance service department and scientific support department in order to provide the respective professional services for the Industrial Park tenants to expand their manufacturing businesses. In addition, we expect that a platform providing one-stop service such as technology support service, equipment service and raw material supply service will be available to the Industrial Park tenants in the said innovation centre. Set out below is the tentative details of the nature of the services aforementioned:
  - (i) financing service department – we are in the process of communicating with some banks to explore the opportunities such that they may offer financing services to the Industrial Park tenants. Although as at the Latest Practicable Date, we had not yet entered into any definitive agreements with those banks, based on the preliminary communications with them we understand that they may offer financing services, such as low-costs financial products such as loans with relatively low interest rate and internet banking service to the Industrial Park tenants, subject to (amongst other factors) the final financing service agreements and arrangements to be entered into between the relevant Industrial Park tenants and the banks;
  - (ii) scientific support service – we expect to introduce Independent Third Party service providers to provide scientific support to the tenants including grinding experiment on cutting tools to see how it affects their lifetime, as well as analysis on common or uncommon fracture of the cutting tools. Support on chemical and structural analysis on the raw materials or end products of the Measuring and Cutting Tools may also be envisaged;

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- (iii) technology support service – we contemplate to introduce Independent Third Party service providers to provide research and development service such as coating technology on new Measuring and Cutting Tools product to the tenants;
  - (iv) equipment service – we intend to introduce Independent Third Party service providers to provide a variety of professional equipment to the tenants, including but not limited to: (A) optical emission spectrometer, an instrument that can be used to determine the elemental composition of a broad range of metals; and (B) inverted metallurgical microscope, a device that can be used to determine if metallurgical properties meet manufacturing specifications, and view defects and scratches that are hard to see with conventional observation methods; and
  - (v) raw material supply service – we will try to enter into long term supply cooperation arrangements with reputable steel factories in order to secure a stable price of steel supply for the tenants. As at the Latest Practicable Date, we had not entered into any definitive agreements with any steel factories with respect to the cooperation arrangements aforementioned, nor are we under any obligation to do so, and
- (d) we shall encourage new development and construction, and attraction of new investment. We contemplate that in order to be in line with international practice, as well as the Measuring and Cutting Tools industrial development direction, we will accordingly utilise space and layout of the Industrial Park to actively promote marketisation by providing comprehensive supporting facilities and high-quality customer service. Such service may include a door-to-door service that can assist the potential tenants in completing different stages of the relevant procedures in order to commence business in the Industrial Park, ranging from application, registration, planning, construction to finally commencement of production in the Industrial Park, as well as applying for various compliance licenses. In addition, we envisage that the Industrial Park shall gather together the Measuring and Cutting Tools industry-related enterprises from upstream to downstream so that they can conduct businesses more efficiently. We thus intend to invite powerful and sizeable enterprises to participate in the development and construction of the Industrial Park in order to facilitate and expedite the advancement of the Measuring and Cutting Tools industry as a whole. As at the Latest Practicable Date, we have not identified any such powerful and sizeable enterprises but we intend to adopt the following non-exhaustive selection criteria to identify the same, including enterprises which may:
- (i) have the registered capital of at least RMB50 million and the net assets amounting to RMB60 million;
  - (ii) receive at least RMB200 million as its highest construction income for the past three years;

- (iii) have no less than 300 employees as engineering and management staff altogether, 200 employees of which shall be engineering and technology personnel and 10 of which are credited with senior title;
- (iv) have a project manager with no less than 10 years of working experience on engineering management and have a chief engineer credited with senior title with no less than 10 years of working experience on construction management;
- (v) have a chief accountant and a chief economist who are both credited with senior title; and
- (vi) other factors which our Directors may consider appropriate subject to the then condition and on a case by case basis.

#### **4. Obtaining land use rights and building ownership certificates**

Initial registration (不動產首次登記) of real estate ownership and other statutory matters following the successful acquisition of the Land, as well as the application for all necessary real estate rights certificates for the Land and the Industrial Park, is subject to the following PRC laws and regulations that are relevant to the real estate ownership certificates as advised by our PRC Legal Advisers:

- (a) article 9 of the Property Law of the PRC\* (《中華人民共和國物權法》) (the “**PRC Property Law**”) provides, *inter alia*, that creation, variation, transfer and extinguishment of immovable real right pursuant to law shall be effective upon registration. Unless the law provides to the contrary, such creation, variation, transfer and extinguishment shall be ineffective without registration;
- (b) article 15 of the PRC Property Law provides, *inter alia*, that unless the laws or contractual provisions stipulate to the contrary, a contract concluded between the parties in respect of creation, variation, transfer or extinguishment of immovable real right shall be effective upon conclusion of the contract; the failure to complete registration of real right shall not affect the validity of the contract;
- (c) article 5 of the Provisional Regulations on Real Estate Registration (《不動產登記暫行條例》) (“**Regulations**”) provides, *inter alia*, that the following rights to real estate shall be registered in accordance with the Regulations:
  - (i) ownership of collectively-owned land;
  - (ii) ownership of houses and other buildings and structures;
  - (iii) ownership of forests and woods;

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- (iv) contractual management rights to land including, among other things, the cultivated land, forest land and grass land;
  - (v) right to the use of land for construction;
  - (vi) right to the use of house sites;
  - (vii) right to the use of sea areas;
  - (viii) easement;
  - (ix) right to mortgage; and
  - (x) other rights to real estate to be registered as required by the law.
- (d) article 3 of the Regulations on the Administration of the Confirmation and Recordation of Enterprise Investment Projects\* (《企業投資項目核准和備案管理條例》) provides, inter alia, that projects which do not relate state security and allocation of major national productive forces shall be subject to recordation administration\* (備案管理);
- (e) article 38 of the Urban and Rural Planning Law of the PRC\* (《中華人民共和國城鄉規劃法》) provides, inter alia, that if the right to use a State-owned land for a construction project is obtained by transfer, the construction entity shall, after entering into the relevant State-owned land use right sale contract\* (國有土地使用權出讓合同), obtain the land use permit\* (建設用地規劃許可證) from the administrative department of urban and rural planning of the people's government\* (人民政府城鄉規劃主管部門) upon submission of the relevant approval, authorisation or duly filed documents of the project together with the executed State-owned land use right sale contract;
- (f) paragraph 1 of article 40 of the Urban and Rural Planning Law of the PRC provides, inter alia, that to construct any structure within a city or town planning area, the construction entity shall apply to the competent department of urban and rural planning under the people's government of the city or county for a building permit\* (建設工程規劃許可證);
- (g) article 7 of the Construction Law of the PRC (Order No. 91 of the President of the PRC)\* (《中華人民共和國建築法》(主席令第91號)) provides, inter alia, that prior to the commencement of the construction projects, the construction entity shall apply to the relevant construction administrative departments for construction permit\* (施工許可證); and



- (h) article 2 of the Measures for the Administration of Construction Permits for Construction Projects (Order No. 18 of the Ministry of Housing and Urban-Rural Development of the PRC)\* (《建築工程施工許可管理辦法》(中華人民共和國住房和城鄉建設部令第18號)) provides, inter alia, that for the construction of all kinds of buildings and the auxiliary facilities thereof, the construction entity shall, prior to the commencement of the construction, apply to the applicable housing and urban-rural development administrative department\* (住房城鄉建設主管部門) for a construction permit.

Our Company has already entered into the Land Contract through successful bidding and have successfully obtained the real property ownership certificate for the Land dated 24 May 2019. After filing with the relevant authority, our Company shall obtain, in sequence, the building permit and the construction permit (together, the “**Permits**”) prior to commencement of the construction of the Industrial Park, and shall obtain the relevant certificate for real estate ownership title upon completion of the construction.

As advised by the PRC Legal Advisers, as long as our Company comply with the relevant legal requirements and procedures abovementioned in relation to recordation and obtains the Permits, there will be no material legal impediment for us to obtain the relevant real property ownership certificate for the Industrial Park.

#### ***Background of potential tenants of the Industrial Park***

We intend to look for the potential tenants of the Industrial Park with the following background and competency. The potential tenants shall:

1. belong to the Measuring and Cutting Tools manufacturing industry within the metallic tools manufacturing industry; and
2. be able to comply with the relevant environmental requirements: corporations in the highly polluting and energy consuming industries (such as electrophoresis, heat treatment) may not be considered.

#### **Demand for the Industrial Park and Measures to Attract Measuring and Cutting Tools manufacturers to relocate**

##### ***1. Reconstruction of old factories and demand for the Industrial Park***

According to the F&S Report, considering the land usage efficiency and environmental protection issues in Zhejiang Province, the government has published a number of notices to demolish illegal buildings and reconstruct the old factories, such as “Notice on the Three-Year Action of “Three Reforms and One Demolition” in the Province of Zhejiang Government\*” (浙江省人民政府關於在全省開展「三改一拆」三年行動的通知) in 2013 and “Three-Year Action Plan of Comprehensive Governance on Safety Production in Zhejiang Province\*” (浙江省安全生產綜合治理三年行動計劃) in 2017. In the past five years, approximately 37.4 million sq.m. of illegal buildings was demolished and approximately 5.5 million sq.m. of old factories was reconstructed by the Wenling government, respectively.



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The above demolition and reconstruction have great impact on the Measuring and Cutting Tools manufacturers. Approximately 63% of the Measuring and Cutting Tools manufacturers producing their products in local factories scattered around in Wenling City in 2018, the majority of them are small-scale enterprises who undergo production either in their primitive workshops or small factories that may face the risk of demolition by the Wenling government. It is estimated that approximately 212 local Measuring and Cutting Tools manufacturers have been or will be affected by the demolition and reconstruction plan by the Wenling government aforementioned as confirmed by Wenqiao Town People's Government. Under this circumstance, these small-scale enterprises likely have a pressing need to search for a new place to continue their business operation in the event that the government clears out their decayed factories and plants, driving them to relocate their production of the Measuring and Cutting Tools to the Industrial Park.

### ***2. Support by the government***

We have received support by the government to construct the Industrial Park. Pursuant to the Recommendation by the government of Wenqiao Town with respect to the construction of the Industrial Park\* (温嶠鎮人民政府關於籌建工量刃具產業園的建議) issued by the People's Government of Wenqiao Town, the local government has considered the matters and factors mentioned below and is of the view that there is a demand and an urgent need to construct the Industrial Park by our Company for the benefit and growth of the Measuring and Cutting Tools industry:

- (a) the existing Wenqiao Small and Micro Measuring and Cutting Tools industrial park which has already been in full capacity is of small scale with insufficient supporting facilities;
- (b) the local enterprises in the Measuring and Cutting Tools industry had demanded the local government to construct a new industrial park. Our Trading Centre was considered to be reputable and competent. The local government acknowledged the construction of the Industrial Park by our Company is of immediate need; and
- (c) the local government recommended the relevant department to provide support to our Company and expedite the progress of the construction of the Industrial Park.

### ***3. Capacity of the Industrial Park***

We estimate that there will be approximately 20 to 25 manufacturing units in the Industrial Park, subject to the planning and construction details to be further particularised and finalised.

### ***4. Our tenants interested in the Industrial Park and letters of intent***

Since we informed our Trading Centre tenants that we contemplated to construct the Industrial Park and successfully won the bid of the Land for the construction of the same, 19 of them have signed letters of intent already indicating that they are interested in conducting business there.

**5. *Measures to attract Measuring and Cutting Tools manufacturers to relocate to the Industrial Park***

*Lower rental rate*

In light of the demand and responsive replies from our Trading Centre tenants with respect to the Industrial Park, we are of the view that the Industrial Park will attract the Measuring and Cutting Tools manufacturers. Having said that, in addition to making reference to the local market rate at the relevant time, our Directors contemplated that the rent of the Industrial Park manufacturing units will be, subject to the then economic and market conditions, in general comparable to or lower than such market rate with discounts which may be offered on a case-by-case basis as incentives to attract potential tenants and increase the competitiveness of the Industrial Park.

*Financial incentives to be offered by our Company*

Our Directors acknowledge and understand that there will be additional costs (such as relocation costs) incurred by the Measuring and Cutting Tools manufacturers currently producing their products in the local factories should they decide to move to the Industrial Park. In the event that there is still vacancy for manufacturing unit in the Industrial Park after its grand opening, our Directors may consider to offer financial incentives as further motivation to them, including but not limited to subsidy to the purchase price and tax, discount on rent, waiving the property management fee and advertisement fee for certain period of time.

*Active marketing strategies*

In addition, we intend to actively promote the distinctive features contemplated to be available in the Industrial Park, such as offering low-costs manufacturing units, opportunity to learn advanced technology, establishment of the innovation centre, providing professional services such as finance service, scientific support service, technology support service, equipment service, raw material supply service and high-quality door-to-door customer service. Please refer to the paragraph headed “Business – Our Business Expansion – Measuring and Cutting Tools Industrial Park – 3. Tentative details of the construction of the Industrial Park” in this section for further details, and we believe that the above will also demonstrate competitiveness of the Industrial Park and appeal to the Measuring and Cutting Tools manufacturers.

Considering the above, our Directors are of the view that the Industrial Park will motivate and encourage the Measuring and Cutting Tools manufacturers currently producing their products in local factories to relocate to the Industrial Park despite the fact that they may incur relocation costs, and will bring together the Measuring and Cutting Tools enterprises scattering around in Wenling City to the Industrial Park.

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*Some of the units may be sold*

To provide the potential tenants a permanent place of operation such that they would not need to concern increase of rent and further relocation cost upon expiry of tenancy agreements, some of the units may be offered for sale to the tenants based on the market demand and other factors.

### **Revenue stream of the Industrial Park**

We anticipate that the revenue of the Industrial Park is mainly composed of (a) rental income from leasing the manufacturing units and car parking spaces in the Industrial Park; (b) sale proceeds from the manufacturing and non-manufacturing units (including but not limited to restaurant and supermarket) as well as the car parking spaces in the Industrial Park and; (c) other services, such as fees from property management service or other professional service (if applicable) to be provided in the Industrial Park. The above tentative allocation of the expected revenue stream is subject to the then market and economic condition and/or other factors upon completion of the Industrial Park.

### ***Expected timetable and the corresponding construction phase of the Industrial Park***

The following table sets forth the indicative timetable and the particulars of the phases for the construction and development of the Industrial Park:

Phase	Expected timeframe	Expected total expenditure approximately	Details of the major construction works (expected expenditure approximately)	Expected commencement date
1. Acquisition of the Land	Successfully acquired the Land on 28 December 2018	RMB63.5 million	N/A	N/A
2. Pre-construction preparation works	2019	RMB5.6 million	(1) Completion of payment of the relevant taxes and fees for the Land acquisition (RMB2.0 million paid in the first quarter of 2019);  (2) Payment of financing costs RMB3.0 million (RMB0.5 million paid in the first quarter of 2019 and RMB0.4 million paid in the second quarter of 2019);	First quarter of 2019  First half of 2019

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Phase	Expected timeframe	Expected total expenditure approximately	Details of the major construction works (expected expenditure approximately)	Expected commencement date
			<ul style="list-style-type: none"> <li>(3) Preparation of the feasibility report (RMB0.2 million); and</li> <li>(4) Obtaining the environment and labor safety assessment report (RMB0.5 million, out of which RMB0.2 million was paid in the third quarter of 2019).</li> </ul>	Third quarter of 2019
3a	Initial stage for construction of the Industrial Park	2019  RMB12.3 million	<ul style="list-style-type: none"> <li>(1) Preparation of the land surveying and design for the Industrial Park construction (RMB4.3 million);</li> <li>(2) Obtaining requisite approvals, consents or permits from government departments (RMB0.2 million); and</li> <li>(3) Attracting potential Industrial Park tenants for the manufacturing units in the Industrial Park (RMB7.8 million, out of which RMB65,000 was paid in the third quarter of 2019).</li> </ul>	Third quarter of 2019  Fourth quarter of 2019
3b(i)	Pile foundation and preparation of installation of mechanical systems	2019  RMB33.5 million	<ul style="list-style-type: none"> <li>(1) Commencement of pile foundation for the Industrial Park and the car park (RMB30.4 million, out of which RMB0.1 million was paid in third quarter of 2019); and</li> <li>(2) Preparation of installation of mechanical and electrical systems and fitting-out works (RMB3.1 million).</li> </ul>	Fourth quarter of 2019

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Phase	Expected timeframe	Expected total expenditure approximately	Details of the major construction works (expected expenditure approximately)	Expected commencement date	
3b(ii)	Construction of the Industrial Park	2020–2021	RMB285.8 million	<ul style="list-style-type: none"> <li>(1) Construction of the buildings in the Industrial Park and the car park (RMB250.3 million);</li> <li>(2) Commencement of installation of mechanical and electrical systems and fitting-out works (RMB25.6 million); and</li> <li>(3) Payment of financing costs (RMB9.9 million).</li> </ul>	First quarter of 2020
3c.	Completion of the construction works	2021	RMB5.4 million	<ul style="list-style-type: none"> <li>(1) Completion of the construction works per the relevant requirements by the government (RMB4.9 million);</li> <li>(2) The Industrial Park inspected and approved by the relevant authorities; and</li> <li>(3) Grand opening of the Industrial Park and commencement of business (RMB0.5 million).</li> </ul>	End of 2021
Total:		RMB406.1 million			

During the Track Record Period and up to the Latest Practicable Date, we had incurred approximately RMB66.8 million for the construction of the Industrial Park and related expenses.

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### *Financing for our Industrial Park business expansion*

For the purpose of our Industrial Park business expansion, we estimate that we shall invest a total of approximately RMB406.1 million for the three years ending 31 December 2021 into the Industrial Park. We intend to fund such expansion with (a) the net proceeds from the Listing (approximately RMB51.6 million); (b) our internal funding (approximately RMB75.3 million); and (c) external borrowings (approximately RMB279.2 million). For further details of our use of proceeds, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.

There are inherent risks that our expansion plan may be subject to delay or may not be successfully implemented. For further details, please refer to the sections headed (1) “Risk Factors – Risks Relating to Our Business – The construction of our Industrial Park will be substantially financed by external borrowings. If we fail to obtain sufficient funding for our expansion plans, our business and growth prospects may be adversely affected”; (2) “Risk Factors – Risks Relating to Our Business – If we were unable to obtain all the relevant rights for the Industrial Park for future development, we will not be able to further develop the same according to our plans”; (3) “Risk Factors – Risks Relating to Our Business – We may not be successful in securing sufficient demand in relation to the leasing of the units in the Industrial Park”; and (4) “Risk Factors – Risks Relating to Our Business – Development and operation of the Industrial Park is uncharted territories for us and we may encounter difficulties in our strategic steps in relation to the construction and operation of the Industrial Park due to lack of experience and other uncertainties” in this prospectus.

### **OCCUPATIONAL HEALTH AND SAFETY**

Our operations are subject to regulation and monitoring by local work safety authorities. If we fail to comply with present or future laws and regulations, we would be subject to fines, suspension of business or cessation of operations.

We have established work safety policies and procedures to ensure that our operations are in compliance with applicable work safety laws and regulations. Our work safety policies set forth overall principles as well as procedures of internal inspections of work safety-related matters. In order to address potential safety risks and ensure timely and efficient responses to safety incidents, our work safety policies also provide a detailed system of recording and handling accidents, where (i) safety incidents are categorised into three grades, each necessitating a corresponding level of emergency responses; and (ii) in addition to internal real-time and post-accident records and analyses, timely reports would be made to local work safety authorities and any other relevant authorities. We also provide work safety-related training to our employees with a view to arousing their awareness of occupational safety and equipping them with the requisite knowledge and skills to handle emergency situations. As confirmed by our PRC Legal Advisers, during the Track Record Period, we had complied with the applicable work safety-related regulations of the PRC in all material aspects.

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During the Track Record Period and up to the Latest Practicable Date, we did not have any work-related fatalities or injuries and there had not been any claims for personal or property damages or related compensation paid to our employees.

### ENVIRONMENTAL PROTECTION

We are subject to environmental laws and regulations where our businesses operate. For further details, please refer to the section headed “Regulatory Overview” in this prospectus.

We consider the protection of the environment to be important and we are fully committed to complying with all applicable requirements under the PRC environmental laws and regulations. Our PRC Legal Advisers have confirmed that we are in compliance with the relevant environmental protection laws and regulations. If we fail to comply with present or future laws and regulations, we would be subject to fines, suspension of business or cessation of operations.

During the Track Record Period and up to the Latest Practicable Date, we had not received any complaints from our tenants or any other parties in respect of any environmental protection issues, and we had not experienced any material environmental incidents arising from our business activities. During the same period, no administrative sanctions or penalties had been imposed upon us for the violation of environmental laws or regulations. Our cost for compliance with applicable environmental laws and regulations totalled approximately RMB25,000, RMB37,000, RMB61,280, RMB32,360 and RMB49,000, respectively, for the years ended 31 December 2015, 2016, 2017, 2018 and for the four months ended 30 April 2019.

### LICENCES, PERMITS AND APPROVALS

Our Directors, as advised by our PRC Legal Advisers, confirmed that, during the Track Record Period and up to the Latest Practicable Date, (i) we had obtained all material requisite licences, approvals and permits for our operations in the PRC, namely the business licence (營業執照) and trading name registration licence (市場名稱登記證), and all of which were valid and in force; and (ii) we were not required to obtain special industrial licences, approvals or permits for our business operations under the relevant the PRC laws and regulations.

### LITIGATION AND NON-COMPLIANCE

#### Litigation

During the Track Record Period and up to the Latest Practicable Date, we had not been a party to any litigations, arbitrations or claims of material importance, and our Directors were not aware of any pending or threatened litigations, arbitrations or claims of material importance against any member of our Group.

### Non-compliance

Our Directors confirm that there was no non-compliance incident which constitutes material non-compliance or systemic non-compliance during the Track Record Period and up to the Latest Practicable Date.

### INTERNAL CONTROLS AND RISK MANAGEMENT

We have established a comprehensive risk management and internal control system, which consists of an organisational framework, as well as policies, procedures and risk management methods that we consider to be appropriate for our business operations. In preparation for the Listing and to further improve our internal control system, in April 2018, we engaged an independent internal control consultant firm (the “**Internal Control Consultant**”) to perform a review over certain key areas of internal control system (the “**Internal Control Review**”). The Internal Control Consultant provided recommendations for the consideration of our management members to enhance our internal controls and procedures. The aspects of our internal control system on which the Internal Control Consultant has conducted extensive review procedures include financial reporting and disclosure, sales, purchase, property management, capital management, human resources management, fixed assets management, taxation management and information system.

Based on the Internal Control Review, the following key findings were discovered and discussed with our management: our Company had not implemented (a) management policies governing conflict of interest; (b) risk management and internal audit mechanisms; (c) mechanisms that can immediately identify and respond to the change in the external environments and contingency plans; (d) mechanisms to receive or disclose information to or from external bodies; (e) anti-fraud policies as well as reporting and compliance mechanisms; and (f) policies relating to connected transactions.

Our Internal Control Consultant has put forward the following recommendations which our Group has adopted and implemented in respect of various aspects of our business operations such as (i) conflict of interest guidelines; (ii) internal audit policies; (iii) safety incidents and natural disasters policies; (iv) information disclosure management policies; (v) anti-fraud policies and reporting mechanism; (vi) non-disclosure of insider information; and (vii) connected transaction management policies.

We have also taken additional measures to improve our corporate governance and internal control to ensure continued compliance with the Listing Rules and other applicable laws and regulations. Our Group has adopted the following measures:

- (a) our Directors will attend training sessions conducted by our legal advisers as to Hong Kong laws on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange;



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- (b) we will comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Our Directors will review our corporate governance measures and our compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance reports to be included in our annual reports after the Listing;
- (c) we have retained external PRC legal advisers to review and advise on our regulatory compliance with the relevant PRC laws and regulations that are material to our business operations in the PRC;
- (d) we have agreed to engage Cinda International Capital Limited as our compliance adviser and will, upon the Listing, engage a legal adviser as to Hong Kong laws, which will advise and assist our Board on compliance matters in relation to the Listing Rules and/or other relevant laws and regulations applicable to our Company;
- (e) we have established an audit committee which comprises two of our independent non-executive Directors and one of our non-executive Directors, namely Mr. Tsoi Ka Shing, Mr. Huang Qun and Mr. Xu Wei. The audit committee has adopted its terms of reference which sets out clearly its duties and obligations to, among other things, overseeing the financial reporting, risk management and internal control systems of our Group, and ensuring compliance with the relevant laws and regulations. For the biographical details of our independent non-executive Directors, please refer to the section headed “Directors, Supervisors and Senior Management – Independent Non-executive Directors” in this prospectus;
- (f) we have established an internal audit department, which is headed by Mr. Zhou Guilin. For the biographical details of Mr. Zhou Guilin, please refer to the section headed “Directors, Supervisors and Senior Management – Executive Directors” in this prospectus. The department will assess and monitor the implementation of our internal control policies through periodic audits and inspections and will report any deviations observed to our audit committee; and
- (g) when considered necessary and appropriate, we will seek professional advice and assistance from independent internal control consultants, external legal advisers and/or other appropriate independent professional advisers with respect to matters relating to our internal control and legal compliance.

The Internal Control Consultant performed a follow-up review in July 2018 to review the above measures taken by our Group and confirmed that they had no further comments on such measures that we adopted.

Our Directors confirm, and the Sole Sponsor concurs, that the internal control measures implemented by our Group are sufficient and could effectively ensure a proper internal control system of our Group.

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## BUSINESS

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### AWARDS AND ACCREDITATIONS

The following table sets out the key awards and accreditations received by our Group from relevant the PRC government authorities and professional institutions:

<b>Year of grant</b>	<b>Award</b>	<b>Granted by</b>
September 2014	Famous Brand in Taizhou City* (台州市著名商標)	Taizhou Market Supervisory Authority* (台州市市場監督管理局)
December 2014	Taizhou Famous Service Brand* (台州服務名牌)	Taizhou Famous Brand Certification Committee (台州名牌產品認定委員會)
March 2015	2015 Wenling City Key Enterprise of the Service Industry* (2015年度溫嶺市服務業重點企業)	Wenling City People's Government* (溫嶺市人民政府)
June 2015	2014 Advanced Party Organisation* (2014年度先進黨組織)	Wenqiao Town CPC Committee* (中共溫嶠鎮委員會)
September 2015	China Top 100 Commodity Market* (中國商品市場百強)	Chinese Academy of Social Sciences* (中國社會科學院)
December 2015	Taizhou City Top 100 Key Enterprises of the Service Industry (Commercial and Trade Market Industry)* (台州市服務業百強重點企業(商貿市場行業))	Taizhou City People's Government* (台州市人民政府)
2016–2018	Four-star Civilised and Regulated Market* (四星級文明規範市場)	Zhejiang Administration Bureau for Industry and Commerce* (浙江省工商行政管理局)
June 2017	2017 Advanced Party Organisation* (2017年度先進基層黨組織)	Wenqiao Town CPC Committee* (中共溫嶠鎮委員會)

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## BUSINESS

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Year of grant	Award	Granted by
June 2017	2016 Big Tax-payer* (2016年度納稅大戶)	Wenling City Finance Bureau, Wenling City Local Taxation Bureau* (溫嶺市財務局，溫嶺市 地方稅務局)
December 2017	Taizhou City Famous Service Brand* (台州服務名牌)	Taizhou City Famous Brand Certification Committee* (台州市名牌商品認定 委員會)
January 2018	Taizhou City Key Service Enterprise* (台州市服務業重點企業)	Taizhou City People's Government* (台州市人民政府)
March 2018	2018 Wenling City Key Service Enterprise* (2018年度溫嶺市重點服務業企業)	Wenling City People's Government* (溫嶺市人民政府)

## EMPLOYEES

As at 30 April 2019, we had 29 employees, all of whom were based in our headquarters in the PRC. The salaries of our employees are mainly determined with reference to their seniority and performance, and the total compensation includes salaries, performance-based bonuses and special awards. For the years ended 31 December 2015, 2016, 2017, 2018 and for the four months ended 30 April 2019, we incurred staff costs of approximately RMB1.0 million, RMB1.5 million, RMB1.6 million, RMB2.0 million and RMB0.8 million, respectively. The following table shows a breakdown of our employees by function as at 30 April 2019:

Function	Number of employees
Senior management	5
Human resources and internal audit	4
Finance	3
Information management	4
Retail and tenancy management	13
<b>Total</b>	<b>29</b>

We generally recruit our employees through placing advertisements in the internet with reference to factors such as their experience and academic qualifications. Currently, all of our employees are hired pursuant to the terms of a written employment contract, which specifies the employee's position, remuneration and grounds for termination.

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## BUSINESS

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We believe that our employees are one of our most valuable assets and have greatly contributed to our success. We provide training to our employees to enhance their business efficiency and conduct yearly reviews of their performance. We believe that these initiatives have contributed to stronger work incentive among our employees.

As at 30 April 2019, certain of our employees have formed a labour union. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any strikes or other material labour disturbances or disputes which had interfered with our operations, and we believe that we have positive relations with our employees.

### **Social welfare schemes**

As required by the Interim Regulations on the Collection and Payment of Social Insurance Premiums\* (社會保險費徵繳暫行條例), the Regulations on Work Injury Insurance\* (工傷保險條例), the Regulations on Unemployment Insurance\* (失業保險條例) and the Trial Measures on Employee Maternity Insurance of Enterprises\* (企業職工生育保險試行辦法), we are obliged to provide and have provided to our employees in the PRC with the social welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

### **Housing provident fund**

We are also required under and have complied with the applicable PRC laws and regulations to provide our employees in the PRC with the social welfare schemes covering housing provident funds and housing benefits.

## **INSURANCE**

Our insurance coverage includes social insurance for all of our employees. We believe our insurance coverage is adequate and in line with industry practice in the PRC, and we have not faced any material insurance claims during the Track Record Period.

## **PROPERTIES**

Save as our Trading Centre and the Land, as at the Latest Practicable Date, we did not have interest in any other property. For further details of our property interest, please refer to the Property Valuation Report set out in Appendix VI to this prospectus.

## **RESEARCH AND DEVELOPMENT**

During the Track Record Period and as at the Latest Practicable Date, we did not engage in any research and development activities.

**INTELLECTUAL PROPERTY RIGHTS**

As at the Latest Practicable Date, we had registered three trademarks in the PRC, one trademark in Hong Kong and two domain names, details of which are set out in the section headed “Statutory and General Information – C. Further Information About the Business of Our Group – 2. Intellectual property rights” in Appendix VII to this prospectus. As at the Latest Practicable Date, we were not aware of any material dispute or infringement (i) by us of any intellectual property rights owned by third parties; or (ii) by any third parties of any intellectual property rights owned by us and we were also not aware of any pending or threatened claims against us or any of our subsidiaries in relation to the material infringement of any intellectual property rights of third parties.

**COMPETITION****1. Our major market competitors**

According to the F&S Report, there are three types of business models in the Measuring and Cutting Tools market. They consist of trading in trading centre, trading in independent shops and directly selling products from manufacturers. In terms of trading centres, there are mainly four large-scale trading centres in China, mainly located in Zhejiang, Jiangsu and Guangdong provinces, including two trading centres not only sell measuring and cutting tools, but also sell other hardware. Therefore, we face direct competition from other domestic Measuring and Cutting Tools trading centre operators in China.

Under the influence of macroeconomic policies and market demand, domestic measuring and cutting tool enterprises have made structural adjustments and product upgrades. The industry is surging and the competition becomes more and more fierce. Wenling City, as one of the major domestic industrial agglomeration for Measuring and Cutting Tools, potentially has the following main market competitors: (a) Dongguan Measuring and Cutting Tool Industrial Cluster\* (東莞市工量刀具產業集群), an area in Dongguan which accommodate Measuring and Cutting Tools enterprises that mainly focus on Computer Numeric Control cutting tools\* (數控刀具); (b) Changzhou Measuring and Cutting Tool Industrial Cluster\* (常州市工量刀具產業集群), an area in Changzhou which accommodate Measuring and Cutting Tools enterprises that mainly focus on cemented carbide cutting tools\* (硬質合金刀具); as well as (c) traditional state-owned large Measuring and Cutting Tool enterprises where customers may purchase their desired Measuring and Cutting Tools products from their shops directly.

We consider that the trading centres for the Measuring and Cutting Tools market in the PRC is highly competitive. Our existing and potential competitors include trading centres managed by private domestic operators and trading centres that may have some affiliation with local government entities in China. Competitive factors include geographic location, size of the trading centre, number of trading centre units, number and quality of supporting services and facilities, brand recognition by customers, creditworthiness, price and design quality. A number

of our competitors may have broader name recognition because they specialise or focus on specific type of Measuring and Cutting Tools, a longer track record and more established relationships with the tenants in the Measuring and Cutting Tools trading centre as well as their customers.

For information on the competitive landscape of Measuring and Cutting Tools trading centre in the PRC, please refer to the section headed “Industry Overview – Competitive Landscape of Measuring and Cutting Tools Trading Center Market” in this prospectus.

### **2. Our competitive advantage**

With the help of national marketing network, the support from the local government, we aim at constructing a service platform and building a market brand. Through systematic and functional innovation, our Trading Centre will continuously strengthen its market serving function and expand its market share.

According to the F&S Report, generally, the purchasers need to buy varieties of products at the same time. To enhance the purchasing and manufacturing efficiency, the purchasers prefer to buy Measuring and Cutting Tools in trading centre, other than in the dispersive shops. As at 31 December 2018, our Trading Centre was capable of offering close to 13,000 types of Measuring and Cutting Tools.

Further, according to the F&S Report, there are more than 500 noticeable domestic and international Measuring and Cutting Tools brands, including “Walter\* (瓦爾特)” from Germany, “Korloy\* (克勞伊)” from South Korea, “Mitsubishi\* (三菱)” and “Toshiba\* (東芝)” from Japan, “Chain Headway\* (正河源)” from Taiwan, and “Haliang\* (哈量)”, “Hayigong\* (哈一工)”, “shanggong\* (上工)” and “Chengliang\* (成量)”, are available in our Trading Centre. Therefore, we are confident that given the large variety of the Measuring and Cutting Tools products available in our Trading Centre, we can constantly and efficiently meet purchasers’ demands, and will progressively become the unique and indispensable Measuring and Cutting Tools trading centre in the Measuring and Cutting Tools market.

Considering the above and our established position in the Measuring and Cutting Tools trading centre industry in the PRC as described in the paragraphs headed “Competitive Strength – Established position of our Trading Centre in the PRC to capitalise on the Measuring and Cutting Tools market in China” and “Diverse Measuring and Cutting Tools products offerings by our Trading Centre effectively and extensively distributed regionally and nationally in the PRC” in this section, we are of the view that our Trading Centre has the competitive advantage to compete with other competitors in the PRC.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

Pursuant to the Concert Party Agreements, details of which are set out in paragraph headed “History, Development and Reorganisation – Concert Party Arrangement” of this prospectus, immediately upon completion of the Global Offering, without taking into account any H Shares which may be issued upon the exercise of the Over-allotment Option, Market Group, Market Development Service Centre, Qiaoling Investment, Wenqiao Town People’s Government, Maowei Investment, Maoyang Village Share Economic Cooperative, Maoyang Village Committee, Qianyang Investment, Qianyangxia Village Share Economic Cooperative, Qianyangxia Village Committee, Shangyu Investment, Shangjie Village Share Economic Cooperative, Shangjie Village Committee, Zhongjie Hede Investment, Zhongjie Village Share Economic Cooperative, Zhongjie Village Committee, Botao Investment, Xuzhai Village Share Economic Cooperative, Xuzhai Village Committee, Zhang Laoqiao Investment, Zhang Laoqiao Village Share Economic Cooperative and Zhang Laoqiao Village Committee will together be entitled to exercise or control the exercise of 72.75% of the voting power at the general meetings of our Company, and therefore, each of them will be our Controlling Shareholders pursuant to the Listing Rules. For details of the shareholdings of each of our Controlling Shareholders, please refer to the section headed “Substantial Shareholders” in this prospectus.

Our Controlling Shareholders have confirmed that none of them, our Directors and their respective close associates is interested in any business, apart from the business operated by members of our Group, which competes, or likely to compete, directly or indirectly, with the business of our Company.

### INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors believe that our Group is capable of carrying on our business independently from our Controlling Shareholders and its respective close associates after Listing.

#### Management independence

Our management and operational decisions are made by our Board and senior management. Our Board comprises two executive Directors, four non-executive Directors and three independent non-executive Directors. Our executive Directors are Mr. Pan Haihong and Mr. Zhou Guilin. Some of our Directors and two of our Supervisors also hold the following positions in our Controlling Shareholders:

<b>Directors and Supervisor</b>	<b>Position in our Company</b>	<b>Position in our Controlling Shareholders</b>
Mr. Pan Haihong (潘海鴻)	Executive Director, chief executive officer and general manager	Member of party committee in Market Group

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Directors and Supervisor	Position in our Company	Position in our Controlling Shareholders
Mr. Huang Qun (黃群)	Non-executive Director and chairman of our Board	Deputy general manager in Market Group
Mr. WANG Wenming (王文明)	Non-executive Director	Secretariat of Maoyang Village
Mr. CHENG Jinyun (程錦雲)	Non-executive Director	Secretariat of Shangjie Village Committee
Mr. YE Yunzhi (葉雲志)	Non-executive Director	Officer of Zhongjie Village Committee
Ms. XIE Yanli (謝艷麗)	Supervisor	Deputy general manager in Market Group
Ms. YANG Mengjie (楊夢潔)	Supervisor	Assistant to chief financial officer in Market Group

Despite the overlapping positions in our Company and certain of our Controlling Shareholders, the above Directors (except Mr. Pan Haihong) and Supervisor do not assume any executive role in our Group. Although Mr. Pan Haihong is a member of the party committee of Market Group, he does not assume any executive role in Market Group or involve in its day-to-day business operation as, according to the Articles of the Chinese Communist Party (中國共產黨章程), a party committee shall be responsible for the supervision of the implementation of the party's directions and policies in the enterprise and strengthening and improving the party's influences in areas including ideological and organisational. Our Group and the above Controlling Shareholders are therefore managed by different management persons and there are sufficient non-overlapping Directors and senior management who are independent and have relevant experience to ensure the proper functioning of our Company.

Based on the above and the following reasons, we consider that our Board and senior management will function independently from our Controlling Shareholders:

- (a) each Director is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit and in the best interest of our Company and does not allow any conflict between his duties as a Director and his personal interests;
- (b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions, and shall not be counted in forming quorum subject to the provision of the Articles of Association; and



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (c) all our Directors, Supervisors and senior management members (other than the abovementioned Directors and Supervisor) are independent from our Controlling Shareholders. Our Group has established eight departments with three deputy general managers overseeing different areas of our business who shall report to the general manager of our Group before reporting to the Board.

### **Operational independence**

We do not share operation team, facilities and equipment with our Controlling Shareholders and their close associates. Our Group has also established a set of internal control measures to facilitate the effective operations of our business. Our Group's customers and subcontractors are all independent from our Controlling Shareholders. Our Group does not rely on our Controlling Shareholders or their respective close associates and has an independent management team to handle our day-to-day operations. We are also in possession of all relevant licences, permits and approvals necessary to carry on and operate our business and we have sufficient workforce to operate independently from our Controlling Shareholders and their close associates.

Immediately after the Listing, there are no related party transactions or continuing connected transactions between our Group and our Controlling Shareholders and/or their close associates. As such, our Directors are of the view that our Group can operate independently from our Controlling Shareholders and their close associates.

### **Financial independence**

We have an independent financial system and make financial decisions according to our own business needs.

Our Directors confirm that we will not rely on our Controlling Shareholders for financing after the Listing as we expect that our working capital will be funded by our operating income and bank borrowings. Our own accounting department is capable of discharging the treasury functions for cash receipts and payments, accounting, reporting and internal control independently of our Controlling Shareholders and its close associates.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### BOARD OF DIRECTORS

The Board consists of nine Directors, including two executive Directors, four non-executive Directors and three independent non-executive Directors.

The following table sets forth the key information of our Directors:

Name	Age	Position	Date of appointment of current position	Date of joining our Group	Main responsibilities	Relationship with other Directors, Supervisors and senior management (if any)
Mr. PAN Haihong (潘海鴻)	42	Executive Director and chief executive officer	21 November 2018	20 August 2015	Overseeing strategic development, business planning and the day-to-day operations of our Group	N/A
Mr. ZHOU Guilin (周桂林)	60	Executive Director and chief operating officer	21 November 2018	8 October 2009	Overseeing financial management and day-to-day operations of our Group	N/A
Mr. HUANG Qun (黃群)	57	Non-executive Director  Chairman of the Board	21 November 2018	3 May 2018	Overseeing growth strategy and overall management of our Group	N/A
Mr. WANG Wenming (王文明)	52	Non-executive Director	21 November 2018	3 May 2018	Providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Group	N/A

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Name	Age	Position	Date of appointment of current position	Date of joining our Group	Main responsibilities	Relationship with other Directors, Supervisors and senior management (if any)
Mr. CHENG Jinyun (程錦雲)	62	Non-executive Director	21 November 2018	3 May 2018	Providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Group	N/A
Mr. YE Yunzhi (葉雲志)	54	Non-executive Director	21 November 2018	3 May 2018	Providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Group	N/A
Mr. XU Wei (許偉)	49	Independent non-executive Director	9 November 2018	9 November 2018	Supervising and providing independent judgment to our Board	N/A
Mr. JIN Hongqing (金洪青)	66	Independent non-executive Director	1 August 2018	1 August 2018	Supervising and providing independent judgment to our Board	N/A
Mr. TSOI Ka Shing (蔡嘉誠)	38	Independent non-executive Director	1 August 2018	1 August 2018	Supervising and providing independent judgment to our Board	N/A

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### BOARD OF SUPERVISORS

Our Board of Supervisors consists of three Supervisors, comprising one representative of employees and two external supervisors. Except for the employee representative Supervisor elected by our employees, the Supervisors were elected by our Shareholders. The term of office of our Supervisors is three years, which is renewable upon re-election and re-appointment.

The following table sets forth the key information of our Supervisors:

Name	Age	Position	Date of appointment of current position	Date of joining our Group	Main responsibilities	Relationship with other Directors, Supervisors and senior management (if any)
Ms. XIE Yanli (謝豔麗)	42	Chairlady of our Supervisory Committee and Supervisor	3 May 2018	3 May 2018	Supervising the performance of duties by our Directors and members of the senior management of our Group	N/A
Ms. YANG Mengjie (楊夢潔)	27	Supervisor	9 November 2018	9 November 2018	Supervising the performance of duties by our Directors and members of the senior management of our Group	N/A
Mr. XIE Huihui (謝輝輝)	31	Employee representative Supervisor	3 May 2018	13 October 2009	Supervising the performance of duties by our Directors and members of the senior management of our Group	N/A

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The following table sets forth certain information of the members of the senior management of our Company:

Name	Age	Position	Date of appointment of current position	Date of joining our Group	Main responsibilities	Relationship with other Directors, Supervisors and senior management (if any)
Mr. PAN Haihong (潘海鴻)	42	Chief executive officer	21 November 2018	20 August 2015	Overseeing strategic development, business planning and the day-to-day operations of our Group	N/A
		General manager	20 August 2015			
Mr. ZHOU Guilin (周桂林)	60	Chief operating officer	21 November 2018	8 October 2009	Overseeing financial management and day-to-day operations of our Group	N/A
		Deputy general manager	8 October 2009			
Mr. CHEN Junren (陳俊仁)	43	Deputy general manager	8 October 2009	21 April 2003	Supervising the daily operations, property leasing management and business development of our Group	N/A
Mr. XIA Xianfa (夏仙法)	51	Deputy general manager	8 October 2009	8 October 2009	Managing the properties, safety, human resources and operations of our Group	N/A
Mr. XU Yi (徐亦)	25	Personnel of information disclosure	12 April 2018	19 September 2016	Overseeing corporate governance, compliance, risk management and company secretarial matters of our Group	N/A

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### EXECUTIVE DIRECTORS

**Mr. PAN Haihong (潘海鴻)**, aged 42, is our executive Director, the chief executive officer and general manager of our Company. He was appointed as a Director in August 2015 before being re-designated as an executive Director on 21 November 2018. He is also the director, manager and legal representative of Wenling Xuri. He is primarily responsible for overseeing strategic development, business planning and the day-to-day operations of our Group. He is also a member of the remuneration committee of our Company.

Mr. Pan has approximately 21 years of management related experience and has deep understanding of business development, corporate governance and administration. Prior to joining our Group, Mr. Pan served as a legal representative and venue supervisor in Wenling City Daxi Centre Caichang Company Limited\* (溫嶺市大溪中心菜場有限公司) from June 1997 to August 2015, where he was responsible for overall management, daily operation and supervision of the company. Mr. Pan worked as an assistant officer in Market Development Service Centre from August 2015 to February 2018, where he was responsible for assisting the director in the supervision, operational management and personnel and general management of the centre. Mr. Pan has been a member of party committee in Market Group since February 2018, where he is responsible for making significant decisions and providing judgment to the committee. Mr. Pan completed a course in economic law organised by Hubei Province Economic Management Cadre Institute\* (湖北省經濟管理幹部學院) in the PRC in June 2004.

Mr. Pan was a manager of the following company at the time of its dissolution, details of which are as follows:

Company name	Place of incorporation/ establishment	Principal business	Means of dissolution	Date of dissolution	Reason for dissolution
Wenling City Wenxi Measuring and Cutting Tools Sales Co., Ltd.* (溫嶺市溫西工量刃具銷售有限公司)	PRC	Sale of metal measuring and cutting tools	Deregistration	8 June 2016	Cessation of business

Mr. Pan confirmed that the above company was solvent at the time of its dissolution, there is no fraudulent act or misfeasance on his part leading to the dissolution of such company and he is not aware of any actual or potential claim that has been or will be made against him as a result of the dissolution of such company.

**Mr. ZHOU Guilin (周桂林)**, aged 60, is our executive Director, our chief operating officer, and the supervisor of Wenling Xuri. He is primarily responsible for overseeing financial management and day-to-day operations of our Group.

Mr. Zhou has over nine years of experience in trading centre operation industry and is highly knowledgeable in the areas of business operation and financial management. Mr. Zhou

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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joined our Group as our deputy general manager in October 2009 and a Director in May 2018, and was re-designated as an executive Director on 21 November 2018, where he was responsible for overseeing the internal control and daily operation of our Group and monitoring the financial activities of our Group. Prior to joining our Group, Mr. Zhou was employed as a leader in urban construction management department of the government of Wenqiao Town in Wenling City from August 1993 to September 2009, where he was responsible for supervising the operation and managing the projects.

Mr. Zhou was a supervisor of the following company at the time of its dissolution, details of which are as follows:

Company name	Place of incorporation/ establishment	Principal business	Means of dissolution	Date of dissolution	Reason for dissolution
Wenling City Wenxi Measuring and Cutting Tools Sales Co., Ltd.* (溫嶺市溫西工量刃具銷售有限公司)	PRC	Sale of metal measuring and cutting tools	Deregistration	8 June 2016	Cessation of business

Mr. Zhou confirmed that the above company was solvent at the time of its dissolution, there is no fraudulent act or misfeasance on his part leading to the dissolution of such company and he is not aware of any actual or potential claim that has been or will be made against him as a result of the dissolution of such company.

### NON-EXECUTIVE DIRECTORS

**Mr. HUANG Qun (黃群)**, aged 57, is the chairman of our Board and a non-executive Director. He was appointed as a Director in May 2018 before being re-designated as a non-executive Director on 21 November 2018. He is primarily responsible for overseeing the growth strategy and overall management of our Group. He is also the chairman of the nomination committee and a member of the audit committee of our Company.

Mr. Huang has about 17 years of management related experience and has extensive knowledge in the areas of strategic planning, business development and administration. Prior to joining our Group, Mr. Huang was appointed as an officer in Market Development Service Centre from November 2001 to February 2018, where he was responsible for the overall management, business development and strategic planning of the centre. Mr. Huang has served as deputy general manager in Market Group since February 2018, where he is responsible for assisting the general manager in the overall development and operational planning of the company. Mr. Huang graduated in Administrative Management from Yangtze University (長江大學) in the PRC in June 2005.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Mr. Huang was a supervisor of the following company at the time of its commencement of dissolution procedures, details of which are as follows:

Company name	Place of incorporation/ establishment	Principal business	Means of intended dissolution	Status	Reason for dissolution
Wenling City Xingruo Farmers Agricultural Trading Market Services Co., Ltd.* (溫嶺市興箬農貿市場服務有限公司)	PRC	Investment service, information technology consultancy service and property management service	Deregistration	Deregistration procedures commenced on 22 June 2018 and was on-going as at the Latest Practicable Date	Cessation of business

Mr. Huang confirmed that the above company was solvent at the time of its commencement of dissolution procedure, there is no fraudulent act or misfeasance on his part leading to the commencement of dissolution procedure of such company and he is not aware of any actual or potential claim that has been or will be made against him as a result of the commencement of dissolution procedure of such company. As advised by our PRC Legal Advisers, there is no legal impediment for such dissolution.

**Mr. WANG Wenming (王文明)**, aged 52, has been appointed as a Director since 3 May 2018. Mr. Wang was re-designated as a non-executive Director on 21 November 2018 and is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Group.

Mr. Wang has about 12 years of experience in management and administration. Prior to joining our Group, Mr. Wang has worked for Maoyang Village Committee since November 2006, first as a deputy officer and subsequently as a secretariat, where he is responsible for the overall management and administration of and providing strategic advice to Maoyang Village. Mr. Wang served as a deputy of the Standing Committee of the Fifth National People's Congress of Taizhou City in 2017 and has been a member of the 14<sup>th</sup> Committee in Wenling City of the Chinese People's Political Consultative Conference since February 2017. Mr. Wang graduated from Wenling City College of Vocation and Technology\* (溫嶺市職業技術學院) in the PRC in January 2011.

Mr. Wang was a supervisor of Wenling City Feiteng Cutting Tools Co., Ltd.\* (溫嶺市飛騰工磨具有限公司), a company established in the PRC whose business licence was revoked on 28 November 2008. According to Mr. Wang, such company had ceased operation and did not conduct annual inspection. As a result, its business licence was revoked.

Mr. Wang confirmed that the above company was solvent at the time of the revocation of its business licence, there is no fraudulent act or misfeasance on his part leading to the revocation of business licence of such company and he is not aware of any actual or potential claim that has been or will be made against him as a result of the revocation of business licence of such company.



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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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**Mr. CHENG Jinyun (程錦雲)**, aged 62, has been appointed as a Director since 3 May 2018. Mr. Cheng was re-designated as a non-executive Director on 21 November 2018 and is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Group.

Mr. Cheng has approximately 15 years of experience in management and administration. Prior to joining our Group, Mr. Cheng has worked for Shangjie Village Committee since January 2003 first as a member and subsequently the village head, and currently the secretariat, where he was responsible for the overall management and administration of the village and making significant decisions on the development of the village.

Mr. Cheng was an executive director and manager of the following company at the time of its dissolution, details of which are as follows:

Company name	Place of incorporation/ establishment	Principal business	Means of dissolution	Date of dissolution	Reason for dissolution
Wenling City Duda Tools Sales Co., Ltd.* (溫嶺市都達工具銷售有限公司)	PRC	Sale of metal tools	Deregistration	19 April 2016	Cessation of business

Mr. Cheng confirmed that the above company was solvent at the time of its dissolution, there is no fraudulent act or misfeasance on his part leading to the dissolution of such company and he is not aware of any actual or potential claim that has been or will be made against him as a result of the dissolution of such company.

**Mr. YE Yunzhi (葉雲志)**, aged 54, has been appointed as a Director since 3 May 2018. Mr. Ye was re-designated as a non-executive Director on 21 November 2018 and is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Group.

Mr. Ye has about 13 years of experience in management and administration. Prior to joining our Group, Mr. Ye has worked for Zhongjie Village Committee since April 2005, first as a party branch member of Zhongjie Village and a committee member and subsequently as an officer, where he is responsible for overall management and administration of the village and providing strategic advice to the village. Mr. Ye received the award of Excellent Communist Party Member in Wenling City\* (溫嶺市創先爭優優秀共產黨員) from the Wenling City Committee in June 2012. Mr. Ye completed a course in agricultural economic management organised by Taizhou Administration Institute\* (台州行政學院) in the PRC in July 2008.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. XU Wei (許偉)**, aged 49, has been appointed as our independent non-executive Director since 9 November 2018 and is primarily responsible for supervising and providing independent judgment to our Board. He is also a member of each of the audit and nomination committees of our Company.

Mr. Xu is a registered lawyer in the PRC and has over 25 years of experience in the legal industry. Mr. Xu was employed by Wenling City Songmen Legal Service Office\* (溫嶺市松門法律服務所) as a legal officer from April 1993 to April 1999 and by Wenling City Ruoheng Legal Service Office\* (溫嶺市箬橫法律服務所) as a chief officer from May 1999 to December 2012, where he was both primarily responsible for providing legal services. Subsequently, Mr. Xu worked for Zhejiang Mingquan Law Firm\* (浙江明權律師事務所) as a trainee solicitor from January 2013 to March 2014, where he was primarily responsible for assisting the firm's lawyers in legal related matters. Mr. Xu then worked for Zhejiang Qianheng Law Firm\* (浙江乾衡律師事務所) as a lawyer from April 2014 to April 2015, where he was primarily responsible for providing legal services. Mr. Xu has worked for Zhejiang Qianheng (Wenling) Law Firm\* (浙江乾衡(溫嶺)律師事務所) as a lawyer since May 2015, where he is primarily responsible for assisting in the management of the firm and providing legal services. Mr. Xu passed the National Judicial Examination\* (國家司法考試) in the PRC and obtained his legal professional qualification in March 2012. Mr. Xu completed a course in legal studies through distance learning organised by the China University of Geosciences (中國地質大學) in the PRC in June 2004.

**Mr. JIN Hongqing (金洪青)**, aged 66, has been appointed as our independent non-executive Director since 1 August 2018 and is primarily responsible for supervising and providing independent judgment to our Board. He is also the chairman of the remuneration committee and a member of the nomination committee of our Company.

Mr. Jin has over 31 years of experience in corporate governance, administration and management. Mr. Jin worked for Wenqiao Town People's Government, first as a deputy mayor of industry from June 1987 to September 1990 and from March 1993 to June 1995 and subsequently as a deputy officer from June 1995 to October 2012, where he was responsible for corporate governance, land management and administration of Wenqiao Town. Mr. Jin worked as a secretariat in Magong Xiang Party Committee\* (馬公鄉黨委) from September 1990 to February 1993. Mr. Jin has been a secretary-general in Chamber of Commerce of Wenling Shoes and Leather Industry\* (溫嶺市鞋革業商會) since November 2012, where he was responsible for assisting the president and vice president in daily operations and administration of the Chamber of Commerce. Mr. Jin received the award Advanced Worker\* (先進工作者) in 1984, 1985, 1986 and 1989 and the award Advanced Individual\* (先進個人) in 2007 and 2010 from the authorities, respectively, in recognition of his contribution to the advancement of Wenling City.

**Mr. TSOI Ka Shing (蔡嘉誠)**, aged 38, has been appointed as our independent non-executive Director since 1 August 2018 and is primarily responsible for supervising and providing independent judgment to our Board. He is also the chairman of the audit committee and a member of the remuneration committee of our Company.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Mr. Tsoi has approximately 13 years of experience in accounting and financing. Mr. Tsoi worked as an audit intermediate in Yau and Wong, CPA from July 2005 to February 2007, an auditor in CCIF CPA Limited from February 2007 to January 2008, a senior auditor in Deloitte Touche Tohmatsu from January 2008 to August 2009, and first as a senior accountant and subsequently an assistant manager in Shinewing (HK) CPA Limited from August 2009 to November 2010. Mr. Tsoi also worked in Teamway International Group Holdings Limited (formerly known as Jin Bao Bao Holdings Limited), a listed company on the Stock Exchange (stock code: 1239), as the company secretary from June 2011 to September 2014 and financial controller from June 2011 to June 2014. Mr. Tsoi worked in China Harvest Finance Group Limited as the chief financial officer and company secretary from September 2014 to December 2015. Mr. Tsoi has worked as the chief financial officer and company secretary in Bao Shen Holdings Limited, a listed company on the Stock Exchange (stock code: 8151) since March 2018.

Mr. Tsoi graduated from the University of Technology, Sydney in Australia with a bachelor degree of business, majoring in accounting and finance in July 2005. He was accredited as a certified practicing accountant by CPA Australia and certified public accountant by Hong Kong Institute of Certified Public Accountants in November 2009 and May 2011, respectively.

### SUPERVISORS

**Ms. XIE Yanli (謝豔麗)**, aged 42, has been appointed as our chairlady of our Supervisory Committee and a Supervisor since 3 May 2018. She is primarily responsible for supervising the performance of duties by our Directors and members of the senior management of our Group.

Ms. Xie worked as a deputy officer in Market Development Service Centre from November 2001 to February 2018, where she was responsible for corporate management, daily operations, establishing party and discipline inspection of the centre. Ms. Xie has also served as a deputy general manager in Market Group since February 2018, where she is responsible for assisting the general manager in formulating the development strategy, internal management and daily operations of the company. Ms. Xie has been a vice president in Wenling City Market Association\* (溫嶺市市場協會) since June 2017. Ms. Xie completed a course in accounting from Hubei Agricultural College\* (湖北農學院) in the PRC in June 2002.

**Ms. YANG Mengjie (楊夢潔)**, aged 27, has been appointed as a Supervisor since 9 November 2018 and is primarily responsible for supervising the performance of duties by our Directors and members of the senior management of our Group.

Ms. Yang joined Wenling City Shopping Centre Service Co., Ltd.\* (溫嶺市購物中心服務有限公司) as a clerk in February 2017 responsible for collecting and filing office documents and providing secretarial support, and was assigned to its shareholders, Market Group, as assistant to chief financial officer on 2 January 2019 responsible for consolidation and analysis of financial data of Market Group and its members. Ms. Yang was awarded a certificate of accounting profession issued by the Wenling City Finance Bureau\* (溫嶺市財政局) in July 2015. Ms. Yang graduated in art and design (environmental art and design) from Wenzhou University\* (溫州大學) in the PRC in June 2014.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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To the best of our Directors' knowledge, Market Group and its subsidiaries principally engage in the investment, construction, operation and management of commodities of trading centres in Wenling City, Zhejiang Province, the PRC. Through her past work experience accumulated in Market Group and its subsidiary, which is administrative and operational in nature, Ms. Yang has acquired the necessary knowledge and knowhow of the trading centre operation industry that is fundamental for the supervision of our Company. Having considered the powers that our supervisory board may exercise as detailed in the section headed "Appendix IV – Summary of Principal Legal and Regulatory Provisions" of this prospectus, the education background and professional qualifications of Ms. Yang, as well as her experience in the trading centre operation industry, our Directors consider, and the Sole Sponsor concurs, that Ms. Yang is capable of discharging her duties as a Supervisor of the Company.

**Mr. XIE Huihui (謝輝輝)**, aged 31, has been appointed as an employee representative Supervisor since 3 May 2018 and is primarily responsible for supervising the performance of duties by our Directors and members of the senior management of our Group.

Mr. Xie has about nine years of experience in the trading centre operation industry and has ample knowledge of business and risk management. Mr. Xie was the head of the shops management department of our Company from October 2009 to April 2018, where he was responsible for managing the properties of our Company, handling enquiries from regulatory authorities and overseeing the operations of our Company. Mr. Xie completed a course in software college computer information management from Ningbo Dahongying University (寧波大紅鷹學院) in the PRC in July 2008.

### SENIOR MANAGEMENT

**Mr. PAN Haihong (潘海鴻)**, aged 42, is a chief executive officer and general manager of our Company. For the biographical details of Mr. Pan, please refer to the paragraph headed "Executive Directors" in this section.

**Mr. ZHOU Guilin (周桂林)**, aged 60, is a chief operating officer and deputy general manager of our Company. For the biographical details of Mr. Zhou, please refer to the paragraph headed "Executive Directors" in this section.

**Mr. CHEN Junren (陳俊仁)**, aged 43, has been a deputy general manager of our Company since October 2009 and the director, manager and legal representative of Wenling Measuring and Cutting Tools Network. He is primarily responsible for supervising the daily operations, property leasing management and business development of our Group.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Mr. Chen joined our Group in 2003 and was a Director from April 2003 to August 2015, where he was responsible for overseeing the overall management, market development and the growth strategy of our Company. Mr. Chen has over 15 years of experience in the trading centre operation industry and has extensive knowledge in the areas of management and business development.

**Mr. XIA Xianfa (夏仙法)**, aged 51, has been appointed as a deputy general manager of our Company since October 2009 and is primarily responsible for managing the properties, safety, human resources and operations of our Group.

Mr. Xia has about nine years of experience in the trading centre operation industry and has extensive knowledge in the areas of property and risk management. Mr. Xia served as village head in Qianyangxia Village from February 2005 to February 2014, where he was responsible for overall management and administration of the village. Mr. Xia received the awards of Advanced Individual in Village Work of 2005\* (2005年度村級工作先進個人) and Advanced Individual in Population and Birth Planning Work of 2009\* (2009年度人口與計劃生育工作先進個人) from the Chinese Communist Wenqiao Town Committee\* (中共溫嶠鎮委員會) of Wenqiao Town People's Government in April 2006 and March 2010, respectively. Mr. Xia completed a course in agricultural economic management organised by Taizhou Administration Institute\* (台州行政學院) in the PRC in July 2011.

**Mr. XU Yi (徐亦)**, aged 25, has been appointed as a personnel of information disclosure of our Company since April 2018 and the joint company secretary of our Company since August 2018, and is primarily responsible for overseeing corporate governance, compliance, risk management and company secretarial matters of our Group.

Mr. Xu also worked as a person-in-charge in office of our Company from September 2016 to April 2018, where he was responsible for overseeing the daily operations, compliance and secretarial matters of our Company. Mr. Xu graduated from the University of Wales, the United Kingdom with a bachelor degree of arts, majoring in art and design (3D computer animation) in August 2016.

Save as disclosed herein, during the three years immediately preceding the Latest Practicable Date, none of our Directors, Supervisors or senior management members was a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas, and there is no other information in respect of our Directors, Supervisors and senior management members to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules and there is no other matter that needs to be brought to the attention of our Shareholders.

### JOINT COMPANY SECRETARIES

Mr. Xu Yi and Ms. Fok Po Yi are our joint company secretaries.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Mr. XU Yi (徐亦) is one of our joint company secretaries of our Company. For the biographical details of Mr. Xu, please refer to the paragraph headed “Senior Management” in this section.

Ms. Fok Po Yi (霍寶兒) is a vice president of SWCS Corporate Services Group (Hong Kong) Limited (“SWCS”). Prior to joining SWCS, Ms. Fok has worked for an international accounting firm for over five years and the Listing Division of the Stock Exchange for around eight years. Ms. Fok is a member of the Hong Kong Institute of Certified Public Accountants. She holds a bachelor of business administration degree with honours majoring in professional accountancy in The Chinese University of Hong Kong and a master of laws in corporate and financial law in The University of Hong Kong.

### AUTHORISED REPRESENTATIVES

Mr. Pan Haihong and Mr. Xu Yi are the authorised representatives of our Company for the purpose of Rule 3.05 of the Listing Rules, and Ms. Fok Po Yi is the alternate to Mr. Pan. For the biographical details of Mr. Pan, Mr. Xu and Ms. Fok, please refer to the paragraphs headed “Executive Directors”, “Senior Management” and “Joint Company Secretaries” in this section, respectively.

### BOARD COMMITTEES

#### Audit committee

Our Company has established an audit committee with its written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system and risk management system, nominate and monitor external auditors and to provide advice and comments to the Board.

Our audit committee consists of three members, being Mr. Tsoi Ka Shing, Mr. Huang Qun and Mr. Xu Wei. Mr. Tsoi Ka Shing currently serves as the chairman of our audit committee.

#### Remuneration committee

Our Company has established a remuneration committee with its written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to evaluate the performance and make recommendations on the remuneration of our senior management and to recommend members of the Board.

Our remuneration committee consists of three members, being Mr. Jin Hongqing, Mr. Tsoi Ka Shing and Mr. Pan Haihong. Mr. Jin Hongqing currently serves as the chairman of our remuneration committee.



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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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### **Nomination committee**

Our Company has established a nomination committee with its written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board and/or in senior management.

Our nomination committee consists of three members, being Mr. Huang Qun, Mr. Xu Wei and Mr. Jin Hongqing. Mr. Huang Qun serves as the chairman of our nomination committee.

### **REMUNERATION OF OUR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

Our Directors, Supervisors and senior management receive compensation in the form of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind with reference to those paid by comparable companies, time commitment and the performance of our Company. Our Company also reimburses our Directors, Supervisors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to our Company or executing their functions in relation to the operations of our Company. We regularly review and determine the remuneration and compensation packages (including incentive plans) of our Directors, Supervisors 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, Supervisors and senior management and the performance of our Company.

During the Track Record Period, the aggregate amount of fees, salaries, allowances, discretionary bonus, contributions to defined contribution scheme and other benefits in kind (if applicable) paid by our Company to our Supervisor were approximately RMB46,000, RMB60,000, RMB62,000, RMB86,000 and RMB27,000, respectively and to our Directors were approximately RMB55,000, RMB69,000, RMB63,000, RMB100,000 and RMB45,000, respectively. Our Directors' and Supervisors' remuneration is determined with reference to salaries paid by comparable companies, their experience, their responsibilities and their performance.

During the Track Record Period, the aggregate amount of fees, salaries, allowances, discretionary bonus, contributions to defined contribution scheme and other benefits in kind (if applicable) paid by our Company to our five highest-paid individuals were approximately RMB296,000, RMB344,000, RMB367,000, RMB461,000 and RMB131,000, respectively.

During the Track Record Period, no remuneration was paid by our Company to, or receivable by, our Directors, Supervisors 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, past Directors, our Supervisors, past Supervisors or the five highest-paid individuals for the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Company.

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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None of our Directors or Supervisors had waived any remuneration during the Track Record Period. Save as disclosed above, no other payments have been paid, or are payable, by our Company or any of our subsidiaries to our Directors, Supervisors or the five highest-paid individuals during the Track Record Period.

It is estimated that under the arrangements currently in force, the aggregate amount of compensation (including salaries, benefits in kind but excluding discretionary bonuses) payable to our Directors and Supervisors for the year ending 31 December 2019 will be approximately RMB730,000 and RMB90,000, respectively.

### **COMPLIANCE ADVISER**

Our Company has appointed Cinda International Capital Limited as our compliance adviser upon Listing pursuant to Rule 3A.19 and Rule 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including but not limited to share issues and share repurchases;
- (c) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of operation of our Group deviate from any forecast, estimate, or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares or any other matters under Rule 13.10 of the Listing Rules.

Pursuant to Rule 19A.06 of the Listing Rules, Cinda International Capital Limited will, in a timely manner, inform us of any amendment or supplement to the Listing Rules that are announced by the Stock Exchange. Cinda International Capital Limited will also inform us of any amendment or supplement to applicable laws and guidelines in Hong Kong.

The term of the appointment will commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing.

### **CORPORATE GOVERNANCE CODE**

Our Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of our Group so as to achieve effective accountability.



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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Our Company has adopted the code provisions stated in the Corporate Governance Code (the “**Corporate Governance Code**”) as set out in Appendix 14 to the Listing Rules. Our Company will comply with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. 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 upon the Listing.

### BOARD DIVERSITY POLICY

Our Company has adopted a board diversity policy (the “**Board Diversity Policy**”) setting out the approach to achieve diversity on the Board. The nomination committee reviews and assesses the Board composition on behalf of the Board and recommends the appointment of new Directors, taking into account a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service and any other factors that the Board may consider relevant and applicable from time to time. While our Board recognises that gender diversity at the Board can be improved, given its current composition of single gender Directors, our principle of Director’s appointments will be based on meritocracy, and candidates will be considered against objective criteria, taking into account factors based on our own business model and special needs from time to time, and with due regard to the benefits of diversity on the Board and also the needs of the Board without focusing on a single diversity aspect.

Our Company values gender diversity and will continue to take steps to promote gender diversity at all levels of our Company, including but without limitation at our Board and senior management. In recognising the importance of gender diversity, our Company is committed to providing career development opportunities for female staff and to engaging more resources in training the female staff with an aim to promoting them to the position of senior management or Director. Our Company will also continue to recruit female talents based on our recruitment policy and with reference to our Board Diversity Policy as a whole.

Our Board comprises nine members, including two executive Directors, four non-executive Directors and three independent non-executive Directors. Our Directors have a balanced mix of experiences, including business management, business operation, legal, administration and accounting fields. Further, the age of our Directors ranges from 38 to 66 years old. Two of our Supervisors, Ms. Xie Yanli and Ms. Yang Mengjie, and one of our joint company secretaries, Ms. Fok Po Yi, having practical experience in their respective fields, contribute to gender diversity of our management team and bringing valuable views from a female perspective to our Board in managing our Company. After due consideration, our Board believes that based on our existing business model and the background of our Directors and management team, although our Board currently has no female representation, the composition of our Board satisfied the principles under the Board Diversity Policy. After Listing, the effective implementation of the Board Diversity Policy will depend, to a certain extent, on our Shareholders’ independent judgment on the suitability of individual candidates and their views on the scale of gender diversity of our Board. Considering the significance of gender diversity and the initial term of

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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our current Directors, our Directors confirm that our nomination committee will endeavour to identify through internal promotion, referrals, engaging employment agencies or other reasonable means, and recommend for our Board's consideration, at least two suitable female candidates to our Board as Directors within three years from the Listing Date. We also aim to have at least three female Directors by end of 2022.

To ensure gender diversity of our Board, our nomination committee will continue and from time to time identify suitable candidates of both genders to our Board to be appointed as Directors. To allow our Shareholders to be able to judge whether board diversity is achieved, we will provide our Shareholders with detailed information of each candidate for appointment or re-election to our Board through announcements and circulars published prior to general meetings of our Company.

Our nomination committee will monitor the achievement of the measurable objectives set out in the Board Diversity Policy and review the composition of our Board at least once annually. A summary of the Board Diversity Policy together with the measurable objectives and the progress made towards achieving those objectives will be disclosed in the corporate governance report of our Company annually upon Listing. Our nomination committee will review the Board Diversity Policy, assess its effectiveness and, where necessary, make any revisions that may be required and recommend any such revisions to the Board for consideration and approval. For details of the composition of our nomination committee, please refer to the paragraph headed "Board Committees – Nomination committee" in this section.

Our Company has established the Chinese Communist Party Committee of Wenling Zhejiang Measuring and Cutting Tools Trading Centre\* (中國共產黨溫嶺市浙江工量刃具交易中心委員會) (the "Party Committee") in accordance with the Articles of the Chinese Communist Party\* (中國共產黨章程) and the PRC Company Law. The Party Committee plays a core leading and political role in our Company. The functions and scope of authority of the Party Committee include the following:

- (i) to study and convey the principles and policies, laws and regulations promulgated by the Chinese Communist Party and the state government, and to research and adopt measures for the promotion and implementation of such guidelines and policies;
- (ii) to provide advice to significant issues in relation to the interests of employees;
- (iii) to formulate and enhance the construction work of the Party Committee in respect of political, ideological, organisational, disciplinary and structural aspects and to provide guidance to the work of the labour union of our Company and the Communist Youth League; and
- (iv) to support the Board, the Supervisory Committee and the senior management of our Company in their performance of duties in accordance with the applicable laws and regulations.

## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, each of the following persons have an interest or short position in the Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of any class of shares carrying rights to vote in all circumstances at the general meetings of any other member of our Group:

Shareholder	Capacity/ nature of interest	Number and class of securities as at the date of the application proof of this prospectus <sup>(Note 1)</sup>	Percentage of interest in our Company as at the date of the application proof of this prospectus	Number and Shares held immediately after the Global Offering <sup>(Note 1)</sup>	Shareholding in the relevant class of Shares after the Global Offering (assuming the Over-allotment Option is not exercised) <sup>(Note 2)</sup>	Percentage of interest in the total share capital of our Company after the Global Offering (assuming the Over-allotment Option is not exercised) <sup>(Note 3)</sup>
Market Group	Beneficial owner <sup>(Note 4)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Market Development Service Centre	Interest in controlled corporation <sup>(Notes 4 &amp; 5)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Qiaoling Investment	Beneficial owner <sup>(Note 4)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Wenqiao Town People's Government	Interest in controlled corporation <sup>(Notes 4 &amp; 6)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Maowei Investment	Beneficial owner <sup>(Note 4)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Maoyang Village Share Economic Cooperative	Interest in controlled corporation <sup>(Note 7)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Maoyang Village Committee	Interest in controlled corporation <sup>(Notes 4 &amp; 7)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Qianyang Investment	Beneficial owner <sup>(Note 4)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%

## SUBSTANTIAL SHAREHOLDERS

Shareholder	Capacity/ nature of interest	Number and class of securities as at the date of the application proof of this prospectus <sup>(Note 1)</sup>	Percentage of interest in our Company as at the date of the application proof of this prospectus	Number and Shares held immediately after the Global Offering <sup>(Note 1)</sup>	Shareholding in the relevant class of Shares after the Global Offering (assuming the Over-allotment Option is not exercised) <sup>(Note 2)</sup>	Percentage of interest in the total share capital of our Company after the Global Offering (assuming the Over-allotment Option is not exercised) <sup>(Note 3)</sup>
Qianyangxia Village Share Economic Cooperative	Interest in controlled corporation <sup>(Note 8)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Qianyangxia Village Committee	Interest in controlled corporation <sup>(Notes 4 &amp; 8)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Shangyu Investment	Beneficial owner <sup>(Note 4)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Shangjie Village Share Economic Cooperative	Interest in controlled corporation <sup>(Note 9)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Shangjie Village Committee	Interest in controlled corporation <sup>(Notes 4 &amp; 9)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Zhongjie Hede Investment	Beneficial owner <sup>(Note 4)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Zhongjie Village Share Economic Cooperative	Interest in controlled corporation <sup>(Note 10)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Zhongjie Village Committee	Interest in controlled corporation <sup>(Notes 4 &amp; 10)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Botao Investment	Beneficial owner <sup>(Note 4)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%

## SUBSTANTIAL SHAREHOLDERS

Shareholder	Capacity/ nature of interest	Number and class of securities as at the date of the application proof of this prospectus <sup>(Note 1)</sup>	Percentage of interest in our Company as at the date of the application proof of this prospectus	Number and Shares held immediately after the Global Offering <sup>(Note 1)</sup>	Shareholding in the relevant class of Shares after the Global Offering (assuming the Over-allotment Option is not exercised) <sup>(Note 2)</sup>	Percentage of interest in the total share capital of our Company after the Global Offering (assuming the Over-allotment Option is not exercised) <sup>(Note 3)</sup>
Xuzhai Village Share Economic Cooperative	Interest in controlled corporation <sup>(Note 11)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Xuzhai Village Committee	Interest in controlled corporation <sup>(Notes 4 &amp; 11)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Zhang Laoqiao Investment	Beneficial owner <sup>(Note 4)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Zhang Laoqiao Village Share Economic Cooperative	Interest in controlled corporation <sup>(Note 12)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%
Zhang Laoqiao Village Committee	Interest in controlled corporation <sup>(Notes 4 &amp; 12)</sup>	58,200,000 Domestic Shares (L)	97%	58,200,000 Domestic Shares (L)	97%	72.75%

*Notes:*

1. The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the Domestic Shares.
2. The calculation is based on the percentage of shareholding in the Domestic Shares.
3. The calculation is based on the total number of 80,000,000 Shares in issue after the Global Offering.
4. Pursuant to the Concert Party Agreement and Concert Party Supplemental Agreement, details of which are set out in paragraph headed “History, Development and Reorganisation – Concert Party Arrangement” of this prospectus, immediately following completion of the Global Offering (without taking into account any H Shares to be issued upon exercise of the Over-allotment Option), Market Development Service Centre, Wenqiao Town People’s Government, Qianyangxia Village Committee, Maoyang Village Committee, Zhongjie Village Committee, Shangjie Village Committee, Xuzhai Village Committee and Zhang Laoqiao Village Committee are acting in concert with one another and each of them is deemed to exercise or control the exercise of 72.75% of the voting power at general meetings of our Company, and is therefore deemed to be interested under the SFO.

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## SUBSTANTIAL SHAREHOLDERS

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5. Market Development Service Centre holds the entire equity interest of Market Group. Therefore, under the SFO, Market Development Service Centre is deemed or taken to be interested in all the Shares which are beneficially owned by Market Group.
6. Wenqiao Town People's Government holds the entire equity interest of Qiaoling Investment. Therefore, under the SFO, Wenqiao Town People's Government is deemed or taken to be interested in all the Shares which are beneficially owned by Qiaoling Investment.
7. Maoyang Village Committee holds the entire equity interest of Maoyang Village Share Economic Cooperative which holds the entire equity interests of Maowei Investment. Therefore, under the SFO, each of Maoyang Village Committee and Maoyang Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Maowei Investment.
8. Qianyangxia Village Committee holds the entire equity interest of Qianyangxia Village Share Economic Cooperative which holds the entire equity interests of Qianyang Investment. Therefore, under the SFO, each of Qianyangxia Village Committee and Qianyangxia Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Qianyang Investment.
9. Shangjie Village Committee holds the entire equity interest of Shangjie Village Share Economic Cooperative which holds the entire equity interests of Shangyu Investment. Therefore, under the SFO, each of Shangjie Village Committee and Shangjie Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Shangyu Investment.
10. Zhongjie Village Committee holds the entire equity interest of Zhongjie Village Share Economic Cooperative, which holds the entire equity interests of Zhongjie Hede Investment. Therefore, under the SFO, each of Zhongjie Village Committee and Zhongjie Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Zhongjie Hede Investment.
11. Xuzhai Village Committee holds the entire equity interest of Xuzhai Village Share Economic Cooperative which holds the entire equity interests of Botao Investment. Therefore, under the SFO, each of Xuzhai Village Committee and Xuzhai Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Botao Investment.
12. Zhang Laoqiao Village Committee holds the entire equity interest of Zhang Laoqiao Village Share Economic Cooperative which holds the entire equity interests of Zhang Laoqiao Investment. Therefore, under the SFO, each of Zhang Laoqiao Village Committee and Zhang Laoqiao Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Zhang Laoqiao Investment.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Global Offering, have an interest or short position in Shares or underlying Shares, which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of any class of shares carrying rights to vote in all circumstances at the general meetings of any other member of our Group.

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## SHARE CAPITAL

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### SHARE CAPITAL

As at the date of this prospectus, the registered capital of our Company is RMB60,000,000, divided into 60,000,000 Domestic Shares with a nominal value of RMB1.00 each.

Assuming the Over-allotment Option is not exercised, the registered capital of our Company immediately following the Global Offering will be increased to RMB80,000,000 and set out as follows:

<b>Number of Shares</b>	<b>Description of Shares</b>	<b>Percentage of total share capital</b>
60,000,000	Domestic Shares <i>(Note 1)</i>	75%
<u>20,000,000</u>	H Shares to be issued under the Global Offering	<u>25%</u>
<u><u>80,000,000</u></u>		<u><u>100.00%</u></u>

*Note:* These Domestic Shares may be converted into H Shares. For further details, please refer to the paragraph headed “Conversion of our Domestic Shares into H Shares” in this section.

Assuming the Over-allotment Option is exercised in full, the registered capital of our Company immediately following the Global Offering will be increased to RMB83,000,000 and set out as follows:

<b>Number of Shares</b>	<b>Description of Shares</b>	<b>Approximate percentage of total share capital</b>
60,000,000	Domestic Shares <i>(Note 1)</i>	72.29%
20,000,000	H Shares to be issued under the Global Offering	24.10%
<u>3,000,000</u>	H Shares to be issued upon full exercise of the Over-allotment Option	<u>3.61%</u>
<u><u>83,000,000</u></u>		<u><u>100.00%</u></u>

*Note:* These Domestic Shares may be converted into H Shares. For further details, please refer to the paragraph headed “Conversion of our Domestic Shares into H Shares” in this section.

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## SHARE CAPITAL

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### ASSUMPTIONS

The above tables assume that the Global Offering becomes unconditional and the issue of H Shares pursuant to the Global Offering is made. It takes no account of any H Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Options.

### PUBLIC FLOAT REQUIREMENTS

Rule 8.08(1)(a) and (b) of the Listing Rules requires there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that: (i) at least 25% of the issuer's total number of issued shares must at all times be held by the public; and (ii) where an issuer has one class of securities or more apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Stock Exchange) at the time of listing must be at least 25% of the issuer's total number of issued shares. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total number of issued shares and must have an expected market capitalisation at the time of listing of not less than HK\$125 million.

Our Company undertakes that it will meet the public float requirement under the Listing Rules at the time of Listing and after the completion of the Global Offering. We will make appropriate disclosure of our public float and confirm the sufficiency of our public float in successive annual reports after Listing.

### OUR SHARES

Our Domestic Shares and H Shares are both ordinary shares in the share capital of our Company. H Shares may only be subscribed for and traded in Hong Kong dollars (except for our H Shares which are eligible shares under the Shanghai-Hong Kong Stock Connect and can be traded in Renminbi) between legal or natural persons of Hong Kong, Macao Special Administrative Region of the PRC, Taiwan or any country or jurisdiction other than the PRC and qualified domestic institutional investors of the PRC. Domestic Shares, on the other hand, may only be subscribed for and traded in Renminbi. Apart from certain qualified domestic institutional investors in the PRC as well as certain the PRC qualified investors under the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be subscribed for by and traded between legal or natural persons of the PRC, qualified foreign institutional investors or qualified foreign strategic investors. We must pay all dividends in respect of H Shares in Hong Kong dollars and all dividends in respect of Domestic Shares in Renminbi.

Our Promoters hold all existing Domestic Shares as promoter shares (as defined in the PRC Company Law). Under the PRC Company Law, promoter shares may not be sold within a period of one year from the date of establishment of our Company. The PRC Company Law further provides that in relation to the public share offering of a company, the shares of the company



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## SHARE CAPITAL

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which have been issued prior to the offering shall not be transferred within one year from the date of the listing on any stock exchange.

Except as described in this prospectus and in relation to the despatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarised in Appendix V to this prospectus, our Domestic Shares and our H Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to such restrictions as the PRC laws may impose from time to time. Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months. We have not approved any share issue plan other than the Global Offering.

### **CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES**

#### **Conversion of Domestic Shares**

We have two classes of ordinary shares, Domestic Shares and H Shares. Our Domestic Shares are unlisted Shares which are currently not listed or traded on any stock exchange.

According to the stipulations by the State Council's securities regulatory authority and the Articles of Association, our Domestic Shares may be converted into H Shares. Such converted H Shares may be listed or traded on an overseas stock exchange provided that the conversion and trading of such converted shares shall have duly completed pursuant to any requisite internal approval processes and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

Approval of the Stock Exchange is required if any of our Domestic Shares are to be converted into and traded as H Shares on the Stock Exchange. Based on the methodology and procedures for the conversion of our Domestic Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our Domestic Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of shares for entry on the H Share register. As any listing of additional shares after our initial listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong.

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## SHARE CAPITAL

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No Shareholder voting by class is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for listing of the converted shares on the Stock Exchange after our initial Listing is subject to prior notification by way of announcement to inform our Shareholders and the public of any proposed conversion.

### **Mechanism and procedure for conversion**

After all the requisite approvals have been obtained, the following procedure will need to be completed in order to effect the conversion: the relevant Domestic Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct our H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on: (i) our H Share Registrar lodging with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due despatch of H Share certificates; and (ii) the admission of our H Shares to trade on the Stock Exchange in compliance with the Listing Rules, the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our Promoters currently proposes to convert any of the Domestic Shares held by it into H Shares.

### **TRANSFER OF SHARES ISSUED PRIOR TO THE LISTING DATE**

The PRC Company Law provides that in relation to the Global Offering of a company, the shares issued by a company prior to the Global Offering shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to this statutory restriction and not be transferred within a period of one year from the Listing Date.

### **REGISTRATION OF SHARES NOT LISTED ON THE OVERSEAS STOCK EXCHANGE**

According to the *Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange* (關於境外上市公司非境外上市股份集中登記存管有關事宜的通知) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 Business Days upon listing.

### **GENERAL MANDATE TO ISSUE SHARES**

Subject to the completion of the Global Offering, the existing Shareholders have by special resolution in general meeting given approval, either conditionally or subject to such terms and conditions as may be specified in the mandate to authorise, allot and issue Domestic Shares and/or H Shares, either separately or concurrently once every twelve months, within a period of up to the date of the conclusion of the next annual general meeting of Shareholders or the date

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## SHARE CAPITAL

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on which our Shareholders pass a special resolution to revoke or change such mandate, upon such terms and conditions and for such purposes and to such persons as our Board in their absolute discretion deem fit, and to make necessary amendments to the Articles of Association and to file such amendments to the relevant administration bureau for industry and commerce for registration, provided that, the number of Domestic Shares or H Shares to be issued shall not exceed 20% of the number of our Domestic Shares in issue and H Shares in issue (as the case may be) as at the Listing Date.

Furthermore, we need to obtain approvals from the CSRC and other relevant government authorities for the actual issuance of Domestic Shares and H Shares.

### CONVENING OF GENERAL AND CLASS MEETINGS

Please refer to “Appendix V – Summary of Articles of Association” in this prospectus for details of the circumstances under which general meetings and class meetings of our Company are required.

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## FINANCIAL INFORMATION

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*You should read the following discussion in conjunction with our historical financial information as at and for the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019 together with the accompanying notes set forth in the Accountants' Report included as Appendix I to this prospectus and the selected historical financial information and operating data included elsewhere in this prospectus. The historical financial information has been prepared in accordance with HKFRSs.*

*Our historical results do not necessarily indicate results expected for any future periods. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth in "Forward-Looking Statements" and "Risk Factors".*

### OVERVIEW

We are an established Measuring and Cutting Tools trading centre operator in China. According to the F&S Report, the total sales revenue of trading Measuring and Cutting Tools by the tenants in the trading centres, independent shops and direct sales from manufacturers, rose from approximately RMB23.3 billion in 2013 to approximately RMB49.3 billion in 2018 in China, representing a CAGR of approximately 16.2% from 2013 to 2018. In 2018, the sales revenue of our Trading Centre was approximately RMB5.3 billion, representing approximately 10.8% of the total sales revenue of trading the Measuring and Cutting Tools in the PRC.

China has introduced a number of policies facilitating manufacturing industry in recent years, which, according to the F&S Report, will eventually benefit the Measuring and Cutting Tools market. In particular, according to The Thirteenth Five-year Plan of Intelligent Manufacturing\* (《智能製造“十三五”發展規劃(2016–2020年)》), the Chinese government put forward a “two-step strategy\* (兩步走)”, pursuant to which intelligent manufacturing will become a long-term plan and strategy and therefore enlarge the demands in the Measuring and Cutting Tools industry.

We own, operate and manage our Trading Centre located in Qianyangxia Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC\* (中國浙江省溫嶺市溫嶠鎮前洋下村). During the Track Record Period and as at the Latest Practicable Date, our principal activity and source of revenue were primarily derived from property leasing business through our operation of the Trading Centre for the Measuring and Cutting Tools industry. We aim to expand such property leasing business in the Measuring and Cutting Tools industry into the Industrial Park. Please refer to the section headed “Business – Our Business Expansion – Measuring and Cutting Tools Industrial Park” for further details. Our Trading Centre is a four-storey commercial complex with a total GFA of approximately 74,204.7 sq.m., a total GFA of approximately 71,817.5 sq.m. is held for investment purpose and a total GFA of approximately 2,387.2 sq.m. is held for our own offices. As at 30 April 2019, we have 715 units in our Trading Centre and 617 tenants. According to the Property Valuer, the market value of our Trading Centre held for investment purpose and the Land were RMB912.5 million as at 31 August 2019. For the years ended 31

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December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, the average occupancy rates for our Trading Centre were approximately 100%, 94.1%, 94.8%, 98.5%, 98.1% and 99.0% respectively.

For the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, we generated revenue of approximately RMB25.4 million, RMB45.1 million, RMB43.5 million, RMB47.0 million, RMB15.2 million and RMB16.5 million respectively. Our profit for the same periods were approximately RMB85.2 million, RMB46.7 million, RMB44.9 million, RMB37.0 million, RMB18.2 million and RMB10.8 million, respectively.

### Non-HKFRSs Measures

The table below sets out the adjusted net profit <sup>(1)</sup> (excluding the valuation gains on investment properties and the corresponding deferred tax effect, while adjusting non-recurring items) for the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019:

	For the year ended 31 December				For the four months ended 30 April	
	2015	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Profit for the year/period	85,192	46,681	44,892	36,961	18,240	10,802
Less: valuation gains on investment properties	(99,920)	(18,421)	(27,000)	(17,000)	(13,000)	(4,004)
Add: Deferred tax expenses in relation to revaluation of investment properties	24,980	4,606	6,750	4,250	3,250	1,001
Listing expenses	–	–	–	266	–	–
Adjusted net profit for the year/period <sup>(1)</sup>	<u>10,252</u>	<u>32,866</u>	<u>24,642</u>	<u>24,477</u>	<u>8,490</u>	<u>7,799</u>

*Note:*

- (1) The adjusted net profit is not a measure under HKFRSs. The use of adjusted net profit has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant periods. See “Financial Information – Non-HKFRSs Measures”.

The term “adjusted net profit” is not defined under HKFRSs. The use of adjusted net profit has material limitation as an analytical tool, as it does not include all items that have an impact on our net profit for the relevant periods. In light of the foregoing limitations for the adjusted net profit, when assessing our operating and financial performance, you should not view

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## FINANCIAL INFORMATION

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adjusted net profit in isolation or as a substitute for our profit for the relevant periods or any other operating performance measure that is calculated in accordance with HKFRSs. In addition, we believe that the non-HKFRSs Measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items, i.e. valuation gains on investment properties and deferred tax expenses and non-recurring items, i.e. listing expenses. Because this non-HKFRSs measure may not be calculated in the same manner by all companies, they may not be comparable to other similarly titled measures used by other companies.

Significant fluctuations in the Group's adjusted net profit during the Track Record Period are explained as follows:

1. Adjusted net profit for the year increased by approximately 220.6% from approximately RMB10.3 million for the year ended 31 December 2015 to approximately RMB32.9 million for the year ended 31 December 2016 mainly due to increase in revenue from property leasing and gross profits since we renewed all of the tenancy agreements that were expired in October 2015 with higher rates.
2. Adjusted net profit for the year decreased by approximately 25.0% from approximately RMB32.9 million for the year ended 31 December 2016 to approximately RMB24.6 million for the year ended 31 December 2017, mainly as a result of decrease in gross profit, increase in administrative expenses and increase in income tax since our Company was taxed on a deemed profit method which was determined at 20% of the revenue of the Company for the year ended 31 December 2016, whereas our Company was taxed at 25% statutory income tax rate since 1 January 2017.
3. There was no material fluctuation in the adjusted net profit for the years ended 31 December 2017 and 2018 as well as for the four months ended 30 April 2018 and 2019.

### **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 HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The historical financial information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting Policies have been applied consistently to all periods presented in the Historical Financial Information.

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## FINANCIAL INFORMATION

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For more information on the basis of preparation of our financial information included herein, see Accountants' Report set out in Appendix I to this prospectus.

### KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our businesses, financial positions, results of operations and cashflows have been, or may be expected to be in the future, significantly affected by a number of factors, many of which may be beyond our control. A discussion of certain key factors is set out below:

#### Rental and Occupancy Rates

Our revenue depends substantially on the property leasing revenue generated from our Trading Centre only in which our Trading Centre is highly susceptible to a downturn in the economic conditions in Wenling City, Zhejiang Province.

In addition, our property leasing revenue principally depends on the rental rates that our Trading Centre is able to command and the occupancy rate it is able to maintain. This in turns depends upon the continuing growth in the manufacturing industry and Measuring and Cutting Tools industry in the PRC, the location of our property planned for future development, and our ability to compete with other similar businesses.

#### Expiration and Renewal of Existing Leases

The term of the lease is normally ranging from four to six years or 20 years for property used by our tenants.

The lease can be terminated by either party upon the other party's material breach of the same, including but not limited to the following: (i) the failure of our tenants to pay the rental fee on time; (ii) our tenants carrying out unlawful business activities and their business licenses are revoked as a result thereof; and (iii) our inability to provide the agreed unit of our Trading Centre to our tenant in accordance with the relevant tenancy agreement.

As at 30 April 2019, leases (including the First Floor, the Second Floor and the Third Floor while excluding the basement of our Trading Centre) comprising a total LFA leased of approximately 284.0 sq.m., 13,830.0 sq.m., 2,090.0 sq.m., 669.0 sq.m. and 1,195.2 sq.m. were scheduled to expire in the years ending 2019, 2020, 2021, 2022 and 2025 (and afterwards), respectively, representing approximately 1.6%, 76.5%, 11.6%, 3.7% and 6.6% of the total LFA leased of the Trading Centre as at 30 April 2019, respectively.

For additional information on leases which are scheduled to expire in the following few years, see "Business – Lease expirations".

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## FINANCIAL INFORMATION

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### **Changes in Fair Value of Investment Properties as a Result of Economic and Market Conditions**

The fair value of our investment properties represents open market value, which is affected to a large extent by property market conditions. The fair value of our investment property is valued by the Property Valuer based on methods and assumptions that were periodically adjusted by the Property Valuer to reflect market conditions.

The valuation of our investment properties in the past has had an impact on our results of operations of the properties and our financial position, and may in the future result in significant fluctuations in our results of operations and financial position. During the Track Record Period, our valuation gains on investment properties were approximately RMB99.9 million, RMB18.4 million, RMB27.0 million, RMB17.0 million, RMB13.0 million and RMB4.0 million for the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, respectively. For additional information on the increase in fair value of investment properties, see Note 12 to the Accountants' Report set out in Appendix I to this prospectus for details.

### **Timing of the cash inflow and outflow of our operating activities**

The Group entered the rental agreements with the tenants that the tenants will pay the property leasing fee in annually (i.e. October in every year), which is major cash inflow of the Group. In the same time, the Group incurs the costs and makes payments at every month, which is major cash out of the Group. Therefore, our cash flows of the operations vary from period to period, subject to the collection of property leasing fee in the relevant periods. As a result of the timing difference between the costs incurred and cash received from the property leasing, our cash flow has fluctuated in the past and are likely to continue to fluctuate in the future.

### **SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS**

Our historical financial information has been prepared in accordance with all applicable HKFRSs which collective term includes all applicable individual HKFRSs, HKASs and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. See Note 2 to the Accountants' Report set out in Appendix I to this prospectus for details of the significant accounting policies relating to our historical financial information and see Note 3 to the Accountants' Report set out in Appendix I to this prospectus for details of the significant accounting judgments and estimates.

### **Adoption of HKFRS 9, HKFRS 15 and HKFRS 16**

Our historical consolidated financial information has been prepared based on the underlying financial statements, in which HKFRS 9, *Financial instruments* (“**HKFRS 9**”), HKFRS 15, *Revenue from contracts with customers* (“**HKFRS 15**”) and HKFRS 16, *lease* (“**HKFRS 16**”) have been adopted and applied consistently since the beginning of, and throughout, the Track Record Period. Given that the Track Record Period spans from 1 January 2015 to four months



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## FINANCIAL INFORMATION

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ended 30 April 2019 by which time HKFRS 9, HKFRS 15 and HKFRS 16 would be mandatorily applied, we have adopted HKFRS 9 and HKFRS 15, in lieu of HKAS 18 ‘Revenue’ (“**HKAS 18**”), HKAS 39 ‘Financial Instruments: Recognition and Measurement’ (“**HKAS 39**”) and HKAS 17 Leases (“**HKAS 17**”) in the preparation of our financial statements, such that our historical consolidated financial information prepared under HKFRS 9, HKFRS 15 is and HKFRS 16 comparable on a period-to-period basis.

Nonetheless, we have carried out internal assessments with our best efforts based on the principles set out in HKAS 18, HKAS 39 and HKAS 17, and set forth below certain estimated key impact on our financial position and performance if HKAS 18, HKAS 39 and HKAS 17 were adopted instead:

- **Adoption of new impairment model.** HKFRS 9 requires the recognition of impairment provisions of financial assets measured at amortized cost based on expected credit losses while it is based on an incurred model under HKAS 39. We have assessed that the adoption of these two different models would not result in significant difference on bad debt provision and the adoption of HKFRS 9 would not result in significant impact on the Group’s financial position and performance as compared with HKAS 39.
- **Revenue recognition.** HKFRS 15 requires the recognition of revenue from property management services when the control of the service underlying the particular performance obligation is transferred to the customer. Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation as the customer simultaneously receives the benefits provided by the Group’s performance as the Group performs. If HKAS 18 is adopted, the revenue is recognised in the accounting periods in which the services are rendered. We consider that the adoption of HKFRS 15 would not result in significant impact on our financial position and performance as compared with HKAS 18.
- **Lease.** HKFRS 16 requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged. Except for the state-owned leasehold land in PRC, the Group does not have any other lease arrangement as a lessee during the Relevant Periods. We consider the adoption of HKFRS 16 would not result in significant impact on the Group’s financial position and performance as compared with HKAS 17.

Taking into account the impacts disclosed above, we consider that the early adoption of HKFRS 9, HKFRS 15 and HKFRS 16 did not have significant impact on our financial position and performance during the Track Record Period.

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### RESULTS OF OPERATIONS

	For the year ended 31 December				For the four months ended 30 April	
	2015	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)	
<b>Revenue</b>	25,435	45,129	43,487	46,994	15,215	16,523
Cost of sales	(6,722)	(6,143)	(6,727)	(8,185)	(2,783)	(2,787)
<b>Gross profit</b>	18,713	38,986	36,760	38,809	12,432	13,736
Valuation gains on investment properties	99,920	18,421	27,000	17,000	13,000	4,004
Other net income	119	111	808	866	598	31
Administrative expenses	(1,928)	(2,478)	(4,616)	(7,244)	(1,610)	(1,840)
<b>Profit from operations</b>	116,824	55,040	59,952	49,431	24,420	15,931
Finance costs	(4,014)	–	–	–	–	(1,524)
Share of losses of an associate	(67)	(29)	(62)	(86)	(64)	–
<b>Profit before taxation</b>	112,743	55,011	59,890	49,345	24,356	14,407
Income tax	(27,551)	(8,330)	(14,998)	(12,384)	(6,116)	(3,605)
<b>Profit for the year/period</b>	<u>85,192</u>	<u>46,681</u>	<u>44,892</u>	<u>36,961</u>	<u>18,240</u>	<u>10,802</u>

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## FINANCIAL INFORMATION

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### DESCRIPTION OF SELECTED STATEMENTS OF PROFIT OR LOSS LINE ITEMS

#### Revenue

During the Track Record Period, we generated revenue from (i) property leasing; and (ii) others. Revenue from property leasing represents primarily the amounts of rent recognised from tenants under their leases. Revenue from others primarily represents property management fee, advertising income and non-refundable deposits income. For the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, our revenue amounted to approximately RMB25.4 million, RMB45.1 million, RMB43.5 million, RMB47.0 million, RMB15.2 million and RMB16.5 million, respectively. The table below sets forth a breakdown of revenue for the periods indicated:

	For the year ended 31 December								For the four months ended 30 April			
	2015		2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Property leasing	22,662	89.1	43,823	97.1	42,713	98.2	45,907	97.7	15,161	99.6	15,633	94.6
Others	2,773	10.9	1,306	2.9	774	1.8	1,087	2.3	54	0.4	890	5.4
Total	<u>25,435</u>	<u>100.0</u>	<u>45,129</u>	<u>100.0</u>	<u>43,487</u>	<u>100.0</u>	<u>46,994</u>	<u>100.0</u>	<u>15,215</u>	<u>100.0</u>	<u>16,523</u>	<u>100.0</u>

Our customers base is diversified and no single customer with whom transactions have exceeded 10% of our revenue during the years ended 31 December, 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019.

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### Cost of Sales

Our cost of sales mainly comprised of property management cost paid to our subcontractor, property tax and others, utilities charges, staff costs, repair and maintenances and amortisation. For the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, our cost of sales amounted to approximately RMB6.7 million, RMB6.1 million, RMB6.7 million, RMB8.2 million, RMB2.8 million and RMB2.8 million, respectively. The table below sets forth a breakdown of our cost of sales for the periods indicated:

	For the year ended 31 December				For the four months ended 30 April							
	2015	2016	2017	2018	2018	2019						
	RMB'000	% RMB'000	% RMB'000	% RMB'000	% RMB'000	% RMB'000	% RMB'000	%				
	(Unaudited)											
Property management												
cost	706	10.5	1,362	22.2	1,564	23.3	1,740	21.3	541	19.4	629	22.6
Property tax and others	2,859	42.5	2,399	39.0	2,472	36.7	2,723	33.3	861	31.9	815	29.2
Utilities charges	1,767	26.3	866	14.1	1,282	19.1	1,041	12.7	166	6.0	76	2.7
Staff costs	506	7.5	874	14.2	849	12.6	1,035	12.6	273	9.8	380	13.6
Repair and maintenances	884	13.2	606	9.9	454	6.7	1,540	18.8	906	32.6	851	30.6
Amortisation	-	-	36	0.6	106	1.6	106	1.3	36	1.3	36	1.3
<b>Total</b>	<b>6,722</b>	<b>100.0</b>	<b>6,143</b>	<b>100.0</b>	<b>6,727</b>	<b>100.0</b>	<b>8,185</b>	<b>100.0</b>	<b>2,783</b>	<b>100.0</b>	<b>2,787</b>	<b>100.0</b>

### Gross Profit and Gross Profit Margin

For the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, our gross profit amounted to approximately RMB18.7 million, RMB39.0 million, RMB36.8 million, RMB38.8 million, RMB12.4 million and RMB13.7 million, respectively. Gross profit margin is calculated by dividing gross profit by the revenue during each reporting period. Our gross profit margin was approximately 73.6%, 86.4%, 84.5%, 82.6%, 81.7% and 83.1%, respectively, for the same periods.

### Valuation Gains on Investment Properties

Our investment properties (comprising Basement to Level 3 of our Trading Centre and the Land) were valued as at 31 December 2014, 2015, 2016, 2017, 2018 and 30 April 2019 by the Property Valuer, where applicable. The valuation was performed in accordance with the valuation standards on property issued by the Hong Kong Institute of Surveyors or Royal Institution of Chartered Surveyors or International Valuation Standards Council (where applicable). The fair value gains of our investment properties for the year ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019 were approximately RMB99.9 million, RMB18.4 million, RMB27.0 million, RMB17.0 million, RMB13.0 million and RMB4.0 million, respectively.

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The table below sets forth a breakdown of the fair value of our investment properties as at the dates indicated:

	As at 31 December					As at
	2014	2015	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trading Centre held for investment purpose	650,000	766,000	796,000	823,000	840,000	846,000
Land	—	—	—	—	—	63,500
<b>Total</b>	<b>650,000</b>	<b>766,000</b>	<b>796,000</b>	<b>823,000</b>	<b>840,000</b>	<b>909,500</b>

The changes in the fair value of our investment properties resulted in additions and gains record from the increase in fair value of investment properties of approximately RMB99.9 million, RMB18.4 million, RMB27.0 million, RMB17.0 million, RMB13.0 million and RMB4.0 million, respectively, for the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019. The table below sets forth a breakdown of the valuation gains/(losses) on our investment properties for the periods indicated:

	For the year ended 31 December				For the four months ended 30 April	
	2015	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trading Centre held for investment purpose	99,920	18,421	27,000	17,000	13,000	6,000
Land	—	—	—	—	—	(1,996)
<b>Total</b>	<b>99,920</b>	<b>18,421</b>	<b>27,000</b>	<b>17,000</b>	<b>13,000</b>	<b>4,004</b>

(Unaudited)

### **Valuation Method**

The Property Valuer has adopted valuation methods, namely Market Approach and Income Capitalisation Method, in valuing the investment properties. The valuation methodology adopted is in line with market practice as it is commonly used in valuing similar properties.

Valuation by the Property Valuer has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interests.

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No allowance has been made in the Valuation Report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

As the property interests are held under long term land use rights, the Property Valuer has assumed that the owner (i.e. our Group) has free and uninterrupted rights to use the property for the whole of the unexpired term of the land use rights.

The valuation method adopted for the Land as at 30 April 2019 is Market Approach. We have adopted the Market Approach by assuming sale of property interests in their existing state and by making reference to comparable sale transactions as available in relevant markets.

Except for the abovementioned Land, the valuation method adopted for our Trading Centre held for investment purpose as at 31 December 2014, 2015, 2016, 2017, 2018 and 30 April 2019 is set out as follows:

<b>Valuation method adopted</b>					
<b>As at 31 December 2014</b>	<b>As at 31 December 2015</b>	<b>As at 31 December 2016</b>	<b>As at 31 December 2017</b>	<b>As at 31 December 2018</b>	<b>As at 30 April 2019</b>
Income Capitalisation Method	Income Capitalisation Method	Income Capitalisation Method	Income Capitalisation Method	Income Capitalisation Method	Income Capitalisation Method

### *Income Approach*

Under the relevant valuation standards, the Property Valuer considers to adopt Income Capitalisation Method as appropriate for the portion of the subject property with existing tenancies as at the valuation dates.

Under the Income Capitalisation Method, the capital value of a property is determined based on the value of its remaining tenancy (term value) and its value upon expiration of the tenancy (reversionary value).

### **Term Value**

Term value is the value of the remaining tenancy based on its current passing rent and the remaining valid lease term. It involves the capitalisation of the current rental income over the existing lease term. A term yield by reference to market yield calculated by dividing annual unit market rental income over unit market value of the comparable properties, is used to capitalise the current passing rental income. The choice of the term yield depends on the difference in amount of the passing rents relative to the estimated market rents for the valuation periods. If

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the amount of passing rents is below the reversionary market rents, the landlord enjoys relatively higher degree of income security for the term, and the term yield adopted would be lower than the reversionary yield. Vice-versa applies if the passing rents are above the reversionary market rents.

### Reversionary Value

Reversionary value is the value upon expiration of the tenancy, and is determined based on the prevailing market rate of sale price. To bring the reversionary value back to the current date, the Property Valuer has used a present value rate (i.e. reversionary yield) which is equivalent to the market yield calculated by dividing annual unit market rental income over unit market value of the comparable properties.

The term yields, reversionary yields and market rents adopted during the Track Record Period were as follows:

Valuation Dates	Term Yield	Reversionary Yield	Average Retail Market Rent <i>(RMB/sqm/mth)</i>	Average Carparking Market Rent <i>(RMB/space/mth)</i>
As at 31 December 2014	6.00%	7.00%	156	382
As at 31 December 2015	6.00%	7.00%	176	384
As at 31 December 2016	6.00%	7.00%	186	391
As at 31 December 2017	6.00%	7.00%	197	400
As at 31 December 2018	6.00%	7.00%	203	400
As at 30 April 2019	6.00%	7.00%	206	400

The term yields adopted for our investment property are lower than the reversionary yields since the passing rents for our investment property are lower than the estimated market rents.

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### Summary of retail market unit rents

The following tables summarize the range of retail unit rents of comparable premises and adopted retail market rent of subject property.

As at 31 December 2014

<b>Floor Level</b>	<b>Range of unit rent of comparable premises (RMB/sqm/mth)</b>	<b>Adopted Retail Market Rent (RMB/sqm/mth)</b>
3F	20–30	30
2F	90–140	132
1F	250–400	377

As at 31 December 2015

<b>Floor Level</b>	<b>Range of unit rent of comparable premises (RMB/sqm/mth)</b>	<b>Adopted Retail Market Rent (RMB/sqm/mth)</b>
3F	20–35	32
2F	90–150	140
1F	270–430	400

As at 31 December 2016

<b>Floor Level</b>	<b>Range of unit rent of comparable premises (RMB/sqm/mth)</b>	<b>Adopted Retail Market Rent (RMB/sqm/mth)</b>
3F	25–35	33
2F	100–160	148
1F	280–450	424



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As at 31 December 2017

<b>Floor Level</b>	<b>Range of unit rent of comparable premises <i>(RMB/sqm/mth)</i></b>	<b>Adopted Retail Market Rent <i>(RMB/sqm/mth)</i></b>
3F	24–38	35
2F	105–170	156
1F	300–480	450

As at 31 December 2018

<b>Floor Level</b>	<b>Range of unit rent of comparable premises <i>(RMB/sqm/mth)</i></b>	<b>Adopted Retail Market Rent <i>(RMB/sqm/mth)</i></b>
3F	35–43	37
2F	150–190	162
1F	433–532	463

As at 30 April 2019

<b>Floor Level</b>	<b>Range of unit rent of comparable premises <i>(RMB/sqm/mth)</i></b>	<b>Adopted Retail Market Rent <i>(RMB/sqm/mth)</i></b>
3F	35–43	38
2F	150–190	164
1F	449–533	469

In the course of the valuation of our investment property, the Property Valuer has considered and analysed the retail and carparking rent comparables in the vicinity. These comparable premises are adopted as they are considered relevant to the property in terms of physical and locational attributes. In terms of time, location, size, level and quality, etc., the Property Valuer has made relevant adjustments on unit rents. Considering the characteristic of each comparable, corresponding weighting was given.

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In order to compare comparable premises with subject property, the Property Valuer has identified the 1st floor as a reference floor. For retail units, those located on lower floor level with better accessibility fetch higher rents. Since the selected reference floor is located on the 1st floor, appropriate downward adjustments have been applied to comparable premises which located on higher floor.

Average retail market rent is calculated by the weighted average of adopted retail market rent of each floor of the subject property (from 1F to 3F).

The steady growth of rental level including both passing rents and market rents of our Trading Centre held for investment purpose as at 31 December 2016, 2017 and 2018 and as at 30 April 2019 attributes to the increase of fair value. The year-on-year valuation gains as at 31 December 2015 was materially higher than other valuation dates. It is mainly due to the relatively large year-on-year increase on passing rents when compared to other valuation dates as a result of rental renewals in October 2015.

### *Sensitivity Analysis*

Our financial results during the Track Record Period included changes in fair value of our investment properties and our results may fluctuate due to such changes in the fair value of our investment properties.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of the changes in fair value gains on our investment properties on our profit before tax during the Track Record Period. Fluctuations in the changes in fair value gains on our investment properties are assumed to be 5%, 10% and 15%.

	<b>Changes in %</b>		
	<b>+/- 5%</b>	<b>+/- 10%</b>	<b>+/- 15%</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Hypothetical fluctuations</b>			
<b>Increase/decrease in profit before tax for the year ended</b>			
31 December 2015	+/-4,996	+/-9,992	+/-14,988
31 December 2016	+/-921	+/-1,842	+/-2,763
31 December 2017	+/-1,350	+/-2,700	+/-4,050
31 December 2018	+/-850	+/-1,700	+/-2,550
<b>Increase/decrease in profit before tax for the four months ended</b>			
30 April 2018	+/-650	+/-1,300	+/-1,950
30 April 2019	+/-200	+/-400	+/-601

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### Other Net Income

Our other net income primarily includes interest income from bank deposits, gain on disposal of an associate and government grants. For the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, our other net income amounted to approximately RMB0.1 million, RMB0.1 million, RMB0.8 million, RMB0.9 million, RMB0.6 million and RMB31,000, respectively. The table below sets forth a breakdown of our other net income for the periods indicated:

	For the year ended 31 December				For the four months ended 30 April	
	2015	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)	
Interest income from bank deposits	85	66	53	160	102	30
Government grants	4	3	504	550	496	–
Net gain on disposal of property, plant and equipment	–	–	26	–	–	–
Gain on disposal of an associate	–	–	–	126	–	–
Others	30	42	225	30	–	1
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	119	111	808	866	598	31
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### Administrative Expenses

Our administrative expenses mainly consist of staff costs, property management fee, professional fees, depreciation and amortisation, office expenses and listing expenses. For the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, our administrative expenses amounted to approximately RMB1.9 million, RMB2.5 million, RMB4.6 million, RMB7.2 million, RMB1.6 million and RMB1.8 million, respectively. The table below sets forth a breakdown of our administrative expenses for the periods indicated:

	For the year ended 31 December				For the four months ended 30 April							
	2015	2016	2017	2018	2018	2019						
	RMB'000	% RMB'000	% RMB'000	% RMB'000	% RMB'000	% RMB'000	(Unaudited)					
Staff costs	472	24.5	665	26.9	774	16.8	961	13.3	250	15.5	429	23.3
Office expenses	464	24.0	583	23.5	759	16.4	812	11.2	207	12.9	171	9.3
Entertainment expenses	221	11.5	316	12.8	156	3.4	149	2.1	92	5.7	37	2.0
Advertisement expenses	77	4.0	199	8.0	231	5.0	278	3.8	30	1.8	4	0.2
Listing expenses	-	-	-	-	-	-	266	3.7	-	-	-	-
Depreciation and amortisation	214	11.1	228	9.2	843	18.3	1,119	15.4	311	19.3	392	21.3
Property management fee	23	1.2	45	1.8	52	1.1	58	0.8	18	1.1	21	1.2
Others (Note)	457	23.7	442	17.8	1,801	39.0	3,601	49.7	702	43.6	786	42.7
<b>Total</b>	<b>1,928</b>	<b>100.0</b>	<b>2,478</b>	<b>100.0</b>	<b>4,616</b>	<b>100.0</b>	<b>7,244</b>	<b>100.0</b>	<b>1,610</b>	<b>100.0</b>	<b>1,840</b>	<b>100.0</b>

*Note:* Others mainly include professional fees, car fuel expenses, cleaning expenses and communication expenses.

Others increased from approximately RMB1.8 million for the year ended 31 December 2017 to approximately RMB3.6 million for the year ended 31 December 2018 mainly due to increase in travelling and accommodation expenses of the professional parties and withholding tax in relation to the Listing.

### Finance Costs

Finance costs represent interest expenses on bank loans and loans from a related party. For the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, our finance costs amounted to approximately RMB4.0 million, RMB nil, RMB nil, RMB nil, RMB nil and RMB1.5 million, respectively.

### Income Tax Expenses

Our taxation expenses comprise of CIT.

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Effective from 1 January 2008, under the CIT Law, the PRC's statutory income tax rate is 25%. The Company and its subsidiaries are subject to the PRC income tax at 25% unless otherwise specified. During the years ended 31 December 2015 and 2016, pursuant to "Announcement of the State Administration of Taxation on Issues Relating to Enterprise Income Tax Taxed on a Deemed Basis" issued by the State Administration of Taxation, our Company received written confirmations from the local tax bureau that our Company was taxed on a deemed profit method based on the deemed profits at the 25% statutory tax rate. The deemed profits was determined at 20% of the revenues of our Company. From 1 January 2017, the Company is subject to 25% income tax rate.

Our income tax expenses for the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019 were approximately RMB27.6 million, RMB8.3 million, RMB15.0 million, RMB12.4 million, RMB6.1 million and RMB3.6 million, respectively. Effective tax rate is calculated by dividing income tax by the profit before taxation during each reporting period. Our effective tax rate for the same periods were approximately 24.4%, 15.1%, 25.0%, 25.1%, 25.1% and 25.0%, respectively.

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, our Group did not have any material unresolved tax disputes with the relevant authorities.

### RESULTS OF OPERATIONS

Below is a discussion of our historical operating results for the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019.

#### **For the four months ended 30 April 2019 compared against the four months ended 30 April 2018**

##### *Revenue*

Total revenue increased by approximately 8.6% from approximately RMB15.2 million for the four months ended 30 April 2018 to approximately RMB16.5 million for the four months ended 30 April 2019, mainly because of an increase in revenue from property management service as we charged the tenants for utilities incurred by them since October 2018.

##### *Cost of Sales*

Cost of sales remained stable at approximately RMB2.8 million for the four months ended 30 April 2018 and 2019 respectively.

##### *Gross Profit and Gross Profit Margin*

Gross profit increased by approximately 10.5% from approximately RMB12.4 million for the four months ended 30 April 2018 to approximately RMB13.7 million for the four months

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ended 30 April 2019, mainly because of an increase in revenue from property management service. Gross profit margin remained relatively stable at 81.7% and 83.1% for the four months ended 30 April 2018 and 2019 respectively.

### *Valuation Gains on Investment Properties*

There was a decrease in the valuation gains on our investment properties from approximately RMB13.0 million for the four months ended 30 April 2018 compared to approximately RMB4.0 million for the four months ended 30 April 2019. The higher valuation gains on our investment properties for the four months ended 30 April 2018 was due to an increase in both passing rents and market rents during 2018. The growth in market rents in 2019 was relatively modest as compared with 2018.

### *Other Net Income*

Other net income decreased by approximately 94.8% from approximately RMB0.6 million for the four months ended 30 April 2018 to approximately RMB31,000 for the four months ended 30 April 2019, primarily attributing to decrease in government grants.

### *Administrative Expenses*

Administrative expenses increased by approximately 14.3% from approximately RMB1.6 million for the four months ended 30 April 2018 to approximately RMB1.8 million for the four months ended 30 April 2019, primarily due to increase in staff costs.

Staff costs increased from approximately RMB0.3 million for the four months ended 30 April 2018 to approximately RMB0.4 million for the four months ended 30 April 2019 mainly due to the increase of average salaries as compared with last period.

### *Income Tax*

Income tax decreased by approximately 41.1% from approximately RMB6.1 million for the four months ended 30 April 2018 to approximately RMB3.6 million for the four months ended 30 April 2019, primarily due to decrease in deferred taxation arising from increase in valuation gains on our investment properties. The effective tax rate remained stable at 25.1% and 25.0% for the periods ended 30 April 2018 and 2019 respectively.

### *Profit for the Year and Net Profit Margin*

Profit for the period decreased by approximately 40.8% from approximately RMB18.2 million for the four months ended 30 April 2018 to approximately RMB10.8 million for the four months ended 30 April 2019, mainly due to the decrease in valuation gains on our investment properties. As a result, our net profit margin decreased from approximately 119.9% for the four months ended 30 April 2018 to approximately 65.4% for the four months ended 30 April 2019.

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**For the year ended 31 December 2018 compared against the year ended 31 December 2017**

### ***Revenue***

Total revenue increased by approximately 8.1% from approximately RMB43.5 million for the year ended 31 December 2017 to approximately RMB47.0 million for the year ended 31 December 2018, mainly because of an increase in revenue from the First Floor and the Second Floor. The occupancy rate for the First Floor and the Second Floor increased from approximately 93.9% and 89.9% for the year ended 31 December 2017 to approximately 95.5% and 100% for the year ended 31 December 2018 respectively due to increase in numbers of new tenants in the First Floor and the Second Floor. In addition, the one-off rental refund had not been offered to the tenants in 2018 for the First Floor and the Second Floor.

### ***Cost of Sales***

Cost of sales increased by approximately 21.7% from approximately RMB6.7 million for the year ended 31 December 2017 to approximately RMB8.2 million for the year ended 31 December 2018, primarily due to increase in cost of non-recurring repair and maintenances for the water proofing and fire control facilities in our Trading Center.

### ***Gross Profit and Gross Profit Margin***

Gross profit increased by approximately 5.6% from approximately RMB36.8 million for the year ended 31 December 2017 to approximately RMB38.8 million for the year ended 31 December 2018, mainly because of an increase in revenue from property leasing of the First Floor and the Second Floor but partly offset by the increase in cost of sales. However, due to increase in the costs of sales, gross profit margin decreased from approximately 84.5% for the year ended 31 December 2017 to approximately 82.6% for the year ended 31 December 2018.

### ***Valuation Gains on Investment Properties***

There was a decrease in the valuation gains on our investment properties of approximately RMB27.0 million for the year ended 31 December 2017 compared to approximately RMB17.0 million for the year ended 31 December 2018. The higher valuation gains on our investment properties in 2017 was due to an increase in both passing and market rents during 2017. The growth in market rents in 2018 was relatively modest as compared with 2017.

### ***Other Net Income***

Other net income increased by approximately 7.2% from approximately RMB0.8 million for the year ended 31 December 2017 to approximately RMB0.9 million for the year ended 31 December 2018, primarily attributing to increase in gain on disposal of an associate. For the year ended 31 December 2018, we received an one-off government grants of RMB0.5 million in relation to quality merit.

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### *Administrative Expenses*

Administrative expenses increased by approximately 56.9% from approximately RMB4.6 million for the year ended 31 December 2017 to approximately RMB7.2 million for the year ended 31 December 2018, primarily due to increase in various consulting services, training services, travelling, accommodation and other miscellaneous expenses incurred in aggregate amounts of approximately RMB3.5 million.

### *Income Tax*

Income tax decreased by approximately 17.4% from approximately RMB15.0 million for the year ended 31 December 2017 to approximately RMB12.4 million for the year ended 31 December 2018, primarily due to decrease in deferred taxation arising from increase in valuation gains on our investment property. The effective tax rate remained stable at 25.0% and 25.1% for the years ended 31 December 2017 and 2018.

### *Profit for the Year and Net Profit Margin*

Profit for the year decreased by approximately 17.7% from approximately RMB44.9 million for the year ended 31 December 2017 to approximately RMB37.0 million for the year ended 31 December 2018, mainly due to the decrease in valuation gains on our investment property. Our net profit margin decreased from approximately 103.2% for the year ended 31 December 2017 to 78.7% for the year ended 31 December 2018.

### **For the year ended 31 December 2017 compared against the year ended 31 December 2016**

### *Revenue*

Total revenue decreased by approximately 3.6% from approximately RMB45.1 million for the year ended 31 December 2016 to approximately RMB43.5 million for the year ended 31 December 2017 due to the decrease in revenue from property leasing and others.

Revenue from property leasing decreased by approximately 2.5% from approximately RMB43.8 million for the year ended 31 December 2016 to approximately RMB42.7 million for the year ended 31 December 2017 mainly due to the decrease in revenue from the First Floor and the Second Floor. For the First Floor, 21 tenants terminated the rental agreements in October 2016 and only three units leased out to new tenants during 2017. While for the Second Floor, 31 tenants terminated the rental agreements in October and November 2016 before expiry and the Group could only lease out eight units to new tenants during first half of 2017 and twelve units to new tenants during second half of 2017.

Revenue from others decreased by approximately 40.7% from approximately RMB1.3 million for the year ended 31 December 2016 to approximately RMB0.8 million for the year ended 31 December 2017, primarily due to revenue from the non-refundable deposits was recognised as a total of 52 tenants for the First Floor and the Second Floor terminated the rental



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agreement before expiry for the year ended 31 December 2016 due to higher rental rates as a result of rental agreements that were expired were renewed in October 2015.

### *Cost of Sales*

Cost of sales increased by approximately 9.5% from approximately RMB6.1 million for the year ended 31 December 2016 to approximately RMB6.7 million for the year ended 31 December 2017, primarily due to the increase in utilities expenses from approximately RMB0.9 million for the year ended 31 December 2016 to approximately RMB1.3 million for the year ended 31 December 2017, as a result of the opening of the Third Floor took place in August 2016.

### *Gross Profit and Gross Profit Margin*

Gross profit decreased by approximately 5.7% from approximately RMB39.0 million for the year ended 31 December 2016 to approximately RMB36.8 million for the year ended 31 December 2017, primarily due to the decrease in revenue from property leasing and others. Due to the increase in costs of sales, gross profit margin decreased from approximately 86.4% for the year ended 31 December 2016 to approximately 84.5% for the year ended 31 December 2017.

### *Valuation Gains on Investment Properties*

There was an increase in the valuation gains on our investment properties of approximately RMB27.0 million for the year ended 31 December 2017 as compared to approximately RMB18.4 million for the year ended 31 December 2016. The increase in valuation gains on our investment properties from 2016 to 2017 was in line with the growth of rental levels of both passing and market rents.

### *Other Net Income*

Other net income increased by approximately RMB0.7 million from approximately RMB0.1 million for the year ended 31 December 2016 to approximately RMB0.8 million for the year ended 31 December 2017 primarily due to an increase in government grants in relation to e-commerce incentive of RMB0.5 million.

### *Administrative Expenses*

Administrative expenses increased by approximately 86.3% from approximately RMB2.5 million for the year ended 31 December 2016 to approximately RMB4.6 million for the year ended 31 December 2017, primarily due to increase in professional fees of RMB0.9 million paid in relation to consultancy services on PRC laws and other activities prior to commencement of the company's listing plan in 2017. It was also attributable to increase in depreciation and amortisation expenses of approximately RMB0.6 million for the year ended 31 December 2017 as we increased our property, plant and equipment in late 2016.

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### *Income Tax*

Income tax increased by approximately 80.0% from approximately RMB8.3 million for the year ended 31 December 2016 to approximately RMB15.0 million for the year ended 31 December 2017, primarily due to increase in current tax arising from change in taxation method and deferred tax arising from increase in valuation gains on our investment property. The effective tax rate increased from approximately 15.1% for the year ended 31 December 2016 to approximately 25.0% for the year ended 31 December 2017, primarily attributing to our Company was taxed on a deemed profit method based on the deemed profits at the 25% statutory tax rate. The deemed profits was determined at 20% of the revenues of our Company for the year ended 31 December 2016, whereas our Company was not taxed on a deemed profit method for the year ended 31 December 2017.

### *Profit for the Year and Net Profit Margin*

Profit for the year decreased by approximately 3.8% from approximately RMB46.7 million for the year ended 31 December 2016 to approximately RMB44.9 million for the year ended 31 December 2017, mainly as a result of the cumulative effect of the factors described above. Our net profit margin remained stable at approximately 103.4% for the year ended 31 December 2016 and approximately 103.2% for the year ended 31 December 2017.

### **For the year ended 31 December 2016 compared against the year ended 31 December 2015**

### *Revenue*

Total revenue increased by approximately 77.4% from approximately RMB25.4 million for the year ended 31 December 2015 to approximately RMB45.1 million for the year ended 31 December 2016, primarily due to the increase in revenue from property leasing.

Revenue from property leasing increased by approximately 93.4% from approximately RMB22.7 million for the year ended 31 December 2015 to approximately RMB43.8 million for the year ended 31 December 2016, primarily due to an increase in average monthly effective rent in the first floor and the second floor since we renewed all of the tenancy agreements that were expired in October 2015 with higher rental rates. The tenancy agreements for the First Floor and Second Floor were signed in 2009 and 2011 respectively before the renewal in October 2015. As a result, the average monthly effective rent for the first floor and the second floor increased from RMB273.9 per sq.m. and RMB92.0 per sq.m. respectively for the year ended 31 December 2015 to RMB412.2 per sq.m. and RMB120.7 per sq.m. respectively for the year ended 31 December 2016.

### *Cost of Sales*

Cost of sales decreased by approximately 8.6% from approximately RMB6.7 million for the year ended 31 December 2015 to approximately RMB6.1 million for the year ended 31 December 2016, primarily due to the decrease in utilities expenses from approximately RMB1.8

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million for the year ended 31 December 2015 to approximately RMB0.9 million for the year ended 31 December 2016. Such decrease was primarily due to decrease in electricity costs upon the completion of the upgrade of the air-conditioning system in December 2015.

### *Gross Profit and Gross Profit Margin*

Gross profit increased by approximately 108.3% from approximately RMB18.7 million for the year ended 31 December 2015 to approximately RMB39.0 million for the year ended 31 December 2016, primarily due to an increase in our revenue from property leasing. As a result, gross profit margin increased from approximately 73.6% for the year ended 31 December 2015 to approximately 86.4% for the year ended 31 December 2016.

### *Valuation Gains on an Investment Properties*

There was a decrease in the valuation gains on an investment properties of approximately RMB18.4 million for the year ended 31 December 2016 compared to approximately RMB99.9 million for the year ended 31 December 2015. The decrease in valuation gains on our investment properties from 2015 to 2016 was primarily due to the relatively large increase on passing rents since we renewed all of the tenancy agreements that were expired in October 2015.

### *Other Net Income*

Other net income remained stable at approximately RMB0.1 million and RMB0.1 million for the years ended 31 December 2015 and 2016, respectively.

### *Administrative Expenses*

Administrative expenses increased by approximately 28.5% from approximately RMB1.9 million for the year ended 31 December 2015 to approximately RMB2.5 million for the year ended 31 December 2016, primarily because of increase in staff costs of approximately RMB0.2 million in 2016 as compared with 2015 as we increased our headcount, and increase in other costs of approximately RMB0.4 million in 2016 as compared with 2015 as the office, entertainment and advertisement expenses were increased.

### *Finance Costs*

Finance costs was RMB nil for the year ended 31 December 2016 as compared with approximately RMB4.0 million for the year ended 31 December 2015, such change was mainly because we repaid all bank loans and loans from a related party and a third party in 2015.

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### *Income tax*

Income tax decreased by approximately 69.8% from approximately RMB27.6 million (including current tax of RMB1.3 million and deferred tax of RMB26.2 million) for the year ended 31 December 2015 to approximately RMB8.3 million (including current tax of RMB2.4 million and deferred tax of RMB6.0 million) for the year ended 31 December 2016, primarily due to a decrease in deferred tax arising from decrease in valuation gains on our investment property from approximately RMB99.9 million in 2015 to approximately RMB18.4 million in 2016. While current tax is levied on a deemed basis, deferred tax arising from the valuation gains of our investment property is measured based on the expect manner of realisation or settlement of the carrying amount (i.e. using the tax rates of 25%). Due to the relative large proportion of deferred tax in 2015 as compared with 2016, the effective tax rate decreased from approximately 24.4% for the year ended 31 December 2015 to approximately 15.1% for the year ended 31 December 2016.

### *Profit for the Year and Net Profit Margin*

Profit for the year decreased by approximately 45.2% from approximately RMB85.2 million for the year ended 31 December 2015 to approximately RMB46.7 million for the year ended 31 December 2016, mainly as a result of the cumulative effect of the factors described above. Our net profit margin decreased from approximately 334.9% for the year ended 31 December 2015 to approximately 103.4% for the year ended 31 December 2016, primarily due to the decrease in valuation gains on our investment property in 2016.

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### NET CURRENT ASSETS AND LIABILITIES

The table below sets out the information of our current assets and current liabilities as at the dates indicated:

	As at 31 December				As at	As at
	2015	2016	2017	2018	30 April 2019	31 August 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)
<b>Current assets</b>						
Other receivables and prepayments	1,506	2,399	333	16,369	17,003	17,003
Amounts due from related parties	10,500	8,570	–	–	–	–
Cash and cash equivalents	31,762	41,102	48,203	28,290	29,807	5,294
Restricted cash	–	–	–	–	30,000	10,000
	43,768	52,071	48,536	44,659	76,810	32,297
<b>Current liabilities</b>						
Short-term loans	–	–	–	–	97,020	57,020
Other payables and accruals	4,436	10,506	5,818	4,286	4,231	2,691
Receipts-in-advance, current	47,229	45,245	43,375	46,377	33,043	21,830
Amounts due to related parties	4,769	5,046	77	–	–	–
Current taxation	493	–	4,219	3,559	4,985	5,894
Dividends payable	–	–	12,690	–	–	–
	56,927	60,797	66,179	54,222	139,279	87,435
<b>Net current liabilities</b>	(13,159)	(8,726)	(17,643)	(9,563)	(62,469)	(55,138)

Our current assets consist primarily of other receivables and prepayments, amounts due from related parties and cash and cash equivalents. Our current liabilities consist primarily of other payables and accruals, receipts-in-advance, amounts due to related parties, current taxation, and dividends payable.

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We had net current liabilities of RMB13.2 million, RMB8.7 million, RMB17.6 million, RMB9.6 million, RMB62.5 million and RMB55.1 million as at 31 December 2015, 2016, 2017 and 2018 and as at 30 April 2019 and 31 August 2019, respectively. Our Directors are of the view that the net current liabilities position as at 31 December 2015 was primarily resulting from (i) repayment of various loans for the total sum of RMB100.5 million during the year, and (ii) the historical net current liabilities position prior to the Track Record Period primarily related to the financing of the substantial amount of construction costs of the Trading Centre (financed by the loans as discussed above and receipts in advance which were recorded as current liabilities). In addition, the Company declared dividends of RMB10.0 million and RMB30.0 million for the years ended 31 December 2016 and 2017, which further lowered the cash position of the Group and resulted in the net current liabilities position as at 31 December 2016, 2017 and 2018. Our net current liabilities as at 30 April 2019 were primarily related to the financing of acquisition of the Land at a consideration of RMB63.5 million by short-term bank loans obtained from two banks of RMB97.0 million in January 2019. Our net current liabilities as at 31 August 2019 decreased due to a decrease of receipt-in-advance of approximately RMB11.2 million.

We currently have no plans to pay dividends to the Shareholders after the Listing, if any, declaration of dividends is subject to the discretion of our Directors, depending on our results of operations, working capital, financial position and capital adequacy. Furthermore, as at 31 August 2019, we have unutilised banking facilities of approximately RMB273.0 million.

Taking into account of the financial resources available to our Group, including cash and cash equivalent on hand and internally generated funds, presently available banking facilities and estimated net proceeds from the Listing, we expect our net current liabilities position and working capital position to improve after the Listing.

As at 31 August 2019, our net current liabilities decreased to approximately RMB55.1 million from approximately RMB62.5 million as at 30 April 2019. The decrease was primarily resulted from a decrease of receipt-in-advance of approximately RMB11.2 million.

As at 30 April 2019, our net current liabilities increased to approximately RMB62.5 million from approximately RMB9.6 million as at 31 December 2018. The increase was primarily resulted from (i) an increase in short-term bank loans of approximately RMB97.0 million as at 30 April 2019; and (ii) an increase in restricted cash deposits of approximately RMB30.0 million as at 30 April 2019.

As at 31 December 2018, our net current liabilities decreased to approximately RMB9.6 million from approximately RMB17.6 million as at 31 December 2017. The decrease was primarily resulted from (i) an increase in other receivables and prepayments from approximately RMB0.3 million as at 31 December 2017 to approximately RMB16.4 million as at 31 December 2018, primarily due to prepayment for listing expenses of approximately RMB15.8 million for the year ended 31 December 2018; (ii) a decrease in other payables and accruals from

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approximately RMB5.8 million as at 31 December 2017 to approximately RMB4.3 million as at 31 December 2018 as the rental refund had not been offered since 31 December 2017; and (iii) a decrease in dividends payable from approximately RMB12.7 million as at 31 December 2017 to RMB Nil as at 31 December 2018 mainly because we fully settled the balance, being partially offset by (i) decrease in cash and cash equivalents from approximately RMB48.2 million as at 31 December 2017 to approximately RMB28.3 million as at 31 December 2018; and (ii) an increase in current portion of receipt-in-advance from approximately RMB43.4 million as at 31 December 2017 to approximately RMB46.4 million as at 31 December 2018.

Our net current liabilities increased from approximately RMB8.7 million as at 31 December 2016 to approximately RMB17.6 million as at 31 December 2017. The increase was primarily due to an increase in dividends payable of approximately RMB12.7 million in relation to declaration of dividend for the year ended 31 December 2017, being partially offset by a decrease in other payables and accruals of RMB4.7 million, mainly because of settlement of construction work.

Our net current liabilities decreased from approximately RMB13.2 million as at 31 December 2015 to approximately RMB8.7 million as at 31 December 2016. The decrease was primarily due to (i) an increase in cash and cash equivalents from approximately RMB31.8 million as at 31 December 2015 to approximately RMB41.1 million as at 31 December 2016; and (ii) an increase in other receivables and prepayments from approximately RMB1.5 million as at 31 December 2015 to approximately RMB2.4 million as at 31 December 2016, mainly due to increase in prepayment on income tax, being partially offset by increase in other payables and accruals of RMB6.1 million in relation to construction work and rental refund to tenants in 2016.

### **DISCUSSION OF CERTAIN ITEMS FROM THE STATEMENTS OF FINANCIAL POSITION**

#### **Investment properties**

Our investment properties mainly consist of land and building which is owned or held under a leasehold interest to earn rental income and/or for capital appreciation. As at 31 December 2015, 2016, 2017 and 2018 and as at 30 April 2019, the fair values of our investment properties was approximately RMB766.0 million, RMB796.0 million, RMB823.0 million, RMB840.0 million and RMB909.5 million respectively. The fair value of our investment properties continued to increase during the Track Record Period, primarily reflecting improving property market conditions. In addition, the fair value of our investment properties increased from RMB840 million as at 31 December 2018 to RMB909.5 million as at 30 April 2019 due to additions of the Land at a consideration of RMB63.5 million.

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### Property, plant and equipment

We hold property, plant and equipment mainly consisting of part of a building for own use, electronic equipment and motor vehicles. As at 31 December 2015, 2016, 2017 and 2018 and as at 30 April 2019, the net book values of our property, plant and equipment were approximately RMB5.0 million, RMB7.4 million, RMB8.1 million, RMB8.5 million and RMB9.4 million respectively.

### Other receivables and prepayments

The table below sets out the information of our other receivables and prepayments of the dates indicated:

	<b>2015</b>	<b>As at 31 December</b>			<b>As at</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>30 April</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<b>2019</b>
					<i>RMB'000</i>
Prepayments for listing expense	–	–	–	15,770	16,570
Prepaid income tax	–	611	–	–	–
Value-added tax recoverable	–	–	–	317	151
Prepaid other taxes	1,502	1,738	282	282	282
Others	4	50	51	–	–
	<u>1,506</u>	<u>2,399</u>	<u>333</u>	<u>16,369</u>	<u>17,003</u>

### Trade receivables

As at 31 December 2015, 2016, 2017 and 2018 and as at 30 April 2019, we do not have trade receivables because property leasing income was received in advance for at least a year.



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### Other payables and accruals

The table below sets out the information of our other payables and accruals of the dates indicated:

	As at 31 December				As at
	2015	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Payable for purchase of property, plant and equipment and investment properties	–	3,412	–	–	–
Accrued payroll	197	155	189	284	–
Other taxes payable	2,427	1,879	2,368	1,989	1,386
Accrued interests of short-term loans	–	–	–	–	1,037
Deposits	252	253	259	271	271
Others	1,560	4,807	3,002	1,742	1,537
	<u>4,436</u>	<u>10,506</u>	<u>5,818</u>	<u>4,286</u>	<u>4,231</u>

### *Trade payables*

As at 31 December 2015, 2016, 2017 and 2018 and as at 30 April 2019, we do not have trade payables.

### *Other payables and accruals*

Other payables and accruals mainly consists of payable for purchase of property, plant and equipment and investment properties, accrued payroll, other taxes payables, accrued interests of short-term loans, deposits and others.

Other payables and accruals remained relatively stable at approximately RMB4.3 million and RMB4.2 million as at 31 December 2018 and 30 April 2019 respectively.

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Other payables and accruals decreased from approximately RMB5.8 million as at 31 December 2017 to approximately RMB4.3 million as at 31 December 2018 primarily because we have settled the rental refund of approximately RMB2.2 million as we offered one-off discounts to the First Floor and the Second Floor tenants in 2017.

Other payables and accruals decreased from approximately RMB10.5 million as at 31 December 2016 to approximately RMB5.8 million as at 31 December 2017 primarily because (i) we have settled the payable for purchase of property, plant and equipment of approximately RMB3.4 million; and (ii) an decrease in rental refund payable of approximately RMB1.8 million due to the one-off discounts we offered to the First Floor and the Second Floor tenants in 2017 were half of the amounts of 2016. Since we renewed all of the tenancy agreements that were expired in October 2015 for the First Floor and the Second Floor with higher rates on bidding basis in October 2015. After that, 21 First Floor tenants and 31 Second Floor tenants prematurely terminated their tenancy agreements before expiry in October and November 2016. In view of this, we offered one-off discounts to the First Floor and the Second Floor tenants who have leased over 1 year in order to retain the existing tenants. The Group currently does not have any discount policy offered to its tenants. The discounts offered to tenants in 2016 and 2017 are on discretionary basis.

Other payables and accruals increased from approximately RMB4.4 million as at 31 December 2015 to approximately RMB10.5 million as at 31 December 2016 primarily because (i) we recorded payable for purchase of property, plant and equipment and investment properties of approximately RMB3.4 million as at 31 December 2016 in relation to construction work in Third Floor of our investment property; and (ii) an increase in rental refund of approximately RMB3.4 million as we offered one-off discounts to tenants in 2016.

### **Receipts-in-advance**

As at 31 December 2015, 2016, 2017 and 2018 and as at 30 April 2019, receipts-in-advance mainly represent property leasing fees prepaid by tenants. Receipts-in-advance that are expected to be recorded as revenue within one year of the balance sheet are recorded as current, and receipts-in-advance that are expected to be recorded as revenue beyond one year of the balance sheet are recorded as non-current.

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### Amounts due from and to related parties

The table below sets forth the amounts due from and to related parties as at the dates indicated:

#### *Amounts due from related parties*

	As at 31 December				As at
	2015	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Loan to a related party</b>					
Qiaoling Investment	10,000	8,070	–	–	–
<b>Receivable from capital injection</b>					
Market Group	190	190	–	–	–
Qiaoling Investment	180	180	–	–	–
Shangyu Investment	65	65	–	–	–
Zhongjie Hede Investment	65	65	–	–	–
Sub-total	500	500	–	–	–
Total	10,500	8,570	–	–	–

#### *Amounts due to related parties*

	As at 31 December				As at
	2015	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Qiaoling Investment	260	260	–	–	–
Qianyang Investment	77	77	77	–	–
Wen Qiao Vegetable Market	1,240	1,517	–	–	–
Wenling Shopping Centre	3,192	3,192	–	–	–
	4,769	5,046	77	–	–

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Amounts due from/to related parties were unsecured, interest free and repayable on demand. We have settled the balance as at 31 December 2017, except for the payable to Qianyang Investment, which has been settled as at 31 December 2018.

Amounts due to Qiaoling Investment represented the investment fund for Tiangong Technology paid by Qiaoling Investment on behalf of the Company in respect of the Company's 26% equity interest in Tiangong Technology.

Amounts due to Qianyang Investment represented the remaining balance for the land payment of Trading Center.

Amounts due to Wen Qiao Vegetable Market represented net amount payable since we received rents and also paid land use rights and property taxes on behalf of Wen Qiao Vegetable Market during 2009 to 2016. Such arrangement was ceased in 2017.

Amounts due to Wenling Shopping Centre represented interest payable from a loan of approximately of RMB24 million in which the principal amount was settled during 2015.

Our Directors have confirmed that these related party transactions would not distort our results of operations during the Track Record Period or make our historical results not reflective of our expectations for our future performance. For more details of related party transactions, see Note 30 to the Accountants' Report set out in Appendix I to this prospectus.

### LIQUIDITY AND CAPITAL RESOURCES

#### Overview

Our primary liquidity requirements relate to the funding of required working capital to support an increase in our scale of operations, purchase of property, plant and equipment and potential property acquisition. To date, we have financed our cash requirements through a consolidation of cash generated from operating activities, the proceeds of capital contributions from our Shareholders and the bank borrowings. In the future, we expect to continue relying on cash flows from operations, the proceeds from the Global Offering and other debt and equity financing to fund our working capital needs and finance part of our business expansion.

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### Cash Flows

The table below is a summary of our consolidated cash flows statements during the Track Record Period.

	For the year ended 31 December			For the four months ended		
	2015	2016	2017	2018	30 April	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)	
Operating cash flow before						
movements in working capital	17,033	36,817	33,822	33,370	11,665	12,325
Changes in working capital	120,708	(4,663)	(7,915)	(3,383)	(16,471)	(15,800)
PRC Corporate Income Tax						
("CIT") paid	(1,643)	(3,470)	(2,006)	(7,362)	(1,557)	(702)
Net cash generated from/						
(used in) operating activities	136,098	28,684	23,901	22,625	(6,363)	(4,177)
Net cash used in investing						
activities	(9,919)	(11,274)	(2,588)	(14,078)	(56)	(60,039)
Net cash (used in)/generated						
from financing activities	(100,474)	(8,070)	(14,212)	(28,460)	(13,786)	65,733
<b>Net increase/(decrease) in cash</b>						
<b>and cash equivalents</b>	25,705	9,340	7,101	(19,913)	(20,205)	1,517
Cash and cash equivalents at						
the beginning of the						
year/period	6,057	31,762	41,102	48,203	48,203	28,290
<b>Cash and cash equivalents at</b>						
<b>the end of the year/period</b>	<u>31,762</u>	<u>41,102</u>	<u>48,203</u>	<u>28,290</u>	<u>27,998</u>	<u>29,807</u>

### Cash flows from operating activities

During the Track Record Period, our cash inflows from operating activities were principally derived from the receipt of payments for our property leasing. Our primary cash outflows from operating activities are mainly for the operating expenses in relation to the provision of our services and taxes.

For the four months ended 30 April 2019, our net cash used in operating activities was approximately RMB4.2 million, primarily reflecting (i) profit before income tax of approximately RMB14.4 million; (ii) adjustment for depreciation and amortisation expenses of approximately RMB0.4 million; and (iii) adjustment for finance costs of approximately RMB1.5 million; offset by (i) adjustment for valuation gains on investment properties of approximately

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RMB4.0 million; (ii) cash outflow from decrease in other payables and accruals of approximately RMB1.1 million; (iii) decrease in receipt-in-advance of approximately RMB15.0 million; and (iv) cash outflow from the PRC corporate income tax payment of approximately RMB0.7 million.

For the year ended 31 December 2018, our net cash generated from operating activities was approximately RMB22.6 million, primarily reflecting (i) profit before income tax of approximately RMB49.3 million; and (ii) adjustment for depreciation and amortisation expenses of approximately RMB1.2 million; offset by (i) adjustment for valuation gains on investment properties of approximately RMB17.0 million; (ii) cash outflow from decrease in other payables and accruals of approximately RMB1.5 million; (iii) decrease in receipt-in-advance of approximately RMB1.8 million; and (iv) cash outflow from the PRC corporate income tax payment of approximately RMB7.4 million.

For the year ended 31 December 2017, our net cash generated from operating activities was approximately RMB23.9 million, primarily reflecting (i) profit before income tax of approximately RMB59.9 million; and (ii) adjustment for depreciation and amortisation expenses of approximately RMB0.9 million; offset by (i) adjustment for valuation gains on investment properties of approximately RMB27.0 million; (ii) cash outflow from corporate income tax payment of approximately RMB2.0 million; (iii) decrease in receipt-in-advance of approximately RMB6.6 million; (iv) cash outflow from decrease in other payables and accruals of approximately RMB1.3 million; and (v) decrease in amounts due to related parties of approximately RMB1.8 million.

For the year ended 31 December 2016, our net cash generated from operating activities was approximately RMB28.7 million, primarily reflecting (i) profit before income tax of approximately RMB55.0 million; (ii) adjustment for depreciation and amortisation expenses of approximately RMB0.3 million; and (iii) increase in other payables and accruals of approximately RMB2.7 million, offset by (i) adjustment for valuation gains on investment properties of approximately RMB18.4 million; (ii) cash outflow from corporate income tax payment of approximately RMB3.5 million; and (iii) decrease in receipt-in-advance of approximately RMB7.6 million.

For the year ended 31 December 2015, our net cash generated from operating activities was approximately RMB136.1 million, primarily reflecting (i) profit before income tax of approximately RMB112.7 million; (ii) adjustment for depreciation and amortisation expenses and finance costs of approximately RMB0.2 million and RMB4.0 million, respectively; and (iii) increase in receipt-in-advance of approximately RMB129.8 million, partially offset by (i) adjustment for valuation gains on investment properties of approximately RMB99.9 million; (ii) cash outflow from corporate income tax payment of approximately RMB1.6 million; (iii) increase in other receivables and prepayments of approximately RMB1.5 million; (iv) decrease in other non-current assets of approximately RMB5.1 million; and (v) decrease in other payables and accruals of approximately RMB2.8 million.

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## FINANCIAL INFORMATION

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### **Cash flows from investing activities**

For the four months ended 30 April 2019, our net cash used in investing activities was approximately RMB60.0 million, which mainly consisted of payment of approximately RMB52.5 million in relation to the acquisition of a land use right, payment of approximately RMB6.4 million for performance bond deposit and payment for purchase of property, plant and equipment of approximately RMB1.2 million.

For the year ended 31 December 2018, our net cash used in investing activities was approximately RMB14.1 million, which mainly consisted of prepayment of approximately RMB13.0 million in relation to the acquisition of a land use right for a consideration of approximately RMB63.5 million and payment for purchase of property, plant and equipment of approximately RMB1.5 million, offset by interest of approximately RMB0.2 million and proceeds on disposal of an associate of approximately RMB0.3 million.

For the year ended 31 December 2017, our net cash used in investing activities was approximately RMB2.6 million, which mainly consisted of payment of approximately RMB5.0 million for purchase of property, plant and equipment and purchase of investment properties mainly for renovation work on the investment property, partially offset by receipt of loan repayment from a related party of approximately RMB2.3 million.

For the year ended 31 December 2016, our net cash used in investing activities was approximately RMB11.3 million, which mainly consisted of payment of approximately RMB10.8 million for purchase of property, plant and equipment and purchase of investment properties mainly for renovation work on the investment property, and payment of approximately RMB0.5 million for purchase of intangible assets mainly for purchase of software.

For the year ended 31 December 2015, our net cash used in investing activities was approximately RMB9.9 million, which mainly consisted of loan to a related party of approximately RMB10.0 million.

### **Cash flows from financing activities**

For the four months ended 30 April 2019, our net cash generated from financing activities was approximately RMB65.7 million, which mainly consisted of: (i) proceeds from borrowings of approximately RMB97.0 million; (ii) payment of restricted cash of approximately RMB30.0 million; (iii) payment of listing expenses of approximately RMB0.8 million; and (iv) payment of loan interests of approximately RMB0.5 million.

For the year ended 31 December 2018, our net cash used in financing activities was approximately RMB28.5 million, which mainly consisted of: (i) payment of dividends of approximately RMB12.7 million; and (ii) payment of listing expenses of approximately RMB15.8 million.

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## FINANCIAL INFORMATION

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For the year ended 31 December 2017, our net cash used in financing activities was approximately RMB14.2 million, which mainly consisted of: (i) payment of loan interests of approximately RMB3.2 million; and (ii) payment of dividend of approximately RMB11.5 million, partially offset by proceeds from capital injection of approximately RMB0.5 million.

For the year ended 31 December 2016, our net cash used in financing activities was approximately RMB8.1 million, which is relating to payment of dividend of approximately RMB8.1 million.

For the year ended 31 December 2015, our net cash used in financing activities was approximately RMB100.5 million, which mainly consisted of: (i) repayment of bank loans of approximately RMB63.3 million; (ii) repayment of a related party loan of approximately RMB24.0 million; (iii) repayment of a third party loan of approximately RMB10.0 million; and (iv) interest payment of approximately RMB3.2 million.

### CAPITAL EXPENDITURES

During the Track Record Period, our capital expenditures primarily comprised payment for the purchase of property, plant and equipment, intangible assets and investment properties. During the Track Record Period, our capital expenditures amounted to approximately RMB4,000.0, RMB11.3 million, RMB5.0 million, RMB14.5 million and RMB53.7 million for the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2019, respectively.

### INDEBTEDNESS AND CONTINGENCIES

As at 31 August 2019, being the latest practicable date for determining our indebtedness, we had an outstanding loan of RMB57 million borrowed from a third-party bank under an existing banking facility on 25 January 2019. We had an unutilised amount of RMB173 million under this banking facility valid till 28 November 2023. The drawdown of the credit facility is subject to the terms and conditions of each agreement. As of 31 August 2019, we pledged 1) our future property leasing receivables of RMB60.0 million, 2) restricted cash of RMB10 million, being RMB30 million initially pledged on the borrowing date less RMB20 million subsequently released in May 2019, and 3) our investment property with a fair value of RMB849.0 million as of 31 August 2019 to the bank. In addition, we had another banking facility secondarily pledged by the same investment property, of which the unutilised amount was RMB100 million valid till 1 January 2024. As at 31 August 2019, we had total unutilised banking facilities amounted to RMB273.0 million under the above two banking facilities.

Other than such loan, we did not have any other bank overdrafts, liabilities under acceptances other than normal trade bills, acceptance credits and finance lease commitments, debt securities, mortgages and charges, loan capital and contingent liabilities or guarantees.



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## FINANCIAL INFORMATION

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### WORKING CAPITAL

Working capital is critical to our financial performance and we must maintain sufficient liquidity and financial flexibility to continue our daily operations. Our current assets primarily consist of cash and cash equivalents, other receivables and prepayments and amounts due from related parties. Our current liabilities primarily consist of other payables and accruals, short-term loan, amounts due to related parties, receipts-in-advance, current taxation and dividends payable. We manage our working capital by closely monitoring the levels of our payables as well as cash and cash equivalents. Our cash position consists primarily of cash and bank balances.

As at 31 August 2019, we had cash and cash equivalents of approximately RMB4.6 million. Taking into account (i) the estimated net proceeds from the Global Offering; (ii) the internal resources available to our Group, including cash and cash equivalents on hand and funds generated from our business operations; and (iii) the unutilised banking facilities, our Directors confirm that we have sufficient working capital for our present requirements, that is for at least the next 12 months from the date of this prospectus.

### KEY FINANCIAL RATIOS

The table below sets out our key financial ratios as at the dates or for the years or periods indicated.

	Year ended 31 December				Four months ended
	2015	2016	2017	2018	30 April 2019 <sup>(6)</sup>
Return on equity (%) <sup>(1)</sup>	18.0	8.7	8.0	6.3	5.3
Return on total assets (%) <sup>(2)</sup>	11.4	5.5	5.1	4.1	3.4
Interest coverage ratio <sup>(3)</sup>	29.1	N/A	N/A	N/A	10.5
Gearing ratio (%) <sup>(4)</sup>	N/A	N/A	N/A	N/A	15.8
Current ratio <sup>(5)</sup>	0.8	0.9	0.7	0.8	0.6

*Notes:*

- (1) Return on equity is calculated by dividing profit for the year/period by the average of the total equity at the beginning and the end of each year/period.
- (2) Return on total assets is calculated by dividing profit for the year/period by the average of the total assets at the beginning and the end of each year/period.
- (3) Interest coverage ratio is calculated based on the profit before interest expenses and income tax divided by the interest expenses during each year/period.

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## FINANCIAL INFORMATION

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- (4) Gearing ratio is calculated based on our total debts divided by our total equity as at the end of each reporting period.
- (5) Current ratio is calculated based on the total current assets divided by our total current liabilities as at the end of each year/period.
- (6) The calculation for the return for the four months ended 30 April 2019 has been annualised.

### **Return on equity**

Our return on equity decreased from approximately 18.0% for the year ended 31 December 2015 to approximately 8.7% for the year ended 31 December 2016, and further decreased to approximately 8.0% and 6.3% for the year ended 31 December 2017 and 2018. The reason for the general decrease in our return on equity from 2015 to 2018 was in line with the decrease in our net profit during the year from 2015 to 2018.

Our return on equity decreased from approximately 6.3% for the year ended 31 December 2018 to approximately 5.3% for the four months ended 30 April 2019. The reason for the general decrease in our return on equity was in line with the decrease in our net profit during the period.

### **Return on total assets**

Our return on total assets decreased from approximately 11.4% for the year ended 31 December 2015 to approximately 5.5% for the year ended 31 December 2016, primarily due to the decrease in our net profit from 2015 to 2016. Our return on total assets decreased from approximately 5.1% for the year ended 31 December 2017 to approximately 4.1% for the year ended 31 December 2018, primarily due to the decrease in our net profit from 2017 to 2018 and increase in total assets from 2017 to 2018.

Our return on total assets decreased from approximately 4.1% for the year ended 31 December 2018 to approximately 3.4% for the four months ended 30 April 2019, primarily due to the decrease in our net profit during the period and increase in total assets from 31 December 2018 to 30 April 2019.

### **Interest coverage ratio**

Our interest coverage ratio was nil for the years ended 31 December 2016, 2017 and 2018 since we repaid the bank loans, the loan from a related party and the loan from a third party in 2015 and did not incur any interest expenses during the same periods. Our interest coverage ratio increased to 10.5 for the four months ended 30 April 2019 since we incurred finance costs of approximately RMB1.5 million by obtaining bank loans of approximately RMB97.0 million in January 2019 to finance the acquisition of the Land.

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## FINANCIAL INFORMATION

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### Gearing ratio

As at 31 December 2015, 2016, 2017 and 2018, we did not have any loans. As a result, the gearing ratio is nil. As at 30 April 2019, the gearing ratio increased to 15.8% since we obtained bank loans of approximately RMB97.0 million in January 2019 to finance the acquisition of the Land.

### Current ratio

Our current ratio was approximately 0.8, 0.9, 0.7, 0.8 and 0.6 as at 31 December 2015, 2016, 2017 and 2018 and as at 30 April 2019, which remained stable.

### DIVIDENDS

According to our Company's Articles of Association, our Company is required to transfer 10.0% of its net profit as determined in accordance with the PRC Company Law to its statutory surplus reserve until the reserve balance reaches 50.0% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to our Shareholders. This reserve fund can be utilised in setting off accumulated losses or increasing capital of our Company and is non-distributable other than in liquidation.

We declared and approved dividends of RMB10.0 million, and RMB30.0 million during the years ended 31 December 2016 and 2017, respectively. We settled the declared dividends to our Shareholders on various dates. In respect of dividends for the sum of RMB10.0 million declared during the year ended 31 December 2016, we settled approximately RMB8.1 million in cash and approximately RMB1.9 million through offsetting a relevant related party loan with the relevant Shareholder in the year ended 31 December 2016. In respect of dividends for the sum of RMB30.0 million declared during the year ended 31 December 2017, we settled (i) approximately RMB11.5 million in cash and approximately RMB5.8 million through offsetting a relevant related party loan with the relevant Shareholder in the year ended 31 December 2017, and (ii) approximately RMB12.7 million in cash in the year ended 31 December 2018. We used our internal financial resources to settle above cash payment of dividends. Our dividend distributions during the Track Record Period had complied with the statutory reserve requirements in the PRC. Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' general meeting for approval. Declaration of dividends is subject to the discretion of our Directors, depending on our results of operations, working capital, financial position, capital adequacy ratio, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors which our Board of Directors may consider relevant. We currently have no plans to pay dividends to the Shareholders. Prospective investors should note that historical dividend distributions are not indicative of our future dividend distribution policy and there is no assurance that we will be able to declare or distribute any dividend in the future.

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## FINANCIAL INFORMATION

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### DISTRIBUTABLE RESERVES

As at 30 April 2019, we had reserves available for distribution to our Shareholders in an aggregate amount of RMB21.6 million based on the financial statements under PRC generally accepted accounting principles.

### CONTRACTUAL OBLIGATIONS AND COMMITMENTS

#### Capital commitments

Capital commitments outstanding at 31 December 2015, 2016, 2017 and 2018 and as at 30 April 2019 not provided for in the financial statements were as follows:

	As at 31 December				As at
	2015	2016	2017	2018	30 April
	RMB'000	RMB'000	RMB'000	RMB'000	2019
					RMB'000
Contracted for	<u>–</u>	<u>–</u>	<u>–</u>	<u>56,850</u>	<u>–</u>

#### Off-balance sheet commitments and arrangements

As at the Latest Practicable Date, we did not have any material off-balance sheet arrangements or contingencies.

### RELATED PARTY TRANSACTIONS

With respect to the related party transactions set forth under Note 30 to the Accountants' Report set out in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or such 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.

### DISCLOSURE REQUIREMENTS UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

We confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure obligation under Rules 13.13 to 13.19 of the Listing Rules.

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## FINANCIAL INFORMATION

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### LISTING EXPENSES

We incur listing expenses in connection with the Listing, which include professional fees, underwriting commission and other fees and expenses. Total expenses in relation to the Listing are estimated to be approximately HK\$48.3 million (equivalent to approximately RMB43.5 million) (assuming an Offer Price of HK\$6.50 per Offer Share, being the mid-point of the Offer Price range of HK\$6.25 to HK\$6.75 and assuming the Over-allotment Option is not exercised). Approximately HK\$302,000 (equivalent to approximately RMB266,000) of the listing expenses were charged to our profit and loss account for the year ended 31 December 2018 and nil for the four months ended 30 April 2019 and approximately HK\$18.8 million (equivalent to approximately RMB16.6 million) were capitalised as prepayments as at 30 April 2019, which is expected to be charged against equity upon successful Listing. The remaining part which is expected to be incurred and charged to our profit and loss account before or upon completion of the Listing will be approximately HK\$1.7 million (equivalent to approximately RMB1.5 million) and approximately HK\$27.5 million (equivalent to approximately RMB25.2 million) will be accounted for as a deduction from equity.

### NO MATERIAL ADVERSE CHANGE

For the year ending 31 December 2019, the following factors, among others, may affect our net profit and financial position: (i) decrease in fair value gains of our investment properties; (ii) increase in one-off listing expenses; (iii) increase in finance costs due to new bank borrowings of approximately RMB97.0 million drawn from two banks in the PRC in January 2019 for the purpose of financing the construction of the Industrial Park; and (iv) increase in promotion and advertising expenses in relation to attract the potential tenants for the manufacturing units in the Industrial Park.

Save for the above factors, our Directors have confirmed that, since 30 April 2019 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since 30 April 2019 (being the date to which our latest audited consolidated financial information has been prepared) and there has been no event since 30 April 2019 which would materially affect the information shown in the Accountants' Report set forth in Appendix I to this prospectus.

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## FINANCIAL INFORMATION

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### UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

For details, please refer to Appendix II to this prospectus.

### FINANCIAL RISK MANAGEMENT

The major financial risks arising from our Group's normal course of business include interest rate risk, credit risk and liquidity risk. For details, please refer to Note 28 to the Accountants' Report in Appendix I to this prospectus.

### PROPERTY INTERESTS AND PROPERTY VALUATION

The table below sets forth the reconciliation between the net book value of our properties as at 30 April 2019 as extracted from our Accountants' Report as included in the Appendix I to this prospectus and the Property Valuation Report as included in Appendix VI to this prospectus respectively as at 31 August 2019:

	<i>RMB'000</i>
Net book value of our investment properties as at 30 April 2019	909,500
Net book value of our own office as at 30 April 2019	<u>8,255</u>
<b>Net book value of our properties as set out in Appendix I to this prospectus</b>	<b><u>917,755</u></b>
Net valuation surplus in relation to the Trading Centre and the Land	3,000
Property appreciation in relation to our own office	<u>6,045</u>
<b>Valuation of property as at 31 August 2019 as set out in the Property Valuation Report in Appendix VI to this prospectus</b>	<b><u><u>926,800</u></u></b>

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

See the section headed “Business – Business Strategies” of this prospectus for a detailed description of our future plans and section headed “Business – Our Business Expansion” of this prospectus for further details of our business expansion.

### USE OF PROCEEDS

We estimate that we will receive net proceeds of HK\$81.7 million (equivalent to approximately RMB73.7 million) from the Global Offering, after deducting the underwriting commissions and other estimated expenses payable by us in connection with the Global Offering, assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK\$6.50 per Share, being the mid-point of the indicative Offer Price range. We intend to use such net proceeds from the Global Offering for the purposes and in the amounts set forth below:

- (a) approximately 70%, or approximately HK\$57.2 million (equivalent to approximately RMB51.6 million), to be used to finance partly the costs and expenses for the establishment and construction of the Industrial Park to expand our Measuring and Cutting Tools industry coverage. For further details, please refer to the section headed “Business – Business strategies – Further strengthen our market position in the Measuring and Cutting Tools market” and “Business – Our Business Expansion – Measuring and Cutting Tools Industrial Park”;
- (b) approximately 20%, or approximately HK\$16.3 million (equivalent to approximately RMB14.7 million), to be used to finance further development of the Third Floor, including refurbishment and renovation of the Third Floor, engaging interior designers, contractors, electricians, as well as establishment of the Product Testing Service Centre and the Products Display Platform. As at the Latest Practicable Date, we had not entered into any definitive agreements with any parties with respect to the refurbishment and renovation of the Third Floor, as well as construction of the Products Display Platform and the Product Testing Service Centre aforesaid. For further details, please refer to the section headed “Business – Business strategies – Further development of the Third Floor”; and
- (c) approximately 10%, or approximately HK\$8.2 million (equivalent to approximately RMB7.4 million), for general working capital and other general corporate purposes.

If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds from the offering of these additional Shares will be approximately HK\$18.8 million, after deducting the underwriting commissions and other estimated expenses payable by us in connection with the Global Offering, assuming an Offer Price of HK\$6.50 per Share, being the mid-point of the indicative Offer Price range. We intend to use such additional net proceeds for the above uses on a pro rata basis.

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## FUTURE PLANS AND USE OF PROCEEDS

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If the Offer Price is fixed at HK\$6.75 per H Share, being the high-end of the indicative Offer Price range, we will receive additional net proceeds of approximately HK\$4.1 million. If the Offer Price is fixed at HK\$6.25 per H Share, being the low-end of the indicative Offer Price range, the net proceeds we receive will be reduced by approximately HK\$4.1 million. If the Offer Price is set above the mid-point of the indicative Offer Price range, we intend to apply the additional amounts towards to the above uses on a pro rata basis. If the Offer Price is set below the mid-point of the indicative Offer Price range, we intend to reduce the amounts allocated to the above uses on a pro rata basis.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we intend to deposit the proceeds into our accounts with licensed financial institutions.

We will issue an announcement in Hong Kong if there is any material change in the use of proceeds.



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## UNDERWRITING

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### UNDERWRITERS FOR THE GLOBAL OFFERING

#### **Hong Kong Underwriters**

##### *Sole Global Coordinator*

Cinda International Capital Limited

##### *Joint Bookrunners*

Cinda International Capital Limited

ChaoShang Securities Limited

##### *Joint Lead Managers*

Cinda International Capital Limited

ChaoShang Securities Limited

##### *Co-Lead Managers*

Head & Shoulders Securities Limited

Paragon Securities Limited

Solomon JFZ (Asia) Holdings Limited

China Galaxy International Securities (Hong Kong) Co., Limited

I Win Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### **Hong Kong Underwriting Agreement**

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering our Hong Kong Offer Shares for subscription by members of the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

The Hong Kong Underwriting Agreement is conditional upon and subject to, amongst others, the International Underwriting Agreement becoming unconditional and not having been terminated.

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## UNDERWRITING

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Subject to, among other conditions, (i) the Stock Exchange granting the listing of and permission to deal in our H Shares in issue and to be issued as mentioned in this prospectus, (ii) the Price Determination Agreement being entered into on or before the Price Determination Date, and (iii) certain other conditions set out in the Hong Kong Underwriting Agreement being fulfilled, the Hong Kong Underwriters have severally agreed to subscribe for or procure subscribers for or purchase their respective proportions of our Hong Kong Offer Shares on the terms and conditions under the Hong Kong Underwriting Agreement and in this prospectus.

### *Grounds for termination*

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to the termination by the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) with immediate effect by notice in writing given to our Company prior to 8:00 a.m. (Hong Kong time) on the Listing Date if any of the following events shall occur prior to such time:

- (a) there shall develop, occur or come into force:
  - (i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or the PRC or any other similar event which in the sole and absolute opinion of the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) has or is likely to have a material adverse effect on the business or financial conditions or prospects of the Group or which may be expected to adversely affect the business or financial condition or prospects of the Group in a material way; or
  - (ii) any change (whether or not permanent) in national, regional, international, financial, military, industrial or economic conditions or prospects, stock market, fiscal or political conditions, regulatory or market conditions and matters and/or disasters in Hong Kong or the PRC or any other similar event which in the sole and absolute opinion of the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) has or is likely to have a material adverse effect on the business or financial conditions or prospects of the Group or which may be expected to adversely affect the business or financial condition or prospects of the Group in a material way; or
  - (iii) without prejudice to sub-paragraph (i) of this paragraph above, the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
  - (iv) any event, or series of events, beyond the control of the Hong Kong Underwriters (including, without limitation, acts of government, strikes, lockout, fire, explosion, flooding, civil commotion, acts of war or acts of God, accident,

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## UNDERWRITING

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terrorism, outbreak of disease or epidemic (including but not limited to severe acute respiratory syndrome, H5N1, H1N1, avian influenza, Ebola and such related or mutated forms)) which in the sole and absolute opinion of the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) would or might have a material adverse effect on any member of the Group; or

- (v) any change or development occurs involving a prospective change in taxation or in exchange control in Hong Kong, the PRC or the implementation of any exchange controls which in the sole and absolute opinion of the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) would or might have a material adverse effect on any member of the Group or its present or prospective shareholders in their capacity as such in a material way; or
- (vi) any litigation or claim which in the sole and absolute opinion of the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) would or might be of material importance to the business, financial or operations of the Group being threatened or instituted against any member of the Group; or
- (vii) the imposition of economic sanctions, in whatever form, directly or indirectly, in Hong Kong, the PRC or any other jurisdiction(s) relevant to the Company and its subsidiaries which in the sole and absolute opinion of the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) would or might have a material adverse effect on any member of the Group; or
- (viii) any governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organisation or other non-government regulatory authority, or any court, tribunal or arbitrator, whether national, central, federal, provincial, state, regional, municipal, local, domestic or foreign, or a political body or organisation in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any member of the Group or Director; or
- (ix) order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group; or

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## UNDERWRITING

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- (x) such event, which, individually, or in the aggregate, in the sole and absolute opinion of the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters), (A) has or may have a material adverse effect on the success of the Global Offering, or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing; or (B) has or will or may have a material adverse effect on the assets, liabilities, business, prospects, trading or financial position of the Group as a whole; or (C) makes it inadvisable or impracticable to proceed with the Global Offering; or (D) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof;
- (b) there comes to the notice of the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) any matter or event showing any of the representations and warranties contained in the Hong Kong Underwriting Agreement to be untrue or inaccurate or, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any respect considered by the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) in their sole and absolute opinion to be material or showing any of the obligations or undertakings expressed to be assumed by or imposed on the Company or the covenantors under the Hong Kong Underwriting Agreement not to have been complied with in any respect considered by the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) in their sole and absolute opinion to be material; or
- (c) there comes to the notice of the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) any breach on the part of the Company or any of the covenantors of any provisions of the Hong Kong Underwriting Agreement in any respect which is considered by the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) in their sole and absolute opinion to be material; or
- (d) any statement contained in this prospectus, notices, advertisements, announcements, application proof prospectus, post hearing information pack, the submissions, documents or information provided to the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters), the Stock Exchange, the legal adviser to the Sole Sponsor and/or the Joint Bookrunners and the Underwriters and any other parties involved in the Global Offering which in the sole and absolute opinion of the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) has become or been discovered to be untrue, incorrect, incomplete or misleading in any material respect; or

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## UNDERWRITING

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- (e) matters have arisen or have been discovered which would, if this prospectus, notices, advertisements, announcements, application proof prospectus, post hearing information pack was to be issued at that time, constitute, in the sole and absolute opinion of the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters), a material omission of such information; or
- (f) there is any material adverse change or prospective material adverse change in the business or in the financial or trading position or prospects of the Group which in the sole and absolute opinion of the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) is material; or
- (g) the approval of the Listing Committee of the listing of, and permission to deal in, the Offer Shares under the Global Offering is refused or not granted, other than subject to customary conditions, at or before 8:00 a.m. (Hong Kong time) on the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (h) any expert, who has given opinion or advice which are contained in this prospectus, has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, opinions or advices and references to its name included in the form and context in which it respectively appears prior to the issue of this prospectus; or
- (i) the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
- (j) there comes to the notice of the Sole Sponsor and/or the Joint Bookrunners or any of the Hong Kong Underwriters any information, matter or event which in the sole and absolute opinion of the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters):
  - (i) is inconsistent in any material respect with any information contained in the Declaration and Undertaking with regard to Directors (Form H) given by any Directors pursuant to the Global Offering; or
  - (ii) would cast any serious doubt on the integrity or reputation of any Director or the reputation of the Group.

### UNDERTAKINGS PURSUANT TO THE LISTING RULES

#### Undertaking by our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an

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## UNDERWRITING

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issue within 6 months from the Listing Date (whether or not such issue of shares or securities will be completed within 6 months from the commencement of dealing), except pursuant to the Global Offering or in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

### **Undertaking by our Controlling Shareholders**

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders jointly and severally undertakes to the Stock Exchange and our Company that, except pursuant to the Global Offering (including the exercise of the Over-allotment Option), it will not and will procure that the relevant registered holder(s) will not:

- (a) in the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders is made in this prospectus and ending on the date which is 6 months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those securities of our Company in respect of which he is or they are shown by this prospectus to be the beneficial owner(s); and
- (b) in the period of 6 months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, such Controlling Shareholder(s) would cease to be a controlling shareholder of our Company or cease to be a group of controlling shareholders of our Company for the purposes of the Listing Rules.

Furthermore, pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to, our Company and the Stock Exchange that, during the period referred to in paragraph (a) and (b) above, he/it will:

- (i) when he/it pledges or charges any of our securities 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) for a bona fide commercial loan, immediately inform our Company in writing of such pledge or charge together with the number of securities so pledged or charged; and
- (ii) when he/it receives indications, either verbal or written, from the pledgee or charge that any of our pledged or charged securities will be disposed of, immediately inform our Company in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of our Controlling Shareholders and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

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## UNDERWRITING

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### Undertakings pursuant to the Hong Kong Underwriting Agreement

Each of our Controlling Shareholders has given an undertaking to each of our Company, the Sole Sponsor, the Joint Bookrunners and the Hong Kong Underwriters that, without the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, none of our Controlling Shareholders will, and will procure that none of his/its close associates will:

- (a) during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six Month Period**”),
  - (i) 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) (the foregoing restriction is expressly agreed to include all our Controlling Shareholders from engaging in any hedging or other transactions which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of any Shares even if such Shares would be disposed of by someone other than our Controlling Shareholders, respectively. Such prohibited hedging or other transactions would include without limitation any put or call option with respect to any Shares or with respect to any security that includes, relates to or derives any significant part of its value from such 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 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
  - (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or
  - (iv) offer to or agree to or publicly announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such

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## UNDERWRITING

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other securities of our Company or shares or other securities of such other members of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);

- (b) during the period of six months commencing on the date on which the First Six Month Period expires and including, the date that is six months after the end of the First Six Month Period (the “Second Six Month Period”), enter into any of the transactions specified in (i), (ii) or (iii) under paragraph (a) 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 Listing Rules) of our Company or cease to hold, directly or indirectly, a controlling interest of over 30% or such lower amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer, in any of the companies controlled by him/it and/or any of his/its close associates which owns such Shares or interests as aforesaid; and
- (c) until the expiry of the Second Six Month Period, in the event that he/it enters into any of the transactions specified in (i), (ii) or (iii) under paragraph (a) above or offers to or agrees to or announces any intention to effect any such transaction, he/it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Except for the offer and sale of the Offer Shares pursuant to the Global Offering (including the Shares to be issued and/or sold pursuant to the Over-allotment Option), during the First Six Month Period, our Company hereby undertakes to each of the Joint Bookrunners, the Sole Sponsor and the Hong Kong Underwriters not to, and to procure each member of our Group not to, without the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other members of our Group, as applicable, or any interest in any of the



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foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other members of our Group, 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 shares or other securities of such other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such members of our Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) or (b) above; or
- (d) offer to or agree to or publicly announce any intention to effect any transaction specified in paragraphs (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraphs (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such members of our Group, as applicable, 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 that, during the Second Six Month Period, our Company enters into any of the transactions specified in paragraphs (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company. Each of our Company, our Controlling Shareholders and Executive Directors undertakes to each of the Joint Bookrunners, the Sole Sponsor and the Hong Kong Underwriters to procure our Company to comply with the undertakings in this paragraph.

Each of our Company, our Controlling Shareholders and Executive Directors undertakes to and covenants with the Sole Sponsor, the Joint Bookrunners and the Hong Kong Underwriters that save with the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters), no member of our Group will during the First Six Month Period purchase any securities of our Company.

Without prejudice to the above, each of our Controlling Shareholders undertakes and covenants with our Company, the Sole Sponsor, the Joint Bookrunners and the Hong Kong Underwriters that:

- (a) save with the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) and to the extent as allowed under the Listing Rule, during the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders is made in this prospectus and

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## UNDERWRITING

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ending on the date which is 12 months from the Listing Date, he/it shall not and shall procure that none of his/its associates shall sell, offer to sell, contract or agree to sell any Shares or any interest therein owned by him/it or any of their close associates or in which he/it or any of their close associates is, directly or indirectly, interested immediately following completion of the Global Offering (or any other Shares or interest in our Company arising or deriving therefrom) or any share or interest in any company controlled by him/it or any of their close associates which is the beneficial owner (directly or indirectly) of such Shares or interest therein as aforesaid (or any other shares or securities of or interest in the company arising or deriving therefrom as a result of capitalisation issue or scrip dividend or otherwise); and

- (b) in the event that consent is granted by the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters), when he/it or any of their close associates shall sell, offer to sell, contract or agree to sell any of our Shares or interests referred to in paragraph (a) above, he/it shall give prior written notice of not less than two business days to the Stock Exchange (in accordance with the Listing Rule, if applicable), our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) giving details of the number of Shares and the identities of the transferee (the “**Transferee**”) and further if he/it or any of their close associates will immediately provide details of such disposal or transfer to the Stock Exchange (in accordance with the Listing Rule, if applicable), our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) as they may require.

Our Company undertakes and covenants with the Sole Sponsor, the Joint Bookrunners and the Hong Kong Underwriters that our Company shall forthwith inform the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) and the Stock Exchange in writing immediately after our Company has been informed of the matters referred to in paragraph (b) above and our Company shall, if so required by the Stock Exchange or the Listing Rules, disclose such matters by way of an announcement and shall comply with all requirements of the Stock Exchange.

### **The International Placing**

In connection with the International Placing, it is expected that our Company and the International Underwriters will enter into the International Underwriting Agreement. Under the International Underwriting Agreement, our Company will offer our International Placing Shares for subscription by certain professional, institutional and other investors at the Offer Price payable in full on subscription, on and subject to the terms and conditions set out in the

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## UNDERWRITING

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International Underwriting Agreement. It is expected that the International Underwriters will agree to severally underwrite for our International Placing Shares.

### **Over-allotment Option**

Our Company is expected to grant to the International Underwriters the Over-allotment Option exercisable by the Joint Bookrunners (for themselves and on behalf of the International Underwriters) which will expire on a date which is 30 days from the date of the last day for the lodging of applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, our Company may be required to allot and issue up to and not more than 3,000,000 additional H Shares (representing 15% of the total number of the Offer Shares initially available under the Global Offering) at the Offer Price to cover over-allocations in the International Placing.

### **Commission**

The Hong Kong Underwriters will receive a commission of 10.0% of the aggregate Offer Price of our Hong Kong Offer Shares (subject to reallocation) underwritten by the Hong Kong Underwriters and the International Underwriters will receive a commission of 10.0% of the aggregate of the Offer Price of our International Placing Shares (subject to reallocation) underwritten by the International Underwriters, out of which they will pay any subunderwriting commissions. The commissions payable to the Underwriters will be borne by our Company with respect to all the Offer Shares (including pursuant to the exercise of the Over-allotment Option).

The Sole Sponsor will in addition receive sponsorship and documentation fees. The underwriting commission, financial advisory and documentation fees, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Global Offering, assuming an Offer Price of HK\$6.50 (being the mid-point of Offer Price range between HK\$6.25 per Offer Share and HK\$6.75 per Offer Share), are estimated to amount to approximately HK\$47.9 million (equivalent to approximately RMB43.2 million) in total (assuming that the Over-allotment Option is not being exercised).

### **ACTIVITIES OF SYNDICATE MEMBERS**

The Underwriters of the Global Offering (the “Syndicate Members”) and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own accounts and for the account of others. In relation to our H Shares, other activities could include acting as agent for buyers and sellers of our H Shares, entering into transactions with other buyers and sellers in a principal capacity, proprietary trading in our H Shares, and entering into over-the-counter or listing derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying, assets including our H Shares. Those activities may require hedging activity by those entities

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## UNDERWRITING

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involving, directly or indirectly, buying and selling our H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in our H Shares, in baskets of securities or indices including our H Shares, in units of funds that may purchase our H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having our H Shares as their underlying, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of other securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and these will also result in hedging activity in our H Shares in most cases.

These activities may affect the market price or value of our H Shares, the liquidity or trading volume in our H Shares, and the volatility of our Share price, and the extent to which this occurs from day to day cannot be estimated. It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

### **Hong Kong Underwriters' interests in our Company**

Cinda International Capital Limited will be appointed as the compliance adviser of our Company with effect from the Listing Date until the dispatch of our audited financial results for the first full financial year after the Listing Date, and we will pay an agreed fee to RMB50,000 for its provision of services with the scope required under the Listing Rules.

Save for their interests and obligations under the Underwriting Agreements, none of the Sole Sponsor, the Sole Global Coordinator or the Underwriters is interested beneficially or non-beneficially in any shares in any member of our Group or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.

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## UNDERWRITING

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### **INDEPENDENCE OF THE SOLE SPONSOR**

The Sole Sponsor satisfies the independence criteria applicable to sponsors as required under Rule 3A.07 of the Listing Rules.

### **COMPLIANCE ADVISER'S AGREEMENT**

The Sole Sponsor has been appointed as the compliance adviser of our Company with effect from the Listing Date until dispatch of the audited consolidated financial results for the second full financial year after the Listing Date.

### **SPONSOR'S INTERESTS IN OUR COMPANY**

Save for (i) the advisory, documentation and arrangement fees to be paid to the Sole Sponsor as the sponsor to the Listing; (ii) the fee to be paid to the Sole Sponsor as our Company's compliance adviser pursuant to the requirements under Rules 3A.19 of the Listing Rules, neither the Sole Sponsor nor any of its close associates has or may have, as a result of the Global Offering, any interest in any class of securities in our Company or any of its subsidiaries (including options or rights to subscribe for such securities).

No director or employee of the Sole Sponsor who is involved in providing advice to our Company has or may have, as a result of the Global Offering, any interest in any class of securities of our Company or any of our subsidiaries (including options or rights to subscribe for such securities that may be subscribed for or purchased by any such director or employee pursuant to the Global Offering). No director or employee of the Sole Sponsor has a directorship in our Company or any of our subsidiaries.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

The Global Offering comprises:

- the Hong Kong Public Offering of 2,000,000 H Shares (subject to reallocation as mentioned below) in Hong Kong as described below under the sub-section headed “Hong Kong Public Offering”; and
- the International Placing of 18,000,000 H Shares (subject to reallocation and the Over-allotment Option as mentioned below).

The Hong Kong Public Offering is open to all members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of the International Placing Shares to institutional and professional investors and other investors expected to have a sizeable demand for the International Placing Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The Hong Kong Underwriters have severally agreed to underwrite the Hong Kong Offer Shares under the terms of the Hong Kong Underwriting Agreement. The International Underwriters will severally underwrite the International Placing Shares pursuant to the terms of the International Underwriting Agreement. Further details of the underwriting are set out in the section headed “Underwriting” in this prospectus.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Placing Shares under the International Placing, but may not do both.

References in this prospectus to applications, Application Forms, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

### PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors’ indications of interest in acquiring the Offer Shares in the International Placing. Prospective professional and institutional investors will be required to specify the number of the Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

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 before 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 Wednesday, 30 October 2019 and, in any event, no later than Monday, 4 November 2019.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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The Offer Price will not be more than HK\$6.75 per Offer Share and is expected to be not less than HK\$6.25 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, no later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range as stated in this prospectus.

**If, for any reason, the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company are unable to enter into the Price Determination Agreement by the Price Determination Date, the Global Offering will not become unconditional and will not proceed.**

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and private investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus, at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event no later than Wednesday, 30 October 2019, being the last day for lodging applications under the Hong Kong Public Offering, cause there to be published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at <http://cnglj.com> notice of reduction in the number of Offer Shares and/or the indicative Offer Price range and will, as soon as practicable following the decision to make such reduction, issue a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range, extend the period under which the Hong Kong Public Offering was opened for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions, and give potential investors who had applied for the Hong Kong Offer Shares the right to withdraw their applications under the Hong Kong Public Offering. Such notice and supplemental prospectus will also include confirmation or revision, as appropriate, of the offering statistics, and the future plans and use of proceeds as currently set out in "Summary and Highlights" and any other financial information which may change as a result of such reduction.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

If the number of the Offer Shares being offered under the Global Offering and/or the indicative Offer Price range is so reduced, applicants who have already submitted an application may or may not (depending on the information contained in the announcement) be notified that they are required to confirm their applications. All applicants who have already submitted an



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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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application need to confirm their applications in accordance with the procedures set out in the announcement and all unconfirmed applications will not be valid. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of any notice being published of a reduction in the number of the Offer Shares being offered under the Global Offering stated in this prospectus and the Application Forms, respectively, on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, once agreed upon, will under no circumstances be higher than the maximum Offer Price as stated in the Application Forms.

In the event of a reduction in the number of the Offer Shares, the Joint Bookrunners (for themselves and on behalf of the Underwriters) may, at their discretion, reallocate the number of the Offer Shares to be offered in the Hong Kong Public Offering and the International Placing, provided that the number of the Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Placing may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Bookrunners (for themselves and on behalf of the Underwriters) on the basis as described in the sub-section headed “Reallocation and Clawback” in this section.

In the absence of any notice being published on the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website at <http://cnglj.com> of a reduction in the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, will not be set outside the Offer Price range as stated in this prospectus.

An announcement of the final Offer Price, together with indication of the level of interests in the International Placing, the results of application under the Hong Kong Public Offering and the basis and results of allocation of the Hong Kong Offer Shares is expected to be published on Tuesday, 5 November 2019 on the website of our Company at <http://cnglj.com> and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

### UNDERWRITING ARRANGEMENTS

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

We expect to enter into the International Underwriting Agreement relating to the International Placing on the Price Determination Date.

The Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in the section headed “Underwriting” in this prospectus.



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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$6.75 per Offer Share and is expected to be not less than HK\$6.25 per Offer Share, unless otherwise announced no later than the morning of the last day for lodging applications under the Hong Kong Public Offering as set out above. Prospective investors should be aware that the Offer Price as determined on the Price Determination Date may be lower than the indicative Offer Price as stated in this prospectus.

Applicants under the Hong Kong Public Offering should pay, on application, the maximum price of HK\$6.75 per Offer Share and 1.0000% brokerage, 0.0050% Stock Exchange trading fee and 0.0027% SFC transaction levy. That means a total of HK\$3,409.01 is payable for every board lot of 500 H Shares. The Application Forms have tables showing the exact amount payable for certain numbers of Hong Kong Offer Shares. If the Offer Price, as finally determined in the manner as described above, is lower than the maximum price of HK\$6.75 per Offer Share, appropriate refund payments (including the related brokerage, 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 Hong Kong Offer Shares” in this prospectus.

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of the application for the Offer Shares pursuant to the Hong Kong Public Offering is conditional upon:

#### 1. Listing

The Listing Committee granting listing of, and permission to deal in, the H Shares in issue and to be issued as mentioned in this prospectus on the Stock Exchange and such approval not subsequently having been revoked prior to the commencement of dealings in the H Shares.

#### 2. Underwriting Agreements

- (i) The obligations of the Underwriters under the Underwriting Agreements becoming unconditional, and not being terminated in accordance with the terms thereof; and
- (ii) the execution and delivery of the International Underwriting Agreement prior to or on the Price Determination Date.

#### 3. Price determination

The Offer Price having been determined and the execution of the Price Determination Agreement on or around the Price Determination Date.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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If any of the conditions is not fulfilled or waived on or before the times specified above, the Global Offering will lapse and the application monies will be returned to the applicants, without interest. The terms on which the application monies will be returned to the applicants are set out in the sub-section headed “Refund of your monies” in the relevant Application Forms.

In the meantime, the application monies will be held in one or more separate bank accounts with the receiving bank or other bank(s) in Hong Kong, licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

### HONG KONG PUBLIC OFFERING

Our Company is initially offering 2,000,000 Hong Kong Offer Shares for subscription (subject to reallocation) by members of the public in Hong Kong under the Hong Kong Public Offering, representing 10% of the total number of Offer Shares initially offered under the Global Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters subject to the Offer Price being agreed on or before Price Determination Date. Applicants for the Hong Kong Offer Shares are required on application to pay the maximum Offer Price of HK\$6.75 per Share plus 1.0000% brokerage, 0.0050% Stock Exchange trading fee and 0.0027% SFC transaction levy.

Completion of the Hong Kong Public Offering is subject to the conditions set out in “Conditions of the Global Offering” above.

### Applications

The Hong Kong Public Offering is open to all members of the public in Hong Kong. Each applicant under the Hong Kong Public Offering 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 International Placing nor otherwise participated in the International 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 Hong Kong Public Offering is liable to be rejected.

### Allocation

For allocation purposes only, the total number of the Hong Kong Offer Shares will be divided equally into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will consist of 1,000,000 H Shares and will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares in the value of HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy thereon) or less. The Hong Kong Offer Shares available in pool B will consist of 1,000,000 H Shares and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares in the value of more than HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy) and up to the value of pool B.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is under-subscribed, the surplus Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 100% of the Hong Kong Offer Shares initially available under pool A or pool B will be rejected.

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. When there is over-subscription under the Hong Kong Public Offering, allocation of the Hong Kong Offer Shares may involve balloting, which would mean that some applicants may be allotted more Hong Kong Offer Shares than others who have applied for the same number of the Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

### **Reallocation and Clawback**

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Placing is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (a) 15 times or more but less than 50 times, (b) 50 times or more but less than 100 times and (c) 100 times or more of the total number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 6,000,000 Offer Shares (in the case of (a)), 8,000,000 Offer Shares (in the case of (b)) and 10,000,000 Offer Shares (in the case of (c)), representing approximately 30%, 40% and 50% of the total number of Offer Shares initially available under the Global Offering, respectively. In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced in such manner as the Joint Bookrunners deem appropriate.

In addition to the reallocation above, the Joint Bookrunners reserve their rights to reallocate Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications in pool A and pool B under the Hong Kong Public Offering. However, according to Guidance Letter HKEX-GL91-18 issued by the Stock Exchange if (a) the International Placing Shares are undersubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed irrespective of the number of times or (b) when the International Placing Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are oversubscribed by less than 15 times of the total number of Offer Shares initially available under

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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the Hong Kong Public Offering, then in any of these circumstances, the Joint Bookrunners may only reallocate Offer Shares from the International Placing to the Hong Kong Public Offering other than pursuant to Practice Note 18 of the Listing Rules on the following conditions (the “**Allocation Cap**”):

- (i) the total number of Offer Shares that may be reallocated from the International Placing to the Hong Kong Public Offering shall be not more than the number of Offer Shares initially allocated to the Hong Kong Public Offering i.e. 2,000,000 Offer Shares, representing approximately 10.0% of the number of the Offer Shares being offered under the Global Offering, so that the total number of Offer Shares for subscription under the Hong Kong Public Offering will increase to 4,000,000 Shares, representing two times the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering and 20.0% of the number of Offer Shares initially available under the Global Offering; and
- (ii) the final Offer Price must be fixed at the bottom end of the indicative Offer Price range stated in this prospectus (i.e. HK\$6.25 per Offer Share).

If the Hong Kong Offer Shares are not fully subscribed and the International Placing Shares are not undersubscribed, the Joint Bookrunners may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Joint Bookrunners deem appropriate. Allocation Cap will not be triggered. In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced in such manner as the Joint Bookrunners deem appropriate. In addition, the Joint Bookrunners may allocate Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Offer Shares are not fully subscribed, the Joint Bookrunners have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Joint Bookrunners deem appropriate.

### INTERNATIONAL PLACING

#### **Number of Offer Shares initially offered**

Our Company is expected to offer initially 18,000,000 International Placing Shares (subject to reallocation and the Over-allotment Option) at the Offer Price under the International Placing. The number of International Placing Shares expected to be initially available for application under the International Placing represents 90% of the total number of Offer Shares being initially offered under the Global Offering. The International Placing is expected to be fully underwritten by the International Underwriters subject to the Offer Price being agreed on or before the Price Determination Date. Investors subscribing for the International Placing Shares

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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are also required to pay the maximum Offer Price of HK\$6.75 per H Share plus 1.0000% brokerage, 0.0050% Stock Exchange trading fee and 0.0027% SFC transaction levy of the Offer Price.

### **Allocation**

It is expected that the International Underwriters, or selling agents nominated by them, on behalf of our Company, will conditionally place the International Placing Shares at the Offer Price with selected professional, institutional and other 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. Other investors applying through banks or other institutions who sought the International Placing Shares in the International Placing may also be allocated the International Placing Shares.

Allocation of the International 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 H Shares and/or hold or sell its H Shares after the Listing. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and its shareholders as a whole. Investors to whom International Placing Shares are offered will be required to undertake not to apply for H Shares under the Hong Kong Public Offering.

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 Hong Kong Public Offering from investors who receive H Shares under the International Placing, and to identify and reject indications of interest in the International Placing from investors who receive H Shares under the Hong Kong Public Offering.

The International Placing is expected to be subject to the conditions as stated in the sub-section headed “Conditions of the Global Offering” of this section.

The total number of Offer Shares to be issued or sold pursuant to the International Placing may change as a result of the clawback arrangement described in the section headed “Hong Kong Public Offering – Reallocation and Clawback” above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unpurchased Offer Shares originally included in the Hong Kong Public Offering at the discretion of the Joint Bookrunners (for themselves and on behalf of the Underwriters).

### **Over-allotment Option**

In connection with the Global Offering, our Company is expected to grant to the International Underwriters, exercisable by the Joint Bookrunners (for themselves and on behalf of the International Underwriters) the Over-allotment Option at any time from the Listing Date

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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until 30 days after the date of the last day of lodging application under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, our Company may be required by the Joint Bookrunners (for themselves and on behalf of the International Underwriters) to allot and issue up to and not more than 3,000,000 additional H Shares (representing 15% of the total number of the Offer Shares initially available under the Global Offering) at the Offer Price to cover over-allocations in the International Placing. The Joint Bookrunners (for themselves and on behalf of the International Underwriters) may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or by a combination of these means or otherwise as may be permitted under the applicable laws and regulatory requirements. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, the additional 3,000,000 H Shares will represent approximately 3.61% of our Company's enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised or expired, an announcement will be made by our Company.

### STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. In Hong Kong, the stabilization price is not permitted to exceed the offer price.

In connection with the Global Offering, the Sole Global Coordinator, as the stabilising manager, its affiliates or any person acting for it, for itself and on behalf of the Underwriters, may over-allocate Shares or effect transactions with a view to stabilizing or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. The number of H Shares that may be over-allocated will be up to, but not more than, an aggregate of 3,000,000 additional H Shares, being the number of the H Shares that may be issued under the Over-allotment Option. Such stabilizing actions may include over-allocating International Placing Shares and covering such over allocations by exercising the Over-allotment Option or by making purchases in the secondary market or through a combination of these means or otherwise. However, there is no obligation on the Sole Global Coordinator, its affiliates or any person acting for it to conduct any such stabilization action. Such stabilization action, if commenced, will be conducted at the absolute discretion of the Sole Global Coordinator, its affiliates or any person acting for it and may be discontinued at any time, and required to be brought to an end within 30 days after the last day for lodging of applications under the Hong Kong Public Offering. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements.

Stabilizing action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization. Subject to and under the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong), the Sole Global Coordinator (for

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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itself and on behalf of the Underwriters) may take all or any of the following actions (“**primary stabilizing action**”) with respect to any H Shares during the stabilization period, which should end on Friday, 29 November 2019:

- (1) purchase, or agree to purchase, any of the H Shares;
- (2) offer or attempt to do anything as described in paragraph (1), for the sole purpose of preventing or minimising any reduction in the market price of the H Shares. The Sole Global Coordinator (for itself and on behalf of the Underwriters) may also, in connection with any primary stabilizing action, take all or any of the following actions:
  - (a) for the purpose of preventing or minimising any reduction in the market price of the H Shares;
    - (i) allocate a greater number of H Shares than the number that is initially offered under the Global Offering; or
    - (ii) sell or agree to sell H Shares so as to establish a short position in them;
  - (b) pursuant to an option or other right to purchase or subscribe for H Shares, purchase or subscribe for or agree to purchase or subscribe for H Shares in order to close out any position established under paragraph (a);
  - (c) sell or agree to sell any H Shares acquired by it in the course of the primary stabilizing action in order to liquidate any position that has been established by such action; and/or
  - (d) offer or attempt to do anything as described in paragraphs (a)(ii), (b) or (c).

Investors should be aware:

- that the Sole Global Coordinator (for itself and on behalf of the Underwriters) may, in connection with the stabilizing action, maintain a long position in the H Shares;
- that there is no certainty regarding the extent to which and the time period for which the Sole Global Coordinator will maintain such a long position;
- of possible impact in the case of liquidation of such a long position by the Sole Global Coordinator;
- that stabilizing action cannot be taken to support the price of the H Shares for longer than the stabilizing period which begins on the Listing Date and ends on the earlier of the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering or the commencement of trading of the H Shares on the Stock



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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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Exchange, that the stabilizing period is expected to expire on Friday, 29 November 2019, and that after this date, when no further stabilizing action may be taken, demand for the H Shares, and therefore its price could fall; and

- that the price of the H Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and that stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price the investor has paid for the H Shares.

### **Over-allocation**

Following any over-allocation of Shares in connection with the Global Offering, the Sole Global Coordinator, or any person acting for it may cover such over-allocation by, among other methods, using Shares purchased by the Sole Global Coordinator, its affiliates or any person acting for it in the secondary market, exercising the Over-allotment Option in full or in part, by a combination of these means. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong), as amended, made under the SFO.

### **DEALING**

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 6 November 2019, it is expected that dealings in the H Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 6 November 2019. The H Shares will be traded in board lots of 500 H Shares each and the stock code of the H Shares will be 1379.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- (a) use a **WHITE** or **YELLOW** Application Form;
- (b) apply online via the **HK eIPO White Form** Service Provider at **www.hkeipo.hk**; or
- (c) 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 Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- (1) are 18 years of age or older;
- (2) have a Hong Kong address;
- (3) are outside the United States, and are not a United States person (as defined in Regulation S); and
- (4) are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** Service Provider, in addition to the above, you must also: (i) have a valid Hong Kong identity card number; and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the names of the individual members. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person duly authorised under a power of attorney, the Company and the Joint Bookrunners may accept it at its discretion and on any conditions if thinks fit, including evidence of the attorney's authority.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- (a) an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- (b) a Director or chief executive officer of our Company and/or any of its subsidiaries;
- (c) a connected person (as defined in the Listing Rules) and/or core connected person (as defined in the Listing Rules) of our Company or will become a connected person (as defined in the Listing Rules) or a core connected person (as defined in the Listing Rules) of our Company immediately upon completion of the Global Offering;
- (d) an associate (as defined in the Listing Rules) and/or close associate (as defined in the Listing Rules) of any of the above; or
- (e) have been allocated or have applied for or indicated an interest in any Offer Shares under the International Placing.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.hkeipo.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 25 October 2019 to 12:00 noon on Wednesday, 30 October 2019 from:

- (i) any of the following offices of the Hong Kong Underwriters:

**Cinda International Capital Limited**

45/F  
Cosco Tower  
183 Queen's Road Central  
Hong Kong

**ChaoShang Securities Limited**

Rooms 2206–10, 22/F  
China Resources Building  
26 Harbour Road, Wan Chai  
Hong Kong

**Head & Shoulders Securities Limited**

Rooms 2511, 25/F, Cosco Tower  
183 Queen's Road Central  
Hong Kong

**Paragon Securities Limited**

Unit No.7, 11/F Commercial Emperor Group Centre  
No.288 Hennessy Road  
Hong Kong

**Solomon JFZ (Asia) Holdings Limited**

19A, 19/F, Eton Building  
288 Des Voeux Road Central  
Central, Hong Kong

**China Galaxy International Securities (Hong Kong) Co., Limited**

20/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

**I Win Securities Limited**

Room 1916, Hong Kong Plaza  
188 Connaught Road West  
Sai Wan, Hong Kong

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(ii) any of the branches of the following receiving bank:

Industrial and Commercial Bank of China (Asia) Limited

<b>District</b>	<b>Branch name</b>	<b>Address</b>
Hong Kong Island	Queen's Road Central Branch	Basement, Ground Floor and First Floor of 122 QRC, Nos. 122–126 Queen's Road Central, Hong Kong
	Wanchai Road Branch	G/F Times Media Centre, No. 133 Wan Chai Road, Hong Kong
Kowloon	Shamshuipo Branch	G/F, 290 Lai Chi Kok Road, Shamshuipo, Kowloon
	Hung Hom Branch	Shop 2A, G/F, Hung Hom Shopping Mall, 2–34E Tak Man Street, Hung Hom, Kowloon
New Territories	Sheung Shui Branch	Shop 2, G/F, San Fung Building, No. 33 San Fung Avenue, Shek Wu Hui, Sheung Shui, New Territories

You can collect a **YELLOW** Application Form and this prospectus during normal business hours from 9:00 a.m. on Friday, 25 October 2019 until 12:00 noon on Wednesday, 30 October 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

### **Time for lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**ICBC (ASIA) NOMINEE LIMITED – WENLING ZHEJIANG MEASURING AND CUTTING TOOLS TRADING CENTRE COMPANY 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:

**Friday, 25 October 2019 – 9:00 a.m. to 5:00 p.m.**  
**Saturday, 26 October 2019 – 9:00 a.m. to 1:00 p.m.**  
**Monday, 28 October 2019 – 9:00 a.m. to 5:00 p.m.**  
**Tuesday, 29 October 2019 – 9:00 a.m. to 5:00 p.m.**  
**Wednesday, 30 October 2019 – 9:00 a.m. to 12:00 noon**

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 30 October 2019, the last application day or such later time as described in paragraph headed “10. Effect of Bad Weather and/or Extreme Conditions 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 or applying through **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and/or the Underwriters (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 Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (viii) agree to disclose to our Company, the H Share Registrar, the receiving bank, the Sole Sponsor, the Sole Global Coordinator, 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 Sole Global Coordinator, 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 Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's H Share register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any H share certificate(s) and/or any e-Auto Refund payment instruction(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) understand that, where the International Placing Shares are undersubscribed and the Hong Kong Offer Shares are oversubscribed, up to 2,000,000 H Shares may be reallocated to the Hong Kong Public Offering from the International Placing, increasing the total number of Hong Kong Offer Shares to 4,000,000 H Shares, representing 20% of the Offer Shares initially available under the Global Offering.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Further details of the reallocation are stated in the paragraph headed “Structure and Conditions of the Global Offering – Hong Kong Public Offering – Reallocation and Clawback” of this prospectus;

- (xvii) 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;
- (xviii) understand that our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xix) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xx) (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 or to the **HK eIPO White Form** Service Provider; 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 HK eIPO WHITE FORM SERVICE**

### **General**

Individuals who meet the criteria in the paragraph headed “2. Who Can Apply” in this section may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

### **Time for submitting applications under the HK eIPO White Form**

You may submit your application to the **HK eIPO White Form** Service Provider at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, 25 October 2019 until 11:30 a.m. on Wednesday, 30 October 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 30 October 2019 or such later time in the paragraph headed “10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists” in this section.

### **No multiple applications**

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different 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 **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

### **Section 40 of the Companies (WUMP) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

## **6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS**

### **General**

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

**Hong Kong Securities Clearing Company Limited**

Customer Service 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 Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and our H Share Registrar.

### **Giving electronic application instructions to HKSCC via CCASS**

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (b) HKSCC Nominees will do the following things on your behalf:
  - (1) **agree** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (2) **agree** to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
- (3) **undertake** and **confirm** that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
- (4) (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;
- (5) (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;
- (6) **confirm** that you understand that our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- (7) **authorise** our Company to place HKSCC Nominees' name on our Company's H Share register of members as the holder of the Hong Kong Offer Shares allocated to you and to send H Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- (8) **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- (9) **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;
- (10) **agree** that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (11) **agree** to disclose your personal data to our Company, our H Share Registrar, receiving banks, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents;
- (12) **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;
- (13) **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 our Company and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- (14) **agree** that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- (15) **agree** to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Offer Shares;
- (16) **agree** with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles of Association;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (17) **agree** that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong;
- (18) **agree** with our Company, for itself and for the benefit of each Shareholder of our Company and each Director, Supervisor, manager and other senior officer of our Company (and so that our Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each Shareholder of our Company and each Director, Supervisor, manager and other senior officer of our Company, with each CCASS Participant giving electronic application instructions):
- (i) to refer all differences and claims arising from the Articles of Association of our Company or any rights or obligations conferred or imposed by the *PRC Company Law* or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association of our Company;
  - (ii) that any award made in such arbitration shall be final and conclusive; and
  - (iii) that the arbitration tribunal may conduct hearings in open sessions and publish its award;
- (19) **agree** with our Company (for our Company itself and for the benefit of each Shareholder) that H Shares in our Company are freely transferable by their holders; and
- (20) **authorize** our Company to enter into a contract on our behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to Shareholders stipulated in the Articles of Association.

### **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:

- (a) **instructed** and **authorised** HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (b) **instructed** and **authorised** HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per H Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- (c) **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 500 Hong Kong Offer Shares. Instructions for more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### ***Time for inputting electronic application instructions<sup>(1)</sup>***

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

**Friday, 25 October 2019 – 9:00 a.m. to 8:30 p.m.**  
**Monday, 28 October 2019 – 8:00 a.m. to 8:30 p.m.**  
**Tuesday, 29 October 2019 – 8:00 a.m. to 8:30 p.m.**  
**Wednesday, 30 October 2019 – 8:00 a.m. to 12:00 noon**

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Friday, 25 October 2019 until 12:00 noon on Wednesday, 30 October 2019 (24 hours daily, except on 30 October 2019, the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon Wednesday, 30 October 2019, the last application day or such later time as described in “– 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists”.

*Note:*

- (1) The times in this subsection 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.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### **No multiple applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### **Section 40 of the Companies (WUMP) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

### **Personal Data**

The section of the Application Form headed “Personal data” applies to any personal data held by our Company, our H Share Registrar, the receiving bank, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, 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 Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection with 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

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 30 October 2019.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- (1) an account number; or
- (2) 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 **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- (a) the principal business of that company is dealing in securities; and
- (b) 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:

- (a) control the composition of the board of directors of the company;
- (b) control more than half of the voting power of the company; or
- (c) hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 500 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.hkeipo.hk**.

If your application is successful, brokerage will be paid to the participants of the Stock Exchange, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure and Conditions of the Global Offering – Price Payable on Application” in this prospectus.

### 10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- (1) a tropical cyclone warning signal number 8 or above;
- (2) a “black” rainstorm warning; or
- (3) Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 30 October 2019. 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 Wednesday, 30 October 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/or “Extreme Conditions” in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, 5 November 2019 on our Company's website at <http://cnglj.com>, and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- (a) in the announcement to be posted on our Company's website at <http://cnglj.com>, and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m. on Tuesday, 5 November 2019;
- (b) from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) (alternatively: [www.hkeipo.hk/IPOResult](http://www.hkeipo.hk/IPOResult)) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Tuesday, 5 November 2019 to 12:00 midnight on Monday, 11 November 2019;
- (c) by telephone enquiry line by calling 3691 8488, between 9:00 a.m. and 6:00 p.m. from Tuesday, 5 November 2019 to Friday, 8 November 2019;
- (d) in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 5 November 2019 to Thursday, 7 November 2019 at all the receiving bank's designated branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Global Offering" 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.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED THE HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

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, the Joint Bookrunners or our or their agents exercise their discretion to reject your application:**

Our Company, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Offer Shares either:

- (1) within three weeks from the closing date of the application lists; or
- (2) within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- (1) you make multiple applications or suspected multiple applications;
- (2) you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing Shares;
- (3) your Application Form is not completed in accordance with the stated instructions;
- (4) your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- (5) your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- (6) the Underwriting Agreements do not become unconditional or are terminated;
- (7) our Company or the Joint Bookrunners believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- (8) your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### **13. REFUND OF APPLICATION MONIES**

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$6.75 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offering are not fulfilled in accordance with the section headed

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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“Structure and Conditions of the Global Offering – Conditions of the Global Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Tuesday, 5 November 2019.

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one H Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Offer 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:

- (1) H Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, H Share certificates will be deposited into CCASS as described below); and
- (2) refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per H Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, the 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 H Share certificates and refund monies as mentioned below, any refund cheques and H Share certificates are expected to be posted on or around Tuesday, 5 November 2019. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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H Share certificates will only become valid at 8:00 a.m. on Wednesday, 6 November 2019 provided that the Global Offering 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 H Share certificates becoming valid do so at their own risk.

### **Personal collection**

#### ***(a) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or H Share certificate(s) from the H Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 5 November 2019 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 collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or H share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or H share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, 5 November 2019, by ordinary post and at your own risk.

#### ***(b) If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above for collection of your refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, 5 November 2019, 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 H 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 Tuesday, 5 November 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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*If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

*If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 5 November 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

*(c) If you apply through the HK eIPO White Form service*

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your H Share certificate(s) from the H Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 5 November 2019, or such other date as notified by our Company on the website of the Stock Exchange at [www.hexnews.hk](http://www.hexnews.hk) or the website of the Company at <http://cnglj.com> as the date of despatch/collection of H Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your H Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Tuesday, 5 November 2019 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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*(d) If you apply via electronic application instructions to HKSCC*

*Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of H Share certificates into CCASS and refund of application monies*

- (i) If your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 5 November 2019, or, on any other date determined by HKSCC or HKSCC Nominees.
- (ii) Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in the paragraph headed "11. Publication of results" in this section on Tuesday, 5 November 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 5 November 2019 or such other date as determined by HKSCC or HKSCC Nominees.
- (iii) If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- (iv) If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 5 November 2019. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- (v) 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 H Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 5 November 2019.

### **15. H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H 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 H Shares 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.

Dealings in the H Shares may be settled through CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights, interests and liabilities.

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



*The following is the text of a report set out on page I-1 to I-66, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF WENLING ZHEJIANG MEASURING AND CUTTING TOOLS TRADING CENTRE COMPANY LIMITED AND CINDA INTERNATIONAL CAPITAL LIMITED**

**Introduction**

We report on the historical financial information of Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited. (the "Company") and its subsidiaries (together, "the Group") set out on pages I-4 to I-66, which comprises the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2015, 2016, 2017 and 2018 and 30 April 2019, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2019 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-66 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 25 October 2019 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

**Directors' responsibility for Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan

and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Company's and the Group's financial position as at 31 December 2015, 2016, 2017 and 2018 and 30 April 2019 and of the Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

### **Review of stub period corresponding financial information**

We have reviewed the stub period corresponding financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the four months ended 30 April 2018 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our view. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an

audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

*Adjustments*

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

*Dividends*

We refer to note 27(b) to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Relevant Periods.

**KPMG**

*Certified Public Accountants*  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

25 October 2019

## HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

## Consolidated statements of profit or loss and other comprehensive income

	Note	Years ended 31 December				Four months ended 30 April	
		2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000	2019 RMB'000
						(Unaudited)	
<b>Revenue</b>	5	25,435	45,129	43,487	46,994	15,215	16,523
Cost of sales		(6,722)	(6,143)	(6,727)	(8,185)	(2,783)	(2,787)
<b>Gross profit</b>		18,713	38,986	36,760	38,809	12,432	13,736
Valuation gains on investment properties	12	99,920	18,421	27,000	17,000	13,000	4,004
Other net income	6	119	111	808	866	598	31
Administrative expenses		(1,928)	(2,478)	(4,616)	(7,244)	(1,610)	(1,840)
<b>Profit from operations</b>		116,824	55,040	59,952	49,431	24,420	15,931
Finance costs	7(a)	(4,014)	–	–	–	–	(1,524)
Share of losses of an associate		(67)	(29)	(62)	(86)	(64)	–
<b>Profit before taxation</b>		112,743	55,011	59,890	49,345	24,356	14,407
Income tax	8	(27,551)	(8,330)	(14,998)	(12,384)	(6,116)	(3,605)
<b>Profit for the year/period</b>		<u>85,192</u>	<u>46,681</u>	<u>44,892</u>	<u>36,961</u>	<u>18,240</u>	<u>10,802</u>

	<i>Note</i>	Years ended 31 December				Four months ended 30 April	
		2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>
Other comprehensive income for the year/period		—	—	—	—	—	—
Total comprehensive income for the year/period		<u>85,192</u>	<u>46,681</u>	<u>44,892</u>	<u>36,961</u>	<u>18,240</u>	<u>10,802</u>
Earnings per share	11						
Basic and diluted ( <i>RMB</i> )		<u>1.42</u>	<u>0.78</u>	<u>0.75</u>	<u>0.62</u>	<u>0.30</u>	<u>0.18</u>

The accompanying notes form part of the Historical Financial Information.

## Consolidated statements of financial position

	Note	As at 31 December				As at
		2015	2016	2017	2018	30 April
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>						
Investment properties	12	766,000	796,000	823,000	840,000	909,500
Property, plant and equipment	13	4,969	7,405	8,120	8,541	9,379
Lease prepayments	14	696	673	650	627	620
Intangible assets	15	–	496	390	284	248
Other non-current assets	16	5,084	4,802	4,520	4,238	10,493
Prepayments for other long-term assets	17	–	–	–	13,000	–
Interest in an associate	19	330	301	239	–	–
Deferred tax assets	26(b)	–	–	5	–	499
		<u>777,079</u>	<u>809,677</u>	<u>836,924</u>	<u>866,690</u>	<u>930,739</u>
<b>Current assets</b>						
Other receivables and prepayments	20	1,506	2,399	333	16,369	17,003
Amounts due from related parties	30(d)	10,500	8,570	–	–	–
Restricted cash	21	–	–	–	–	30,000
Cash and cash equivalents	22	<u>31,762</u>	<u>41,102</u>	<u>48,203</u>	<u>28,290</u>	<u>29,807</u>
		<u>43,768</u>	<u>52,071</u>	<u>48,536</u>	<u>44,659</u>	<u>76,810</u>
<b>Current liabilities</b>						
Short-term loans	23	–	–	–	–	97,020
Other payables and accruals	24	4,436	10,506	5,818	4,286	4,231
Receipts-in-advance, current	25	47,229	45,245	43,375	46,377	33,043
Amounts due to related parties	30(d)	4,769	5,046	77	–	–
Current taxation	26(a)	493	–	4,219	3,559	4,985
Dividends payable	22(c)	–	–	12,690	–	–
		<u>56,927</u>	<u>60,797</u>	<u>66,179</u>	<u>54,222</u>	<u>139,279</u>
<b>Net current liabilities</b>		<u>(13,159)</u>	<u>(8,726)</u>	<u>(17,643)</u>	<u>(9,563)</u>	<u>(62,469)</u>
<b>Total assets less current liabilities</b>		<u>763,920</u>	<u>800,951</u>	<u>819,281</u>	<u>857,127</u>	<u>868,270</u>

		As at 31 December				As at 30 April
		2015	2016	2017	2018	2019
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current liabilities</b>						
Receipts-in-advance,						
non-current	25	103,515	97,901	93,172	88,380	86,745
Deferred tax liabilities	26(b)	143,822	149,786	157,953	163,630	165,606
		<u>247,337</u>	<u>247,687</u>	<u>251,125</u>	<u>252,010</u>	<u>252,351</u>
<b>NET ASSETS</b>		<u>516,583</u>	<u>553,264</u>	<u>568,156</u>	<u>605,117</u>	<u>615,919</u>
<b>CAPITAL AND RESERVES</b>						
Paid-in capital/share capital	27(c)	18,000	18,000	18,000	60,000	60,000
Reserves	27(d)	498,583	535,264	550,156	545,117	555,919
<b>TOTAL EQUITY</b>		<u>516,583</u>	<u>553,264</u>	<u>568,156</u>	<u>605,117</u>	<u>615,919</u>

The accompanying notes form part of the Historical Financial Information.

## Statements of financial position of the Company

	Note	As at 31 December				As at
		2015	2016	2017	2018	30 April
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>						
Investment properties	12	766,000	796,000	823,000	840,000	846,000
Property, plant and equipment	13	4,969	7,405	8,120	8,541	9,379
Lease prepayments	14	696	673	650	627	620
Intangible assets	15	–	496	390	284	248
Other non-current assets	16	5,084	4,802	4,520	4,238	4,143
Amount due from a subsidiary	30(d)	–	–	–	13,000	61,859
Interests in subsidiaries	18	200	100	100	100	10,100
Interest in an associate	19	330	301	239	–	–
Deferred tax assets	26(b)	–	–	5	–	–
		<u>777,279</u>	<u>809,777</u>	<u>837,024</u>	<u>866,790</u>	<u>932,349</u>
<b>Current assets</b>						
Other receivables and prepayments	20	1,506	2,399	333	16,369	17,003
Amounts due from related parties	30(d)	10,500	8,570	–	–	–
Restricted cash	21	–	–	–	–	30,000
Cash and cash equivalents	22	31,456	40,895	47,995	28,083	29,585
		<u>43,462</u>	<u>51,864</u>	<u>48,328</u>	<u>44,452</u>	<u>76,588</u>
<b>Current liabilities</b>						
Short-term loans	23	–	–	–	–	97,020
Other payables and accruals	24	4,436	10,506	5,818	4,286	4,231
Receipts-in-advance, current	25	47,229	45,245	43,375	46,377	33,043
Amounts due to related parties	30(d)	4,818	5,095	126	49	49
Current taxation	26(a)	493	–	4,219	3,559	4,985
Dividends payable	22(c)	–	–	12,690	–	–
		<u>56,976</u>	<u>60,846</u>	<u>66,228</u>	<u>54,271</u>	<u>139,328</u>
<b>Net current liabilities</b>		<u>(13,514)</u>	<u>(8,982)</u>	<u>(17,900)</u>	<u>(9,819)</u>	<u>(62,740)</u>
<b>Total assets less current liabilities</b>		<u>763,765</u>	<u>800,795</u>	<u>819,124</u>	<u>856,971</u>	<u>869,609</u>



		As at 31 December				As at
		2015	2016	2017	2018	30 April
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current liabilities</b>						
Receipts-in-advance, non-current	25	103,515	97,901	93,172	88,380	86,745
Deferred tax liabilities	26(b)	143,822	149,786	157,953	163,630	165,606
		<u>247,337</u>	<u>247,687</u>	<u>251,125</u>	<u>252,010</u>	<u>252,351</u>
<b>NET ASSETS</b>		<u>516,428</u>	<u>553,108</u>	<u>567,999</u>	<u>604,961</u>	<u>617,258</u>
<b>CAPITAL AND RESERVES</b>						
Paid-in capital/share capital	27(c)	18,000	18,000	18,000	60,000	60,000
Reserves	27(d)	498,428	535,108	549,999	544,961	557,258
<b>TOTAL EQUITY</b>		<u>516,428</u>	<u>553,108</u>	<u>567,999</u>	<u>604,961</u>	<u>617,258</u>

The accompanying notes form part of the Historical Financial Information.

## Consolidated statements of changes in equity

		Paid-in capital/ share capital	Capital reserve	PRC statutory reserve	Retained profits	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at 1 January 2015</b>		18,000	68,652	21	344,718	431,391
Profit for the year		–	–	–	85,192	85,192
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	–	–	85,192	85,192
<b>Balance at 31 December 2015 and 1 January 2016</b>		18,000	68,652	21	429,910	516,583
Profit for the year		–	–	–	46,681	46,681
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	–	–	46,681	46,681
Transfer to reserve	27(d)(ii)	–	–	2,713	(2,713)	–
Profit distribution	27(b)	–	–	–	(10,000)	(10,000)
<b>Balance at 31 December 2016 and 1 January 2017</b>		18,000	68,652	2,734	463,878	553,264
Profit for the year		–	–	–	44,892	44,892
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	–	–	44,892	44,892
Transfer to reserve	27(d)(ii)	–	–	2,036	(2,036)	–
Profit distribution	27(b)	–	–	–	(30,000)	(30,000)

		Paid-in capital/ share capital	Capital reserve	PRC statutory reserve	Retained profits	Total equity
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Balance at 31 December 2017 and 1 January 2018</b>		18,000	68,652	4,770	476,734	568,156
Profit for the year		–	–	–	36,961	36,961
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	–	–	36,961	36,961
Conversion to a joint stock limited liability company	27(c)	42,000	(33,145)	(4,749)	(4,106)	–
Transfer to reserve	27(d)(ii)	–	–	1,993	(1,993)	–
<b>Balance at 31 December 2018 and 1 January 2019</b>		<b>60,000</b>	<b>35,507</b>	<b>2,014</b>	<b>507,596</b>	<b>605,117</b>
Profit for the period		–	–	–	10,802	10,802
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	–	–	10,802	10,802
<b>Balance at 30 April 2019</b>		<b>60,000</b>	<b>35,507</b>	<b>2,014</b>	<b>518,398</b>	<b>615,919</b>

The accompanying notes form part of the Historical Financial Information.

## Unaudited:

		Paid-in capital/ share capital	Capital reserves	PRC Statutory reserves	Retained profits	Total equity
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Balance at 1 January 2018</b>		18,000	68,652	4,770	476,734	568,156
Profit for the period		–	–	–	18,240	18,240
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	–	–	18,240	18,240
Conversion to a joint stock limited liability company	27(c)	42,000	(33,145)	(4,749)	(4,106)	–
<b>Balance at 30 April 2018</b>		<b>60,000</b>	<b>35,507</b>	<b>21</b>	<b>490,868</b>	<b>586,396</b>

## Consolidated cash flow statements

	Note	Years ended 31 December			Four months ended 30 April	
		2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
						(Unaudited)
<b>Operating activities:</b>						
Cash generated from/(used in) operations	22(b)	137,741	32,154	25,907	29,987	(4,806) (3,475)
PRC Corporate Income Tax ("CIT") paid	26(a)	(1,643)	(3,470)	(2,006)	(7,362)	(1,557) (702)
<b>Net cash generated from/(used in) operating activities</b>		<u>136,098</u>	<u>28,684</u>	<u>23,901</u>	<u>22,625</u>	<u>(6,363)</u> <u>(4,177)</u>
<b>Investing activities:</b>						
Payment for the purchase of property, plant and equipment		(4)	(2,580)	(1,604)	(1,517)	(158) (1,223)
Payment for performance bond deposit		–	–	–	–	– (6,350)
Proceeds on disposal of property, plant and equipment		–	–	34	–	– –
Payment for the purchase of investment properties		–	(8,228)	(3,351)	–	– (52,496)
Payment for purchase of intangible assets		–	(532)	–	–	– –
Payment for purchase of other long-term assets		–	–	–	(13,000)	– –
Interest received		85	66	53	160	102 30

	Note	Years ended 31 December			Four months ended 30 April		
		2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000	2019 RMB'000
Loan to a related party	30(c)	(10,000)	–	–	–	–	–
Receipt of loan repayment from a related party	30(c)	–	–	2,280	–	–	–
Proceeds on disposal of an associate	30(c)	–	–	–	279	–	–
<b>Net cash used in investing activities</b>		(9,919)	(11,274)	(2,588)	(14,078)	(56)	(60,039)
<b>Financing activities:</b>							
Proceeds from borrowings	22(c)	–	–	–	–	–	97,020
Proceeds from capital injection	30(d)	–	–	500	–	–	–
Repayment of a third party loan	22(c)	(10,000)	–	–	–	–	–
Repayment of bank loans	22(c)	(63,300)	–	–	–	–	–
Repayment of related party loan	30(c)	(24,000)	–	–	–	–	–
Payment of loan interests	22(c)	(3,174)	–	(3,192)	–	–	(487)
Payment of dividends	22(c)	–	(8,070)	(11,520)	(12,690)	(8,220)	–
Payment of restricted cash for obtaining a borrowing	21	–	–	–	–	–	(30,000)
Payment of listing expenses		–	–	–	(15,770)	(5,566)	(800)

Note	Years ended 31 December				Four months ended 30 April	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000	2019 RMB'000
					(Unaudited)	
Net cash (used in)/generated from financing activities	(100,474)	(8,070)	(14,212)	(28,460)	(13,786)	65,733
Net increase/(decrease) in cash and cash equivalents	25,705	9,340	7,101	(19,913)	(20,205)	1,517
Cash and cash equivalents at the beginning of the year/period	6,057	31,762	41,102	48,203	48,203	28,290
Cash and cash equivalents at the end of the year/period	22(a) 31,762	41,102	48,203	28,290	27,998	29,807
Major non-cash transaction is set out as follows: Offset of loan to a related party with dividends payable	30(c) -	1,930	5,790	-	-	-

The accompanying notes form part of the Historical Financial Information.

## NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Company was formerly named as Wenling City Wenxi Measuring and Cutting Tools Trading Centre Company Limited. (溫嶺市溫西工量刃具交易中心有限公司, “the Company”), which was established as a limited liability company incorporated in Wenling City, Zhejiang Province in the People’s Republic of China (the “PRC”) on 14 May 2003. The principal activity of the Company and its subsidiaries (together, the “Group”) is property leasing.

On 3 May 2018, the Company was converted into a joint stock limited liability company and with a registered capital of RMB60,000,000 in preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited. Upon completion of this conversion, the Company changed its name to Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited (溫嶺浙江工量刃具交易中心股份有限公司).

The financial statements of the Company for the years ended December 31, 2015 and 2016 were prepared in accordance with the PRC generally accepted accounting principles and audited by Taizhou Tianyi Certificated Public Accountants Co., Ltd.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of financial position, consolidated statements of changes in equity and the consolidated cash flow statements of the Group comprise the Company and its subsidiaries. All material intra-group transactions and balances have been eliminated on consolidation.

As at the date of this report, the Company has direct interests in the following subsidiaries:

Company Name	Date and place of incorporation/ establishment	Particulars of issued and paid-up capital RMB'000	Percentage of ownership interests held by the Company	Principal activities	Name of statutory auditor
Wenling Measuring and Cutting Tools Network Co., Ltd. (“Wenling Measuring and Cutting Tools Network”) <sup>(a)</sup> (溫嶺工量刃具網有限公司)	27 July 2011 Wenling, the PRC	100	100%	E-commerce technology development services	N/A <sup>(b)</sup>
Wenling Sunrise Real Estate Development Co., Ltd (“Wenling Xuri”) <sup>(a)</sup> (溫嶺市旭日投資有限公司)	12 June 2018 Wenling, the PRC	10,000	100%	Investment, real estate development and management, conference and exhibition and related services	N/A <sup>(b)</sup>

Notes:

(a) The official names of the companies are in Chinese. The English name is for identification purpose only.



- (b) No financial statements have been prepared for Wenling Measuring and Cutting Tools Network and Wenling Xuri for the Relevant Periods as they are not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

The subsidiaries did not have any material operations during the Relevant Periods.

All companies now comprising the Group have adopted 31 December as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). Further details of the significant accounting policies adopted are set out in Note 2.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the Group has adopted all applicable new and revised HKFRSs and early adopted HKFRS 9, Financial Instruments, HKFRS 15, Revenue from contracts with customers, and HKFRS 16 Lease to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting year/period beginning 1 January 2019. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year/period beginning 1 January 2019 are set out in Note 31.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Information.

## 2 SIGNIFICANT ACCOUNTING POLICES

### (a) Basis of measurement and functional and presentation currency

The Historical Financial Information is prepared on the historical cost basis except for investment properties (see note 2(f)) which are stated at its fair value. It is presented in Renminbi (“RMB”), rounded to the nearest thousand, unless otherwise indicated.

The functional currency for the Company and its subsidiaries is RMB.

### (b) Going concern

The Historical Financial Information has been prepared assuming the Group will continue as a going concern notwithstanding the fact that the Group had net current liabilities of RMB62,469,000 as at 30 April 2019. As of 30 April 2019, the Group had banking facilities of RMB333,000,000 from third-party banks, of which the unutilized amount was RMB232,953,000. The drawdown of the credit facility is subject to the terms and conditions of each agreement. The directors are of the opinion that, based on a detailed review of the working capital forecast of the Group for the twelve-month period from 1 May 2019 to 30 April 2020, the Group will take necessary measures, including the withdrawal of additional loans from the presently available banking facilities, to ensure the Group will have necessary liquid funds to repay its debts as and when they fall due, and to finance its working capital and capital expenditure requirements.

### (c) Use of estimates and judgements

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

**(d) Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial information from the date that control commences until the date that control ceases. Intra-Group balances, transactions and cash flows and any unrealised profits arising from intra-Group transactions are eliminated in full in preparing the financial information. Unrealised losses resulting from intra-Group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(j)(ii)).

**(e) Associate**

An associate is an entity in which the group or company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(j)(ii)). Any acquisition date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition and post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate.

In the Company's statement of financial position, the Company elects to account for investment in an associate using the equity method as described in *HKAS 28 Investments in Associates and Joint Ventures*.

**(f) Investment properties**

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment properties.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of each reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of investment properties is recognized in profit or loss. Rental income from investment properties is accounted for as described in note 2(r)(i).

**(g) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(j)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(s)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.
- Electronic equipment 3–10 years
- Motor vehicles 4 years
- Machinery and equipment 10 years
- Office equipment 3–5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

**(h) Lease**

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

**(i) As a lessee**

A lease is recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs. Right-of-use assets that meet the definition of investment properties, are carried at fair value in accordance with note 2(f).

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use asset are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Except for the leasehold land as further described below, the Group does not have any other lease arrangement as a lessee during the Relevant Periods.

The consideration paid to lease the state-owned or collectively-owned land in the PRC are treated as prepayment for land use rights and included in lease prepayments, which are stated at cost less accumulated amortisation and impairment loss, except for the land use rights that meet the definition of investment properties which are measured at fair value as described in note 2(f). Land use rights measured at cost are amortised over the lease period using straight-line method.

The following land use rights with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

- Lease prepayment 37–50 years

*(ii) As a lessor*

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 2(r)(i).

**(i) Intangible assets**

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(j)(ii)). Expenditure on internally generated goodwill and brands is recognized as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

- Software 5 years

Both the period and method of amortisation are reviewed annually.

(j) **Credit losses and impairment of assets**

(i) *Credit losses from financial instruments*

The Group recognizes a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortized cost (including cash and cash equivalents, other receivables and prepayments).

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, other receivables and prepayments: effective interest rate determined at initial recognition or an approximation thereof.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognizes a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

*Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). 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 since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognized in other comprehensive income and accumulated in the fair value reserve (recycling).

*Basis of calculation of interest income*

Interest income recognized in accordance with note 2(r)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

*Write-off policy*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

**(ii) Impairment of other assets**

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognized no longer exists or may have decreased:

- Property, plant and equipment;
- Lease prepayment;
- Intangible assets; and
- Interests in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

*– Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs 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 assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

*– Recognition of impairment losses*

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or Group of units) and then, to reduce the carrying amount of the other assets in the unit (or Group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, if measurable, or value in use, if determinable.

*– Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

**(k) Other receivables and prepayments**

A receivable is recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(j)(i)).

**(l) Interest-bearing borrowings**

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(s)).

**(m) Other payables and accruals**

Other payables and accruals are initially recognized at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(n) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

**(o) Employee benefits***Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to PRC local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognized as an expense in profit or loss as incurred.

**(p) Income tax**

Income tax for each reporting period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for each reporting period, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.



Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(f), the amount of deferred tax recognized is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognized is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either; or
- the same taxable entity; or
- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**(q) Provisions and contingent liabilities**

Provisions are recognized for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(r) Revenue recognition**

Income is classified by the Group as revenue when it arises from the use by others of the Group's assets under leases in the ordinary course of the Group's business.

The Group derives substantially all of its revenue from rental income from operating leases. The Group also derives a small portion of its revenue from the provision of property management services. Revenue is recognized when the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follow:

**(i) Rental income from operating leases**

Rental income under operating leases is recognized in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable.

**(ii) Property management service fee**

The Group recognize revenue from the provision of property management services under HKFRS 15, *Revenue from contracts with customers*.

The Group recognized revenue when the performance obligation is satisfied, i.e. when "control" of the service underlying the particular performance obligation is transferred to the customer.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation as the customer simultaneously receives the benefits provided by the Group's performance as the Group performs.

Revenue from property management service is recognised over time as the Group performs the related service to the customer.

**(iii) Interest income**

Interest income is recognized as it accrues using the effective interest method.

(iv) **Government grants**

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(s) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences 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 in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) **Related parties**

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

**(u) Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

### 3 ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying the Group's accounting policies, which are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Historical Financial Information. Note 28 contain information about the assumption and their risk factors relating to financial instruments. Other key source of estimation uncertainty is as follows:

**(a) Valuation of investment properties**

Investment properties are included in the consolidated statement of financial position at their market value, unless they are still in the course of construction or development at the end of each reporting period and their fair value cannot be reliably determined at that time. The market value of investment properties is assessed annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential and redevelopment potential of the properties.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of each reporting period, with reference to the appropriate capitalisation rate.

**(b) Income tax**

Significant judgement is required in determining the provisions for income taxes, as the calculations of which depend on the ultimate tax determinations and are subject to uncertainties. When the final tax outcomes of these matters are different from the amounts that were initially recorded, such differences will impact income tax in the period in which such determinations are made.

### 4 SEGMENT REPORTING

The directors of the Company have been identified as the Group's most senior executive management. Operating segments are identified on the basis of internal reports that the Group's most senior executive management reviews regularly in allocating resources to segments and in assessing their performances.

The Group's most senior executive management makes resources allocation decisions based on internal management functions and assess the Group's business performance as one integrated business instead of by separate business lines or geographical regions. Accordingly, the Group has only one operating segment and therefore, no segment information is presented.

The Group operates in Mainland China and accordingly, no geographical information is presented.

## 5 REVENUE

The amount of each significant category of revenue is as follows:

	Note	Years ended 31 December				Four months ended 30 April	
		2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Property leasing	(i)	22,662	43,823	42,713	45,907	15,161	15,633
Others	(ii)	2,773	1,306	774	1,087	54	890
<b>Total</b>		<b>25,435</b>	<b>45,129</b>	<b>43,487</b>	<b>46,994</b>	<b>15,215</b>	<b>16,523</b>

- (i) The Group's revenue recognition policies are disclosed in note 2(r). During the Relevant Periods, the Group's revenue mainly consists of revenue from property leasing and provision of property management services.
- (ii) Others mainly represent revenue for provision of property management services and is recognized over time in accordance with HKFRS 15, *Revenue from Contracts with Customers*.

The Group's customer base is diversified and no single customer with whom transactions have exceeded 10% of the Group's revenues during the Relevant Periods.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its provision of property management services such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for provision of property management services that have an original expected duration of one year or less.

## 6 OTHER NET INCOME

	Years ended 31 December				Four months ended 30 April	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Interest income from bank deposits	85	66	53	160	102	30
Government grants	4	3	504	550	496	–
Net gain on disposal of property, plant and equipment	–	–	26	–	–	–
Gain on disposal of an associate	–	–	–	126	–	–
Others	30	42	225	30	–	1
<b>Total</b>	<b>119</b>	<b>111</b>	<b>808</b>	<b>866</b>	<b>598</b>	<b>31</b>

## 7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

## (a) Finance costs

	Years ended 31 December				Four months ended 30 April	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Interest expenses	4,014	–	–	–	–	1,524

## (b) Staff costs

	Years ended 31 December				Four months ended 30 April	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Salaries, wages and other benefits	868	1,391	1,340	1,636	419	676
Contributions to PRC local retirement schemes	110	148	283	360	104	133
	978	1,539	1,623	1,996	523	809
Included in:						
Cost of sales	506	874	849	1,035	273	380
Administrative expenses	472	665	774	961	250	429
	978	1,539	1,623	1,996	523	809

Employees of the Group are required to participate in a defined contribution scheme administered and operated by the local municipal government. The Group contributes funds which are calculated on certain percentages of the employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with these schemes beyond the annual contributions as described above.

## (c) Other items

	Years ended 31 December				Four months ended 30 April	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000	2019 RMB'000
Depreciation and amortization	214	264	949	1,225	347	428
Auditors' remuneration	26	26	27	214	214	–

## 8 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## (a) Taxation in the consolidated statements of profit or loss and other comprehensive income represents:

	Note	Years ended 31 December				Four months ended 30 April	
		2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000	2019 RMB'000
<b>Current tax</b>							
PRC CIT	26	1,348	2,366	6,836	6,702	2,406	2,128
<b>Deferred tax</b>							
Origination and reversal of temporary differences	26	26,203	5,964	8,162	5,682	3,710	1,477
		27,551	8,330	14,998	12,384	6,116	3,605

## (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Note	Years ended 31 December				Four months ended	
		2015	2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before taxation		112,743	55,011	59,890	49,345	24,356	14,407
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	(i)	28,186	13,753	14,973	12,336	6,089	3,602
Effect of the deemed profit method	(ii)	(635)	(5,423)	–	–	–	–
Tax effect of other non-deductible expenses		–	–	25	48	27	3
Actual tax expense		<u>27,551</u>	<u>8,330</u>	<u>14,998</u>	<u>12,384</u>	<u>6,116</u>	<u>3,605</u>

- (i) Effective from 1 January 2008, under PRC Corporate Income Tax Law, the PRC's statutory income tax rate is 25%. The Company and its subsidiaries are subject to PRC income tax at 25% unless otherwise specified.
- (ii) During the years ended 31 December 2015 and 2016, pursuant to "Announcement of the State Administration of Taxation on Issues Relating to Enterprise Income Tax Taxed on a Deemed Basis" issued by the State Administration of Taxation, the Company received written confirmations from the local tax bureau that the Company was taxed on a deemed profit method based on the deemed profits at 25% statutory tax rate. The deemed profits was determined at 20% of revenues of the Company. Accordingly, for the purposes of presenting the above reconciliation between tax expense and accounting profit at applicable tax rates for the year ended 31 December 2015 and 2016, the income and expenses of the Company during such years are considered non-taxable and non-deductible. From 1 January 2017, the Company is subject to 25% corporate income tax rate.



## 9 DIRECTORS' REMUNERATION

On 3 May 2018, Mr. Pan Haihong and Mr. Zhou Guilin were appointed as executive directors of the Company. Mr. Huang Qun, Mr. Wang Wenming and Mr. Cheng Jinyun and Mr. Ye Yunzhi were appointed as non-executive directors of the Company. On 1 August 2018, Mr. Xu Wei, Mr. Jin Hongqing and Mr. Tsoi Ka Shing were appointed as independent non-executive directors of the Company.

	Note	Years ended 31 December				Four months ended	
		2015	2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
							(Unaudited)
Directors' fee	(i)	-	-	-	-	-	-
Salaries, allowances and benefits in kind		55	69	63	100	15	45
Discretionary bonuses	(iii)	-	-	-	-	-	-
		<u>55</u>	<u>69</u>	<u>63</u>	<u>100</u>	<u>15</u>	<u>45</u>

Details of directors' remuneration are set out as follows:

Year ended 31 December 2015	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Total RMB'000
<b>Executive Directors</b>				
Pan Haihong	-	8	-	8
Zhou Guilin	-	47	-	47
	<u>-</u>	<u>55</u>	<u>-</u>	<u>55</u>
<b>Year ended 31 December 2016</b>				
<b>Executive Directors</b>				
Pan Haihong	-	20	-	20
Zhou Guilin	-	49	-	49
	<u>-</u>	<u>69</u>	<u>-</u>	<u>69</u>

<b>Year ended 31 December 2017</b>	<b>Directors' fees</b> <i>RMB'000</i>	<b>Salaries, allowances and benefits in kind</b> <i>RMB'000</i>	<b>Discretionary bonuses</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>Executive Directors</b>				
Pan Haihong	–	17	–	17
Zhou Guilin	–	46	–	46
	–	63	–	63

<b>Year ended 31 December 2018</b>	<b>Directors' fees</b> <i>RMB'000</i>	<b>Salaries, allowances and benefits in kind</b> <i>RMB'000</i>	<b>Discretionary bonuses</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>Executive Directors</b>				
Pan Haihong	–	22	–	22
Zhou Guilin	–	78	–	78
<b>Non-executive Directors</b>				
Huang Qun	–	–	–	–
Wang Wenming	–	–	–	–
Cheng Jinyun	–	–	–	–
<b>Independent Non-executive Directors</b>				
Xu Wei	–	–	–	–
Jin Hongqing	–	–	–	–
Tsoi Ka Shing	–	–	–	–
	–	100	–	100

<b>Four months ended 30 April 2019</b>	<b>Directors' fee <i>RMB' 000</i></b>	<b>Salaries, allowances and benefits in kind <i>RMB' 000</i></b>	<b>Discretionary bonuses <i>RMB' 000</i></b>	<b>Total <i>RMB' 000</i></b>
<b>Executive Directors</b>				
Pan Haihong	–	13	–	13
Zhou Guilin	–	32	–	32
<b>Non-executive Directors</b>				
Huang Qun	–	–	–	–
Wang Wenming	–	–	–	–
Cheng Jinyun	–	–	–	–
<b>Independent Non-executive Directors</b>				
Xu Wei	–	–	–	–
Jin Hongqing	–	–	–	–
Tsoi Ka Shing	–	–	–	–
	–	45	–	45

**Unaudited:**

<b>Four months ended 30 April 2018</b>	<b>Directors' fees <i>RMB'000</i></b>	<b>Salaries, allowances and benefits in kind <i>RMB'000</i></b>	<b>Discretionary bonuses <i>RMB'000</i></b>	<b>Total <i>RMB'000</i></b>
<b>Executive Directors</b>				
Pan Haihong	–	5	–	5
Zhou Guilin	–	10	–	10
	–	15	–	15

- (i) During the Relevant Periods, no emoluments were paid by the Group to the directors or any of the five highest paid individuals set out in note 10 below as an inducement to join or upon joining the Group or as compensation for loss of office. No directors have waived or agreed to waive any emoluments during the Relevant Periods. No remuneration was paid to non-executive directors during the Relevant Periods. No remuneration was paid to independent non-executive directors during the Relevant Periods.
- (ii) Pan Haihong joined and acted as general manager of the Company since 20 August 2015, Zhou Guilin joined and acted as deputy general manager of the Company since 8 October 2009. Their emoluments for acting in the above capacities which were included in staff costs as disclosed in Note 7(b) are also included in the table above.
- (iii) Discretionary bonus is determined by reference to the performance of individuals and the Group.

## 10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, none, none, none, none, none (unaudited) and one is a director of the Company whose remuneration is disclosed in Note 9 above for the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019 respectively. The aggregate of the emoluments in respect of the other five, five, five, five, five (unaudited) and four individuals for the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019 are as follows:

	Years ended 31 December				Four months ended	
	2015	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, allowance and benefits in kind	265	311	325	379	89	107
Discretionary bonuses	–	–	–	–	–	–
Retirement scheme contributions	31	33	42	82	23	24
	<u>296</u>	<u>344</u>	<u>367</u>	<u>461</u>	<u>112</u>	<u>131</u>

The emoluments of the five, five, five, five, five (unaudited) and four individuals with the highest emoluments for the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019 are within the following bands:

	Years ended 31 December				Four months ended	
	2015	2016	2017	2018	2018	2019
	Number of individuals	Number of individuals	Number of individuals	Number of individuals	Number of individuals	Number of individuals
Nil – Hong Kong Dollar						
1,000,000	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>4</u>

## 11 EARNINGS PER SHARE

As described in Note 27(c), the Company converted into a joint stock limited liability company and 60,000,000 shares of RMB1 each were issued on 3 May 2018. For the purpose of computing basic and diluted earnings per share, 60,000,000 shares were assumed to have issued and allocated on 1 January 2015.

Basic earnings per share is calculated by dividing the profit for the year/period by the weighted average number of ordinary shares deemed to be in issue during the Relevant Periods.

The Company did not have any potential ordinary shares outstanding during the Relevant Periods. Diluted earnings per share is equal to basic earnings per share.

	Years ended 31 December				Four months ended 30 April	
	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2018 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i>
Profit for the year/period	85,192	46,681	44,892	36,961	18,240	10,802
Weighted average number of ordinary shares deemed to be in issue (share in thousands)	60,000	60,000	60,000	60,000	60,000	60,000
Basic earnings per share and diluted for the year/period ( <i>RMB</i> )	1.42	0.78	0.75	0.62	0.30	0.18

## 12 INVESTMENT PROPERTIES

<b>The Group</b>	<i>RMB'000</i>
At 1 January 2015	650,000
Addition	16,080
Fair value adjustments	99,920
At 31 December 2015 and 1 January 2016	766,000
Addition	11,579
Fair value adjustments	18,421
At 31 December 2016 and 1 January 2017	796,000
Fair value adjustments	27,000
At 31 December 2017 and 1 January 2018	823,000
Fair value adjustments	17,000
At 31 December 2018 and 1 January 2019	840,000
Addition ( <i>note 17</i> )	65,496
Fair value adjustments	4,004
30 April 2019	909,500

<b>The Company</b>	<i>RMB'000</i>
At 1 January 2015	650,000
Addition	16,080
Fair value adjustments	<u>99,920</u>
At 31 December 2015 and 1 January 2016	766,000
Addition	11,579
Fair value adjustments	<u>18,421</u>
At 31 December 2016 and 1 January 2017	796,000
Fair value adjustments	<u>27,000</u>
At 31 December 2017 and 1 January 2018	823,000
Fair value adjustments	<u>17,000</u>
At 31 December 2018 and 1 January 2019	840,000
Fair value adjustments	<u>6,000</u>
At 30 April 2019	<u><u>846,000</u></u>

The Group and the Company pledged an investment property for two banking facilities from two banks as described in Note 23.

**(a) Fair value measurement of investment properties**

**(i) Fair value hierarchy**

The following table presents the fair value of the Group's properties measured at the end of each reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

As at 31 December 2015, 2016, 2017 and 2018 and 30 April 2019, the Group's investment properties carried at fair value were entirely categorised in Level 3. During the Relevant Periods, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of each reporting period in which they occur.

All of the Group's investment properties were revalued as at the end of each reporting period. The valuations were carried out by an independent firm of surveyors in Hong Kong, Colliers International, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's directors and the financial manager have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at the end of each reporting period.

*(ii) Information about Level 3 fair value measurements:*

Valuation technique	Unobservable input	Range	Weighted average
Income Capitalisation Method	capitalisation rate and discount factor	6.00% to 7.00%	N/A
Market Approach	price of the land per square meter	RMB564 to RMB636	N/A

The investment properties is located in Mainland China. One investment property is partially owner-occupied and partially subjected to existing tenancies as at the date of valuation. In this connection, for the property interests in vacant possession, the fair value has been determined assuming vacant possession could be immediately available as at the date of valuation. For the tenanted property interests, the fair value has been determined on the basis of capitalisation of the net income derived from the existing tenancies with due allowance for reversionary income potential of the respective properties and where appropriate, also made reference to the comparable market transactions.

Another investment property is a leasehold land newly acquired in January 2019. The valuation of the investment property has been arrived at by market approach assuming sale of the property interests in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions available in the relevant market.

*(iii) Relationship of unobservable inputs to fair values:*

Capitalisation and discount rates are estimated by the independent surveyors based on the risk profile of the properties being valued. The higher the rates, the lower the fair value is for the investment properties.

**(b) Investment properties leased out under operating leases**

The Group leases out investment property under operating leases. The leases typically run for an initial period of 1 to 20 years.

All properties held under operating leases that would otherwise meet the definition of investment properties are classified as investment properties.

The Group does not have any material lease receivables under non-cancellable operating leases as at 31 December 2015, 2016, 2017 and 2018 and 30 April 2019.

## 13 PROPERTY, PLANT AND EQUIPMENT

## The Group &amp; the Company

	Buildings RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Machinery and equipment RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost:</b>							
At 1 January 2015	5,566	412	157	345	–	–	6,480
Additions	–	4	–	–	–	–	4
At 31 December 2015 and 1 January 2016	5,566	416	157	345	–	–	6,484
Additions	2,012	327	224	54	24	–	2,641
At 31 December 2016 and 1 January 2017	7,578	743	381	399	24	–	9,125
Additions	411	585	331	–	216	–	1,543
Disposals	–	–	(157)	–	–	–	(157)
At 31 December 2017 and 1 January 2018	7,989	1,328	555	399	240	–	10,511
Additions	134	24	–	–	–	1,359	1,517
At 31 December 2018 and 1 January 2019	8,123	1,352	555	399	240	1,359	12,028
Additions	–	–	–	–	–	1,223	1,223
Transfer to buildings	2,582	–	–	–	–	(2,582)	–
At 30 April 2019	10,705	1,352	555	399	240	–	13,251
<b>Accumulated depreciation:</b>							
At 1 January 2015	(680)	(331)	(149)	(164)	–	–	(1,324)
Charge for the year	(133)	(25)	–	(33)	–	–	(191)
At 31 December 2015 and 1 January 2016	(813)	(356)	(149)	(197)	–	–	(1,515)
Charge for the year	(133)	(34)	–	(38)	–	–	(205)
At 31 December 2016 and 1 January 2017	(946)	(390)	(149)	(235)	–	–	(1,720)
Charge for the year	(627)	(56)	(79)	(37)	(21)	–	(820)
Written back on disposals	–	–	149	–	–	–	149



	<b>Buildings</b> <i>RMB'000</i>	<b>Electronic equipment</b> <i>RMB'000</i>	<b>Motor vehicles</b> <i>RMB'000</i>	<b>Machinery and equipment</b> <i>RMB'000</i>	<b>Office equipment</b> <i>RMB'000</i>	<b>Construction in progress</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 31 December 2017 and 1 January 2018	(1,573)	(446)	(79)	(272)	(21)	–	(2,391)
Charge for the year	(644)	(230)	(132)	(38)	(52)	–	(1,096)
At 31 December 2018 and 1 January 2019	(2,217)	(676)	(211)	(310)	(73)	–	(3,487)
Charge for the period	(233)	(77)	(44)	(13)	(18)	–	(385)
At 30 April 2019	(2,450)	(753)	(255)	(323)	(91)	–	(3,872)
<b>Net book value:</b>							
At 30 April 2019	8,255	599	300	76	149	–	9,379
At 31 December 2018	5,906	676	344	89	167	1,359	8,541
At 31 December 2017	6,416	882	476	127	219	–	8,120
At 31 December 2016	6,632	353	232	164	24	–	7,405
At 31 December 2015	4,753	60	8	148	–	–	4,969

All of the Group's buildings are located in the PRC.

## 14 LEASE PREPAYMENTS

The Group & the Company	Lease prepayments RMB'000
<b>Cost:</b>	
At 1 January 2015, 31 December 2015, 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019	798 -----
<b>Accumulated amortization:</b>	
At 1 January 2015	(79)
Charge for the year	(23) -----
At 31 December 2015 and 1 January 2016	(102) -----
Charge for the year	(23) -----
At 31 December 2016 and 1 January 2017	(125) -----
Charge for the year	(23) -----
At 31 December 2017 and 1 January 2018	(148) -----
Charge for the year	(23) -----
At 31 December 2018 and 1 January 2019	(171) -----
Charge for the period	(7) -----
At 30 April 2019	(178) =====
<b>Net book value:</b>	
At 30 April 2019	620 =====
At 31 December 2018	627 =====
At 31 December 2017	650 =====
At 31 December 2016	673 =====
At 31 December 2015	696 =====

## 15 INTANGIBLE ASSETS

<b>The Group &amp; the Company</b>	<b>Software</b> <i>RMB'000</i>
<b>Cost:</b>	
At 1 January 2015, 31 December 2015 and 1 January 2016	–
Additions	532
	<hr/>
At 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019	532
	<hr style="border-top: 1px dashed black;"/>
<b>Accumulated amortization:</b>	
At 1 January 2015 and 1 January 2016	–
	<hr style="border-top: 1px dashed black;"/>
Charge for the year	(36)
	<hr/>
At 31 December 2016 and 1 January 2017	(36)
	<hr style="border-top: 1px dashed black;"/>
Charge for the year	(106)
	<hr/>
At 31 December 2017 and 1 January 2018	(142)
	<hr style="border-top: 1px dashed black;"/>
Charge for the year	(106)
	<hr/>
At 31 December 2018 and 1 January 2019	(248)
	<hr style="border-top: 1px dashed black;"/>
Charge for the period	(36)
	<hr/>
At 30 April 2019	(284)
	<hr style="border-top: 3px double black;"/>
<b>Net book value:</b>	
At 30 April 2019	248
	<hr style="border-top: 3px double black;"/>
At 31 December 2018	284
	<hr style="border-top: 3px double black;"/>
At 31 December 2017	390
	<hr style="border-top: 3px double black;"/>
At 31 December 2016	496
	<hr style="border-top: 3px double black;"/>
At 31 December 2015	–
	<hr style="border-top: 3px double black;"/>

## 16 OTHER NON-CURRENT ASSETS

The Group	As at 31 December				As at 30 April
	2015	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Prepaid business tax	5,084	4,802	4,520	4,238	4,143
Performance bond deposit (note 17)	—	—	—	—	6,350
	<u>5,084</u>	<u>4,802</u>	<u>4,520</u>	<u>4,238</u>	<u>10,493</u>

The Company	As at 31 December				As at 30 April
	2015	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Prepaid business tax	<u>5,084</u>	<u>4,802</u>	<u>4,520</u>	<u>4,238</u>	<u>4,143</u>

Business tax was prepaid by the Company in respect of property leasing fees prepaid by tenants, which would be charged to profit or loss when the related prepaid leasing fees are recognized as revenue.

	As at 31 December				As at 30 April
	2015	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	5,648	5,366	5,084	4,802	4,520
Amortization for the year/period	<u>(282)</u>	<u>(282)</u>	<u>(282)</u>	<u>(282)</u>	<u>(95)</u>
At the end of the year/period	<u>5,366</u>	<u>5,084</u>	<u>4,802</u>	<u>4,520</u>	<u>4,425</u>

Reconciliation to the consolidated statements of financial position and the statements of financial position of the Company of the prepaid business tax:

Other receivables and prepayments (note 20)	282	282	282	282	282
Other non-current assets	<u>5,084</u>	<u>4,802</u>	<u>4,520</u>	<u>4,238</u>	<u>4,143</u>
	<u>5,366</u>	<u>5,084</u>	<u>4,802</u>	<u>4,520</u>	<u>4,425</u>

## 17 PREPAYMENTS FOR OTHER LONG-TERM ASSETS

In December 2018, the Group entered into an agreement with the Wenling Bureau of Land and Resources, pursuant to which the Group agreed to acquire a land use right for a consideration of RMB63,500,000, of which RMB13,000,000 was prepaid to 31 December 2018. The remaining consideration of RMB50,500,000 and related tax and surcharges of RMB1,996,000 were fully settled in January 2019 with its title transferred to the Group. The Group also paid a performance bond deposit of RMB6,350,000 in connection with the acquisition of the land use right, which is to be refunded to the Group beyond one year from 30 April 2019.

## 18 INTERESTS IN SUBSIDIARIES

The Company	As at 31 December				As at 30 April
	2015	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted shares, at cost	200	100	100	100	10,100

## 19 INTEREST IN AN ASSOCIATE

The Group & the Company	As at 31 December				At as 30 April
	2015	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Wenling Tiangong Measuring and Cutting Tools Technology Service Centre Co., Ltd.	330	301	239	–	–

During June 2018, the Group disposed of its entire equity interest in the above associate to Wenling Qiaoling Investment Development Co., Ltd. (“Qiaoling Investment”) at a cash consideration of RMB279,000. The associate did not have any material operations during the Relevant Periods.

## 20 OTHER RECEIVABLES AND PREPAYMENTS

The Group & the Company	As at 31 December				As at 30 April
	2015	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments for listing expense	–	–	–	15,770	16,570
Prepaid income tax (note 26(a))	–	611	–	–	–
Value-added tax recoverable	–	–	–	317	151
Prepaid other taxes	1,502	1,738	282	282	282
Others	4	50	51	–	–
	1,506	2,399	333	16,369	17,003

As at 31 December 2015, 2016, 2017 and 2018 and 30 April 2019, the Group and the Company do not have trade receivables because property leasing income was received in advance for at least a year.

All of the other receivables and prepayments are expected to be recovered within one year.

## 21 RESTRICTED CASH

The Group & the Company	As at 31 December				As at 30 April
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Restricted cash	—	—	—	—	30,000

Restricted cash represents amounts held by a bank, which are not available for the Group's and the Company's use, as a security for obtaining a bank loan.

## 22 CASH AND CASH EQUIVALENTS

## (a) Cash and cash equivalents comprise:

The Group	As at 31 December				As at 30 April
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Cash in hand	41	28	21	40	25
Cash at banks	31,721	41,074	48,182	28,250	29,782
	<u>31,762</u>	<u>41,102</u>	<u>48,203</u>	<u>28,290</u>	<u>29,807</u>

The Company	As at 31 December				As at 30 April
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Cash in hand	30	18	11	30	15
Cash at banks	31,426	40,877	47,984	28,053	29,570
	<u>31,456</u>	<u>40,895</u>	<u>47,995</u>	<u>28,083</u>	<u>29,585</u>

## (b) Reconciliation of profit before taxation to cash generate from operations

	Note	Years ended 31 December				Four months ended	
		2015	2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)	
<b>Operating activities</b>							
Profit before taxation		112,743	55,011	59,890	49,345	24,356	14,407
Adjustments for:							
Valuation gains on investment properties	12	(99,920)	(18,421)	(27,000)	(17,000)	(13,000)	(4,004)
Depreciation and amortization	7(c)	214	264	949	1,225	347	428
Finance costs	7(a)	4,014	–	–	–	–	1,524
Interest income	6	(85)	(66)	(53)	(160)	(102)	(30)
Net gain on disposal of property, plant and equipment	6	–	–	(26)	–	–	–
Gain on disposal of an associate	6	–	–	–	(126)	–	–
Share of losses of an associate		67	29	62	86	64	–
Changes in working capital:							
(Increase)/decrease in other receivables and prepayments		(1,497)	(282)	1,455	(266)	–	166
(Increase)/decrease in other non-current assets		(5,084)	282	282	282	95	95
(Decrease)/increase in other payables and accruals		(2,798)	2,658	(1,276)	(1,532)	(2,425)	(1,092)
Increase/(decrease) in receipts-in-advance		129,777	(7,598)	(6,599)	(1,790)	(14,141)	(14,969)
Increase/(decrease) in amounts due to related parties		310	277	(1,777)	(77)	–	–
Cash generated from/(used in) operations		<u>137,741</u>	<u>32,154</u>	<u>25,907</u>	<u>29,987</u>	<u>(4,806)</u>	<u>(3,475)</u>

## (c) Reconciliation of liabilities arising from financing activities

	Third party loan <i>RMB'000</i>	Bank Loans and interests <i>RMB'000</i>	Amounts due to related parties <i>RMB'000</i>	Dividends payable <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Balance at 1 January 2015</b>	10,000	63,300	26,352	–	99,652
Non-cash changes					
– Finance costs ( <i>note 7(a)</i> )	–	3,174	840	–	4,014
Cash flows					
– Outflow from financing activities	(10,000)	(66,474)	(24,000)	–	(100,474)
<b>Balance at 31 December 2015 and 1 January 2016</b>	–	–	3,192	–	3,192
Non-cash changes					
– Profit distribution ( <i>note 27(b)</i> )	–	–	–	10,000	10,000
– Net off with loan to a related party	–	–	–	(1,930)	(1,930)
Cash flows					
– Outflow from financing activities	–	–	–	(8,070)	(8,070)
<b>Balance at 31 December 2016 and 1 January 2017</b>	–	–	3,192	–	3,192
Non-cash changes					
– Profit distribution ( <i>note 27(b)</i> )	–	–	–	30,000	30,000
– Net off with loan to a related party	–	–	–	(5,790)	(5,790)
Cash flows					
– Outflow from financing activities	–	–	(3,192)	(11,520)	(14,712)
<b>Balance at 31 December 2017 and 1 January 2018</b>	–	–	–	12,690	12,690
Cash flows					
– Outflow from financing activities	–	–	–	(12,690)	(12,690)
<b>Balance at 31 December 2018 and 1 January 2019</b>	–	–	–	–	–



	Third party loan <i>RMB'000</i>	Bank Loans and interests <i>RMB'000</i>	Amounts due to related parties <i>RMB'000</i>	Dividends payable <i>RMB'000</i>	Total <i>RMB'000</i>
Non-cash changes					
– Finance costs ( <i>note 7(a)</i> )	–	1,524	–	–	1,524
Cash flows					
– Inflow from financing activities	–	97,020	–	–	97,020
– Outflow from financing activities	–	(487)	–	–	(487)
Balance at 30 April 2019	–	98,057	–	–	98,057
Unaudited:					
<b>Balance at 1 January 2018</b>	–	–	–	12,690	12,690
Cash flows					
– Outflow from financing activities	–	–	–	(8,220)	(8,220)
<b>Balance at 30 April 2018</b>	–	–	–	4,470	4,470

### 23 SHORT-TERM LOANS

The Group & the Company	As at 31 December				As at
	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	30 April 2019 <i>RMB'000</i>
Secured bank loans	–	–	–	–	97,020

As at 30 April 2019, the balance of short-term loans consists of secured bank loans from two banks.

In November 2018, the Company obtained a banking facility of RMB233,000,000 valid from 28 November 2018 to 28 November 2023 from a third-party bank, which was pledged by an investment property with a carrying value of RMB846,000,000 as of 30 April 2019. The drawdown of the credit facility is subject to the terms and conditions of each agreement. The Group entered into an agreement with the bank on 25 January 2019, pursuant to which the Group obtained a loan of RMB57,020,000. In addition, the Group also pledged its future property leasing receivables of RMB60,047,000 and placed a restricted cash of RMB30,000,000 with the bank. The loan has an effective interest rate of 5.3% per annum. The Group utilized the banking facility of RMB60,047,000, representing the above loan principal of RMB57,020,000 and the related interest of RMB3,027,000 over the loan period from 25 January 2019 to 23 January 2020. The loan principal and related interest in the aggregate amount of RMB60,047,000 is due and payable on 23 January 2020.

In January 2019, the Company obtained a banking facility of RMB100,000,000 valid from 3 January 2019 to 1 January 2024 from a third-party bank, which was secondarily pledged by the same investment property. The Group entered into an agreement with the bank on 7 January 2019, pursuant to which the Group obtained a loan of RMB40,000,000 under the facility. The loan has an effective interest rate of 6% per annum and is due and payable on 1 January 2020.

## 24 OTHER PAYABLES AND ACCRUALS

The Group & the Company	As at 31 December			As at 30 April	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Payable for purchase of property, plant and equipment and investment properties	–	3,412	–	–	–
Accrued payroll	197	155	189	284	–
Other taxes payable	2,427	1,879	2,368	1,989	1,386
Accrued interests of short-term loans	–	–	–	–	1,037
Deposits	252	253	259	271	271
Others	1,560	4,807	3,002	1,742	1,537
	<u>4,436</u>	<u>10,506</u>	<u>5,818</u>	<u>4,286</u>	<u>4,231</u>

All of the other payables and accruals are normally settled within one year or are repayable on demand.

## 25 RECEIPTS-IN-ADVANCE

As at 31 December 2015, 2016, 2017 and 2018 and 30 April 2019, receipts-in-advance mainly represent property leasing fees prepaid by tenants. Receipts-in-advance that are expected to be recorded as revenue within one year of the balance sheet date are recorded as current, and receipts-in-advance that are expected to be recorded as revenue beyond one year of the balance sheet are recorded as non-current.

## The Group &amp; the Company

	As at 31 December			As at 30 April	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
At the beginning of the year/period	20,967	150,744	143,146	136,547	134,757
Carryover to revenue for the year/period	(26,726)	(46,032)	(42,995)	(39,422)	(16,298)
Receipts during the year/period	<u>156,503</u>	<u>38,434</u>	<u>36,396</u>	<u>37,632</u>	<u>1,329</u>
At the end of the year/period	<u>150,744</u>	<u>143,146</u>	<u>136,547</u>	<u>134,757</u>	<u>119,788</u>

Reconciliation to the consolidated statements of financial position and statements of financial position of the Company:

Receipts-in-advance, current	47,229	45,245	43,375	46,377	33,043
Receipts-in-advance, non-current	<u>103,515</u>	<u>97,901</u>	<u>93,172</u>	<u>88,380</u>	<u>86,745</u>

**26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND THE STATEMENTS OF FINANCIAL POSITION OF THE COMPANY**

- (a) **Current taxation in the consolidated statement of financial position and the statements of financial position of the Company represents:**

**The Group & the Company**

	As at 31 December			As at 30 April	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
At the beginning of the year/period	788	493	(611)	4,219	3,559
Provision for current income tax for the year/period (note 8(a))	1,348	2,366	6,836	6,702	2,128
Payments during the year/period	(1,643)	(3,470)	(2,006)	(7,362)	(702)
At the end of the year/period	<u>493</u>	<u>(611)</u>	<u>4,219</u>	<u>3,559</u>	<u>4,985</u>

Reconciliation to the consolidated statements of financial position and statements of financial position of the Company:

Current taxation	493	–	4,219	3,559	4,985
Prepaid income tax (note 20)	<u>–</u>	<u>611</u>	<u>–</u>	<u>–</u>	<u>–</u>

(b) **Deferred tax assets and liabilities recognized**(i) *Movement of each component of deferred tax assets and liabilities*

The components of deferred tax (assets)/liabilities recognized in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

<b>Deferred tax arising from</b>	<i>Note</i>	<b>Provision for depreciation and amortization RMB'000</b>	<b>Revaluation of investment properties RMB'000</b>	<b>Others RMB'000</b>	<b>Total RMB'000</b>
At 1 January 2015		6,090	111,494	35	117,619
Charged/(credited) to profit or loss	8(a)	1,240	24,980	(17)	26,203
At 31 December 2015 and 1 January 2016		7,330	136,474	18	143,822
Charged/(credited) to profit or loss	8(a)	1,366	4,606	(8)	5,964
At 31 December 2016 and 1 January 2017		8,696	141,080	10	149,786
Charged/(credited) to profit or loss	8(a)	1,427	6,750	(15)	8,162
At 31 December 2017 and 1 January 2018		10,123	147,830	(5)	157,948
Charged to profit or loss	8(a)	1,427	4,250	5	5,682
At 31 December 2018 and 1 January 2019		11,550	152,080	–	163,630
Charged to profit or loss	8(a)	585	1,001	(109)	1,477
At 30 April 2019		12,135	153,081	(109)	165,107

The components of deferred tax (assets)/liabilities recognized in the statements of financial position of the Company and the movements during the Relevant Periods are as follows:

<b>Deferred tax arising from</b>	<b>Provision for depreciation</b> <i>RMB'000</i>	<b>Revaluation of Investment properties</b> <i>RMB'000</i>	<b>Others</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1 January 2015	6,090	111,494	35	117,619
Charged/(credited) to profit or loss	<u>1,240</u>	<u>24,980</u>	<u>(17)</u>	<u>26,203</u>
At 31 December 2015	7,330	136,474	18	143,822
Charged/(credited) to profit or loss	<u>1,366</u>	<u>4,606</u>	<u>(8)</u>	<u>5,964</u>
At 31 December 2016	8,696	141,080	10	149,786
Charged/(credited) to profit or loss	<u>1,427</u>	<u>6,750</u>	<u>(15)</u>	<u>8,162</u>
At 31 December 2017	10,123	147,830	(5)	157,948
Charged to profit or loss	<u>1,427</u>	<u>4,250</u>	<u>5</u>	<u>5,682</u>
At 31 December 2018	11,550	152,080	–	163,630
Charged to profit or loss	<u>476</u>	<u>1,500</u>	<u>–</u>	<u>1,976</u>
At 30 April 2019	<u><u>12,026</u></u>	<u><u>153,580</u></u>	<u><u>–</u></u>	<u><u>165,606</u></u>

*(ii) Reconciliation to the consolidated statements of financial position:*

	As at 31 December				As at 30
	2015	2016	2017	2018	April
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net deferred tax asset recognized in the consolidated statements of financial position	–	–	(5)	–	(499)
Net deferred tax liability recognized in the consolidated statements of financial position	143,822	149,786	157,953	163,630	165,606
	<u>143,822</u>	<u>149,786</u>	<u>157,948</u>	<u>163,630</u>	<u>165,107</u>

*Reconciliation to the statements of financial position of the Company:*

	As at 31 December				As at
	2015	2016	2017	2018	30 April
	RMB'000	RMB'000	RMB'000	RMB'000	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net deferred tax asset recognized in the statements of financial position of the Company	–	–	(5)	–	–
Net deferred tax liability recognized in the statements of financial position of the Company	143,822	149,786	157,953	163,630	165,606
	<u>143,822</u>	<u>149,786</u>	<u>157,948</u>	<u>163,630</u>	<u>165,606</u>

## 27 CAPITAL, RESERVES AND DIVIDENDS

## (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below.

The Company	<i>Note</i>	Paid-in capital/ share capital <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	PRC statutory reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total equity <i>RMB'000</i>
<b>Balance at 1 January 2015</b>		18,000	68,652	–	344,531	431,183
Profit for the year		–	–	–	85,245	85,245
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	–	–	85,245	85,245
<b>Balance at 31 December 2015 and 1 January 2016</b>		18,000	68,652	–	429,776	516,428
Profit for the year		–	–	–	46,680	46,680
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	–	–	46,680	46,680
Transfer to reserve	27(d)(ii)	–	–	2,713	(2,713)	–
Profit distribution	27(b)	–	–	–	(10,000)	(10,000)
<b>Balance at 31 December 2016 and 1 January 2017</b>		18,000	68,652	2,713	463,743	553,108
Profit for the year		–	–	–	44,891	44,891
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	–	–	44,891	44,891
Transfer to reserve	27(d)(ii)	–	–	2,036	(2,036)	–
Profit distribution	27(b)	–	–	–	(30,000)	(30,000)
<b>Balance at 31 December 2017 and 1 January 2018</b>		18,000	68,652	4,749	476,598	567,999

The Company	<i>Note</i>	Paid-in capital/ share capital <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	PRC statutory reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total equity <i>RMB'000</i>
Profit for the year		–	–	–	36,962	36,962
Other comprehensive income		–	–	–	–	–
<b>Total comprehensive income</b>		–	–	–	36,962	36,962
Conversion to a joint stock limited liability company	27(c)	42,000	(33,145)	(4,749)	(4,106)	–
Transfer to reserve	27(d)(ii)	–	–	1,993	(1,993)	–
<b>Balance at 31 December 2018 and 1 January 2019</b>		<u>60,000</u>	<u>35,507</u>	<u>1,993</u>	<u>507,461</u>	<u>604,961</u>
Profit for the period		–	–	–	12,297	12,297
Other comprehensive income		–	–	–	–	–
<b>Total comprehensive income</b>		–	–	–	12,297	12,297
<b>Balance at 30 April 2019</b>		<u>60,000</u>	<u>35,507</u>	<u>1,993</u>	<u>519,758</u>	<u>617,258</u>
Unaudited: <b>Balance at 1 January 2018</b>		18,000	68,652	4,749	476,598	567,999
Profit for the period		–	–	–	18,240	18,240
Other comprehensive income		–	–	–	–	–
<b>Total comprehensive income</b>		–	–	–	18,240	18,240
Conversion to a joint stock limited liability company	27(c)	42,000	(33,145)	(4,749)	(4,106)	–
<b>Balance at 30 April 2018</b>		<u>60,000</u>	<u>35,507</u>	<u>–</u>	<u>490,732</u>	<u>586,239</u>



**(b) Dividends**

Dividends for the Relevant Periods represent dividends declared and approved to equity shareholders of the Company.

	Years ended 31 December				Four months ended 30 April	
	2015	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Dividends declared and approved during the year/period						
The Company	–	10,000	30,000	–	–	–
	–	10,000	30,000	–	–	–

(Unaudited)

Dividends of nil, RMB10,000,000, RMB30,000,000, nil, nil (unaudited) and nil were declared and approved by the Company in respect of the years ended 31 December 2015, 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019 to the equity shareholders of the Company. The payments of the dividends are disclosed in Note 22(c).

The directors consider that the dividends declared and approved during the Relevant Periods are not indicative of the future dividend policy of the Group.

**(c) Paid-in capital/share capital**

The Company was established as a limited liability company in the PRC on 14 May 2003. As of 31 December 2015, 2016 and 2017, the paid-in capital of the Company was RMB18,000,000.

***Conversion to a joint stock limited liability company***

On 3 May 2018, the Company converted into a joint stock limited liability company and 60,000,000 shares of RMB1 each were issued. The retained earnings and statutory reserve of the Company upon the conversion were transferred to share capital and capital reserve of the Company accordingly under rules and regulations in respect of conversion to a joint stock limited liability company in the PRC.

**(d) Nature and purpose of reserves****(i) Capital reserve**

The capital reserve comprises of capital premium of the Company.

**(ii) PRC statutory reserve**

According to the PRC Company Law, the Company and its PRC subsidiaries are required to transfer 10% of their profit after taxation (after offsetting the losses in the preceding years), as determined under the PRC Accounting Regulations, to the statutory surplus reserve until the reserve balance reaches 50% of their registered capital.

The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory reserve fund can be used to cover previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by

increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

**(e) Capital management**

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholder and benefits for other stakeholders, by pricing rental and management fee commensurately with the level of risk and by securing access to finance at a reasonable cost. The Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Group consists of bank loans less cash and cash equivalents, and equity of the Group, comprising issued share capital, retained profits and other reserves.

The directors of the Company review the capital structure periodically. Based on the operating budgets, the directors consider the cost of capital and the risks associated with each class of capital and balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debts.

The Group is not subject to externally imposed capital requirements throughout the Relevant Periods.

## 28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity and interest rate arises in the normal course of the Group's business. The Group's business exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

**(a) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to cash and cash equivalents and other receivables and prepayments. The Group's exposure to credit risk arising from cash is limited because the counterparties are banks with good credit rating, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The management reviews the recoverable amount of each debtor at the end of each reporting period to ensure that adequate impairment losses are recorded for irrecoverable amounts. Normally, the Group requires its customers to prepay the property leasing fees and the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2015, 2016, 2017 and 2018 and 30 April 2019, the Group does not have any debtors that are past due but not impaired based on individual or collective assessment.

The Group measures loss allowances for other receivables and prepayments at an amount equal to lifetime ECLs. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable. As at 31 December 2015, 2016, 2017 and 2018 and 30 April 2019, expected credit loss rate for financial assets measured at amortized costs was immaterial because 1) the Group did not have any trade receivables because property leasing income was received in advance for at least a year; and 2) based on past experience, management believed that no impairment allowance was necessary in respect of amounts due from related parties as there had been no significant change in credit quality and the balances were still considered fully recoverable.

**(b) Liquidity risk**

The Group's management reviews the liquidity position of the Group on an ongoing basis, including review of the expected cash inflows and outflows and maturity of loans and borrowings in order to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions and/or from other Group companies to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of each reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computing using contractual rates or, if floating, based on rates current at the end of each reporting period) and the earliest date the Group can be required to pay.

	As at 31 December 2015					Carrying amount at 31 December RMB'000
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	
Other payables and accruals	4,436	–	–	–	4,436	4,436
Amounts due to related parties	4,769	–	–	–	4,769	4,769
	<u>9,205</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>9,205</u>	<u>9,205</u>

	As at 31 December 2016				Total RMB'000	Carrying amount at 31 December RMB'000
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000		
Other payables and accruals	10,506	–	–	–	10,506	10,506
Amounts due to related parties	5,046	–	–	–	5,046	5,046
	<u>15,552</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>15,552</u>	<u>15,552</u>

	As at 31 December 2017					
	Contractual undiscounted cash flows					
	Within	More than	More than			Carrying
	1 year or	1 year but	2 years but	More than 5	Total	amount at
on demand	less than	less than	years		31 December	
RMB'000	2 years	5 years	RMB'000	RMB'000	RMB'000	
Other payables and accruals	5,818	–	–	–	5,818	5,818
Amounts due to related parties	77	–	–	–	77	77
Dividends payable	12,690	–	–	–	12,690	12,690
	<u>18,585</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>18,585</u>	<u>18,585</u>

	As at 31 December 2018					
	Contractual undiscounted cash flows					
	Within	More than	More than			Carrying
	1 year or	1 year but	2 years but	More than 5	Total	amount at
on demand	less than	less than	years		31 December	
RMB'000	2 years	5 years	RMB'000	RMB'000	RMB'000	
Other payables and accruals	4,286	–	–	–	4,286	4,286

	As at 30 April 2019					
	Contractual undiscounted cash flows					
	Within	More than	More than 2			Carrying
	1 year or	1 year but	year but less	More than 5	Total	amount at 30
on demand	less than	than	years		April	
RMB'000	2 years	5 years	RMB'000	RMB'000	RMB'000	
Short-term loans (excluding accrued interests)	97,020	–	–	–	97,020	97,020
Accrued interests of short-term loans	4,941	–	–	–	4,941	1,037
Other payables and accruals (excluding accrued interests of short-term loans)	3,194	–	–	–	3,194	3,194
	<u>105,155</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>105,155</u>	<u>101,251</u>

(c) **Interest rate risk**

The Group's interest rate risk arises primarily from cash and cash equivalents.

The Group is not exposed to significant interest rate risk for cash and cash equivalents because the interest rates of cash at bank are not expected to change significantly.

**(d) Fair value measurement**

As at 31 December 2015, 2016, 2017 and 2018 and 30 April 2019, the carrying amounts of other receivables and prepayments, other payables and accruals were not materially different from their fair values.

**29 COMMITMENTS**

Capital commitments outstanding at 31 December 2015, 2016, 2017 and 2018 and 30 April 2019 not provided for in the financial statements were as follows:

	As at 31 December				As at
	2015	2016	2017	2018	30 April
	RMB'000	RMB'000	RMB'000	RMB'000	2019
					RMB'000
Contracted for	–	–	–	56,850	–

**30 MATERIAL RELATED PARTY TRANSACTIONS**

In addition to the related party information disclosed elsewhere in this Financial Information, the Group entered into the following significant related party transactions during the Relevant Periods.

**(a) Name and relationship with related parties**

During the Relevant Periods, transactions with the following parties are considered as related party transactions:

Name of party	Relationship with the Group
Wenling Market Group Co., Ltd. <sup>(1)</sup> (Market Group) 溫嶺市市場集團有限公司	Controlling shareholder <sup>(2)</sup>
Qiaoling Investment <sup>(1)</sup> 溫嶺市嶠嶺投資發展有限公司	Controlling shareholder <sup>(2)</sup>
Wenling Qian Yang Investment Co., Ltd. <sup>(1)</sup> (Qianyang Investment) 溫嶺市前洋投資有限公司	Controlling shareholder <sup>(2)</sup>
Wenling Mao Wei Investment Co., Ltd. <sup>(1)</sup> (Maowei Investment) 溫嶺市茅威投資有限公司	Controlling shareholder <sup>(2)</sup>
Wenling Shang Yu Investment Co., Ltd. <sup>(1)</sup> (Shangyu Investment) 溫嶺市上宇投資有限公司	Controlling shareholder <sup>(2)</sup>
Wenling Zhong Jie He De Investment Co., Ltd. <sup>(1)</sup> (Zhongjie Hede Investment) 溫嶺市中街和德投資有限公司	Controlling shareholder <sup>(2)</sup>
Wenling City Botao Investment Company Limited <sup>(1)</sup> (Botao Investment) 溫嶺市博濤投資有限公司	Controlling shareholder <sup>(2)</sup>
Wenling City Zhang Laoqiao Investment Company Limited <sup>(1)</sup> (Zhang Laoqiao Investment) 溫嶺市張老橋投資有限公司	Controlling shareholder <sup>(2)</sup>

Name of party	Relationship with the Group
Wenling Shopping Centre Service Co., Ltd. <sup>(1)</sup> (Wenling Shopping Centre) 溫嶺市購物中心服務有限公司	Subsidiary of Market Group
Wenling Wen Qiao Vegetable Market Co., Ltd. <sup>(1)</sup> (Wen Qiao Vegetable Market) 溫嶺市溫嶠菜市場有限公司	Subsidiary of Market Group

<sup>(1)</sup> The English translation of the entities' names is for reference only. The official names of these entities are in Chinese.

<sup>(2)</sup> Pursuant to the concert party agreement and the concert party supplemental agreement (together, the "Concert Party Agreements") entered into by Market Group, Qiaoling Investment, Maowei Investment, Qianyang Investment, Shangyu Investment, Zhongjie Hede Investment, Botao Investment and Zhang Laoqiao Investment (collectively referred to as "Controlling Shareholders") in 2017, the Controlling Shareholders have confirmed that since the respective dates of their becoming a shareholder, they have been cooperating and acting in concert with one another in respect of all material management matters.

**(b) Key management personnel remuneration**

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Company's directors.

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	Years ended 31 December				Four months ended 30 April	
	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>
Directors' fee	–	–	–	–	–	–
Salaries, allowances and benefits in kind	177	219	219	310	44	124
Discretionary bonuses	–	–	–	–	–	–
Retirement scheme contributions	8	8	10	33	4	12
	<u>185</u>	<u>227</u>	<u>229</u>	<u>343</u>	<u>48</u>	<u>136</u>

The above remuneration to key management personnel is included in "staff costs" (see note 7(b)).

## (c) Non-recurring transactions

	Years ended 31 December				Four months ended 30 April	
	2015	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
<b>Receipts on behalf of</b>						
Wen Qiao Vegetable Market	310	277	–	–	–	–
<b>Repayment of loan</b>						
Wenling Shopping Centre	24,000	–	–	–	–	–
<b>Payment of loan interests</b>						
Wenling Shopping Centre	–	–	3,192	–	–	–
<b>Loan to a related party</b>						
Qiaoling Investment	10,000	–	–	–	–	–
<b>Receipt of loan repayment from a related party</b>						
Qiaoling Investment	–	–	2,280	–	–	–
<b>Disposal of an associate</b>						
Qiaoling Investment	–	–	–	279	–	–
<b>Offset of loan to a related party with dividends payable</b>						
Qiaoling Investment	–	1,930	5,790	–	–	–

The loan that the Company advanced to Qiaoling Investment is unsecured, interest-free and have no fixed term of repayment during the Relevant Periods. For the year ended 31 December 2015, the loan granted by Wenling Shopping Centre to the Company bore an annual interest rate of 3.36%. The directors of the Company have confirmed that the above transactions will not be continued in the future after the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

## (d) Balances with related parties

*The Group**Amounts due from related parties*

	2015	As at 31 December			As at
	2015	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Loan to a related party</b>					
Qiaoling Investment	10,000	8,070	-	-	-
<b>Receivable from capital injection</b>					
Market Group	190	190	-	-	-
Qiaoling Investment	180	180	-	-	-
Shangyu Investment	65	65	-	-	-
Zhongjie Hede Investment	65	65	-	-	-
Sub-total	500	500	-	-	-
Total	10,500	8,570	-	-	-

*Amounts due to related parties*

	2015	As at 31 December			As at
	2015	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Qiaoling Investment	260	260	-	-	-
Qianyang Investment	77	77	77	-	-
Wen Qiao Vegetable Market	1,240	1,517	-	-	-
Wenling Shopping Centre	3,192	3,192	-	-	-
	4,769	5,046	77	-	-



*The Company**Amounts due from related parties*

	As at 31 December				As at
	2015	2016	2017	2018	30 April
	RMB'000	RMB'000	RMB'000	RMB'000	2019
					RMB'000
<b>Loan to a related party</b>					
Qiaoling Investment	10,000	8,070	–	–	–
<b>Receivable from capital injection</b>					
Market Group	190	190	–	–	–
Qiaoling Investment	180	180	–	–	–
Shangyu Investment	65	65	–	–	–
Zhongjie Hede Investment	65	65	–	–	–
Sub-total	500	500	–	–	–
<b>Advance to a subsidiary</b>					
Wenling Xuri	–	–	–	13,000	61,859
Total	10,500	8,570	–	13,000	61,859

The advance to a subsidiary is expected to be repaid to the Company beyond one year.

*Amounts due to related parties*

	As at 31 December				At as
	2015	2016	2017	2018	30 April
	RMB'000	RMB'000	RMB'000	RMB'000	2019
					RMB'000
Qiaoling Investment	260	260	–	–	–
Qianyang Investment	77	77	77	–	–
Wen Qiao Vegetable Market	1,240	1,517	–	–	–
Wenling Shopping Centre	3,192	3,192	–	–	–
Wenling Measuring and Cutting Tools Network	49	49	49	49	49
	4,818	5,095	126	49	49

The amounts due from/to related parties are non-trade in nature, unsecured, interest free and have no fixed terms of repayment. The directors of the Company confirm that the balance will be settled before the listing of the Company's share on The Stock Exchange of Hong Kong Limited.

**31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR/PERIOD BEGINNING 1 JANUARY 2019**

Up to the date of issue this report, the HKICPA has issued a number of amendments and standards which are not yet effective for the period ended 30 April 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group:

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKFRS 3, <i>Business Combinations</i>	1 January 2020
Amendments to HKAS 1, <i>Presentation of financial statements</i>	1 January 2020
Amendments to HKAS 8, <i>Accounting policies, changes in accounting estimates and errors</i>	1 January 2020
HKFRS 17, <i>Insurance contracts</i>	1 January 2021
Amendments to HKFRS 10 and HKAS 28, <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	To be determined

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have significant impact on the consolidated financial statements.

**32 NON-ADJUSTMENT EVENTS AFTER THE REPORTING PERIOD**

No significant subsequent events have occurred since 30 April 2019.

**33 SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 30 April 2019.

## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The information set forth in this appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this listing document, 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 listing document and the Accountants' Report set forth in Appendix I to this listing document.*

### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited. (the "Company") and its subsidiaries (collectively the "Group") is prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and is set out below to illustrate the effect of the proposed offering by the Company of its shares (the "Global Offering") on the consolidated net tangible assets of the Group as at 30 April 2019, as if the Global Offering had taken place on 30 April 2019.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 30 April 2019 or at any future date.

	Consolidated net tangible assets as at 30 April 2019 <i>(RMB'000)</i> <i>(Note 1)</i>	Estimated net proceeds from the Global Offering <i>(RMB'000)</i> <i>(Note 2, 4)</i>	Unaudited pro forma adjusted consolidated net tangible assets <i>(RMB'000)</i>	Unaudited pro forma adjusted consolidated net tangible asset per Share	
				<i>(RMB)</i> <i>(Note 3)</i>	<i>(HK\$)</i> <i>(Note 4)</i>
Based on an Offer Price of HK\$6.25 per Share	615,671	69,887	685,558	8.57	9.51
Based on an Offer Price of HK\$6.75 per Share	615,671	77,999	693,670	8.67	9.62

*Notes:*

- (1) The consolidated net tangible assets of the Group as at 30 April 2019 is arrived at after deducting intangible assets of RMB248,000 from the consolidated net assets of the Group of RMB615,919,000 as at 30 April 2019 as extracted from the Accountants' Report as set out in Appendix I to this listing document.

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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$6.25 (being the minimum Offer Price) and HK\$6.75 (being the maximum Offer Price) per Share and the assumption that there are 20,000,000 newly issued Shares in the Global Offering, after deduction of the estimated underwriting commissions and other listing related expenses paid and payable by the Group (excluding the listing expenses charged to profit or loss during the Track Record Period) and taking no account of any Shares which may fall to be issued upon the exercise of Over-allotment Option.
- (3) The number of shares used for the calculation of unaudited pro forma adjusted consolidated net tangible assets of the Group per share is based on 80,000,000 shares in issue immediately upon the completion of the Global Offering.
- (4) For illustrative purpose, the estimated net proceeds from the Global Offering and the unaudited pro forma adjusted consolidated net tangible assets per Share are converted from the Hong Kong dollar into Renminbi at the exchange rate of HK\$1.00 to RMB0.9013, the exchange rate set by the People's Bank of China ("PBOC") prevailing on 15 October 2019. No representation is made that the Hong Kong dollar amounts have been, could have been or may be converted to Renminbi, or vice versa, at the rate or at any other rates or at all.
- (5) No adjustment has been made to reflect any trading result or other transaction of our Group entered into subsequent to 30 April 2019.

*The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this prospectus.*



## **B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

### **To the Directors of Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 30 April 2019 and related notes as set out on page II-1 and II-2 of Appendix II to the prospectus dated 25 October 2019 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in page II-1 and II-2 of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "Global Offering") on the Group's financial position as at 30 April 2019 as if the Global Offering had taken place at 30 April 2019. As part of this process, information about the Group's financial position as at 30 April 2019 has been extracted by the Directors from the Group's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus.

### **Directors' Responsibilities for the Pro Forma Financial Information**

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### **Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 30 April 2019 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

### **Opinion**

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

*Certified Public Accountants*  
Hong Kong  
25 October 2019

## 1. TAXATION OF SECURITY HOLDERS

The taxation of income and capital gains of holders of H Shares is subject to the laws and practices of the PRC and of jurisdictions in which holders of H Shares are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current laws and practices, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the H Shares, nor does it take into account the specific circumstances of any particular investor, some of which may be subject to special regulation. Accordingly, you should consult your own tax adviser regarding the tax consequences of an investment in the H Shares. The discussion is based upon laws and relevant interpretations in effect as at the Latest Practicable Date, all of which are subject to change and may have retrospective effect.

This discussion does not address any aspects of the PRC or Hong Kong taxation other than income tax, capital tax, stamp duty and estate duty. Prospective investors are urged to consult their financial advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

### A. The PRC Taxation

#### *Taxation on Dividends*

##### *Individual Investors*

Pursuant to the latest *Individual Income Tax Law* of the PRC (《中華人民共和國個人所得稅法》) (the “IIT Law”) as amended on 30 June 2011 and the latest *Regulations on Implementation of the Individual Income Tax Law* of the PRC (《中華人民共和國個人所得稅法實施條例》) as amended on 19 July 2011, dividends distributed by PRC enterprises are subject to a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from an enterprise in the PRC is normally subject to a withholding tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty.

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning the Administration of Individual Income Tax Collection after the Annulment of the Document Guo Shui Fa [1993] No. 045 (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) issued by the SAT on 28 June 2011, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends, withhold individual income tax at the rate of 10%. For the individual holders of H Shares receiving dividends who are citizens of countries that have entered into a tax treaty with the PRC with tax rates lower than 10%, the non-foreign-invested enterprise whose shares are listed in Hong Kong may apply on behalf of such holders for enjoying the lower preferential tax treatments, and, upon approval by the tax authorities, the amount which is over withheld will be refunded. For the individual holders of H shares receiving dividends who are citizens of countries that have entered into a tax treaty with the PRC



with tax rates higher than 10% but lower than 20%, the non-foreign-invested enterprise is required to withhold the tax at the agreed rate under the treaties, and no application procedures will be necessary. For the individual holders of H Shares receiving dividends who are citizens of countries without taxation treaties with the PRC or otherwise, the non-foreign invested enterprise is required to withhold the tax at a rate of 20%.

Pursuant to the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) issued on 21 August 2006, the PRC Government may levy taxes on the dividends paid by a PRC company to Hong Kong residents in an amount not exceeding 10% of total dividends payable by the PRC company. If a Hong Kong resident directly holds 25% or more of the equity interest in a PRC company, then such tax shall not exceed 5% of the total dividends payable by the PRC company. Pursuant to the Fourth Protocol of the State Administration of Taxation to the Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《國家稅務總局關於〈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〉第四議定書》) effective as at 29 December 2015, the abovementioned provisions are not applicable to any arrangement which is primarily made for the purpose of obtaining the above taxation benefits.

#### *Enterprise Investors*

In accordance with the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “EIT Law”) effective as at 1 January 2008 and amended on 24 February 2017, and the Implementation Provisions for the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) effective as at 1 January 2008, a non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income (including dividends received from a PRC resident enterprise that issues shares in Hong Kong), if such non-resident enterprise does not have an establishment or place in the PRC or has an establishment or place in the PRC but the PRC-sourced income is not connected with such establishment or place in the PRC. The withholding tax may be reduced pursuant to applicable treaties for the avoidance of double taxation. Such withholding tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due.

The Circular on Issues Relating to the Withholding of Enterprise Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》國稅函[2008]897號) which was issued by the SAT on 6 November 2008, further clarified that a PRC-resident enterprise must withhold corporate income tax at a rate of 10% on dividends paid to non-PRC resident enterprise shareholders of H Shares with respect to the dividends of 2008 and onwards. In addition, the Response to Questions on Levying Enterprise Income Tax on

Dividends Derived by Non-resident Enterprise from Holding Stock<sup>9394</sup> such as B-shares (Guo Shui Han [2009] No. 394) (《國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批復》國稅函[2009]394號) which was issued by the SAT on 24 July 2009, further provides that any PRC-resident enterprise that is listed on overseas stock exchanges must withhold enterprise income tax at a rate of 10% on dividends of 2008 and onwards that it distributes to non-resident enterprises. Such tax rates may be further modified pursuant to the tax treaty or agreement that China has concluded with a relevant jurisdiction, where applicable.

Pursuant to the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) issued on 21 August 2006, the PRC Government may levy taxes on the dividends paid by a PRC company to Hong Kong residents (including natural persons and legal entities) in an amount not exceeding 10% of total dividends payable by the PRC company. If a Hong Kong resident directly holds 25% or more of the equity interest in a PRC company, then such tax shall not exceed 5% of the total dividends payable by the PRC company. Pursuant to the Fourth Protocol of the State Administration of Taxation to the Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《國家稅務總局關於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第四議定書》) effective as at 29 December 2015, the abovementioned provisions are not applicable to any arrangement which is primarily made for the purpose of obtaining the above taxation benefits.

#### *Tax Treaties*

Investors who are not PRC residents and reside in countries and regions which have entered into avoidance of double taxation treaties with the PRC are entitled to a reduction of the withholding taxes imposed on the dividends received from PRC companies. The PRC has entered into arrangements for the avoidance of double taxation with a number of countries and regions including but not limited to Hong Kong, Macau, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-PRC resident enterprises entitled to preferential tax rates in accordance with the relevant income tax treaties or arrangements are required to apply to the PRC tax authorities for a refund of the withholding tax in excess of the agreed tax rate, and the refund payment is subject to approval by the PRC tax authorities.

### *Taxation on Share Transfer*

#### *Individual Investors*

According to the IIT Law and its implementation provisions, gains realised on the sale of equity interests in PRC resident enterprises are subject to the income tax at a rate of 20%. Under the Circular Declaring that Individual Income Tax Continues to Be Exempted over Individual Income from Transfer of Shares by the MOF and the SAT (Cai Shui Zi [1998] No. 61) (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》財稅字[1998] 61號) issued by the MOF and the SAT, from 1 January 1997, gains of individuals from the transfer of shares of listed enterprises continues to be exempted from individual income tax. According to the latest IIT Law (amended on 30 June 2011) and its latest implementing rules (amended on 19 July 2011), the SAT has not explicitly stated whether it will continue to exempt individuals from income tax on income derived from the transfer of listed shares.

However, on 31 December 2009, the MOF, the SAT and the CSRC jointly issued the Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (Cai Shui [2009] No. 167) (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》財稅[2009]167號), which provides that individuals' income from transferring listed shares on certain domestic exchanges shall continued to be exempted from individual income tax, except for certain shares which are subject to sales limitations as defined in the Supplementary Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (Cai Shui [2010] No. 70) (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》財稅[2010]70號). As at the Latest Practicable Date, the aforesaid provision has not expressly provided that individual income tax shall be collected from non-PRC resident individuals on the transfer of shares of PRC resident enterprises listed on overseas stock exchanges. To our knowledge, in practice, the PRC tax authorities have not collected income tax from non-PRC resident individuals on gains from the transfer of shares of PRC resident enterprises listed on overseas stock exchanges.

#### *Enterprise Investors*

In accordance with the EIT Law and its implementation provisions, a non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or place in the PRC or has an establishment or place in the PRC but the PRC-sourced income is not connected with such establishment or place. Such income tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due. The withholding tax may be reduced or eliminated pursuant to applicable treaties or agreements on avoidance of double taxation.

*PRC stamp duty*

Under the Provisional Regulations of the PRC Concerning Stamp Duty (《中華人民共和國印花稅暫行條例》) amended on 8 January 2011 and the Rules for Implementation of Provisional Regulations of the PRC Concerning Stamp Duty (《中華人民共和國印花稅暫行條例施行細則》) amended on 5 November 2004, PRC stamp duty is imposed on documents that are legally binding in the PRC and governed by the PRC laws. Therefore, PRC stamp duty does not apply to acquisitions or dispositions of H shares outside the PRC.

*Estate Duty*

As at the Latest Practicable Date, no estate duty has been levied in China under the PRC laws.

**2. PRINCIPAL TAXATION OF OUR COMPANY IN THE PRC***Enterprise Income Tax*

As stipulated under the EIT Law, enterprises and other organizations which generate income within the PRC are enterprise income taxpayers and subject to enterprise income tax at the rate of 25%.

*Business Tax*

Pursuant to the Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例》), which was amended on 5 November 2008 and implemented on 1 January 2009, we are subject to a 5% business tax for our operations in the PRC.

According to the Pilot Reform for Transition from Business Tax to Value-Added Tax (“VAT”) (Cai Shui [2011] No. 110) (《營業稅改徵增值稅試點方案》財稅[2011]110號) issued by the MOF and the SAT and effected on 16 November 2011, pilot reforms for transition from business tax to VAT have been started since 1 January 2012 in certain service industries such as lease of tangible movables in pilot areas. According to a further notice of the MOF and the SAT, such reform has been expanded nationwide since 1 August 2013.

Pursuant to Notice of the Full Implementation of the Pilot Reform for Transition from Business Tax to VAT (Cai Shui [2016] No. 36) (《關於全面推開營業稅改徵增值稅試點的通知》財稅[2016]36號) issued by the MOF and the SAT on 23 March 2016, which became effective on 1 May 2016, the national pilot reform has commenced since 1 May 2016. The taxpayer of the business tax in lease of immovables shall be included in the pilot reform scale, paying VAT instead of the business tax.

*VAT*

The PRC government has been progressively implementing the pilot reform for the transition from business tax to VAT in certain regions and industries from 2012. Pursuant to the Notice on the Full Implementation of Pilot Reform for Transition from Business Tax to VAT (Cai Shui [2016] No. 36) (《關於全面推開營業稅改徵增值稅試點的通知》財稅[2016] 36號) issued by the MOF and the SAT on 23 March 2016, the pilot program started to apply to lease of immovables from 1 May 2016. Pursuant to the Implementation Rules of Pilot Reform for Transition from Business Tax to Value-added Tax (《營業稅改徵增值稅試點實施辦法》) which were issued and became effective together with the above notice, unless otherwise provided in the implementation rules, tax payers incurring taxable activities are generally subject to a 6% VAT. We started to calculate and pay VAT instead of business tax on the same date.

**PRC LAWS AND REGULATIONS****A. The PRC Legal System**

The PRC legal system is based on the PRC Constitution (the “Constitution”) and is made up of written laws, administrative regulations, local regulations, autonomous regulations, separate regulations, rules and regulations of State Council departments, rules and regulations of local governments, laws of special administrative regions and international treaties of which the PRC government is a signatory and other regulatory documents. Court judgments do not constitute legally binding precedents, although they are used for the purposes of judicial reference and guidance.

The National People’s Congress (the “NPC”) and its Standing Committee are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing State organs, civil, criminal and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend parts of the laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws. The Standing Committee of the NPC is empowered to interpret, formulate and amend laws other than those required to be enacted by the NPC.

The State Council is the highest organ of state administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people’s congresses of the provinces, autonomous regions and municipalities directly under the center government and their respective standing committees may formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas, provided that such local regulations shall comply with provisions of the Constitution, laws or administrative regulations. The people’s congresses of cities divided into districts and their respective standing committees may formulate local regulations on aspects such as urban and rural construction and management, environmental protection and historical and cultural protection based on the specific circumstances and actual needs of such cities, provided that such local regulations do not contravene any provision of the Constitution, laws, administrative regulations and local regulations of their respective provinces or autonomous regions. If laws provide otherwise on the formulation of local regulations by cities divided into districts, such laws shall prevail. Such local regulations of cities divided into districts will become enforceable after being reported to and approved by the standing committees of the People’s congresses of the relevant provinces or autonomous regions. The standing committees of the people’s congresses of the provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the Constitution, laws, administrative regulations and local regulations of the provinces or autonomous regions concerned. Where, during the examination for approval of local regulations of cities divided into districts by the standing committees of the people’s congresses of the provinces or autonomous regions, conflicts are

identified with the rules of the people's governments of the respective provinces or autonomous regions, the standing committees of the people's congresses of provinces or autonomous regions shall resolve the issue.

The ministries and commissions of the State Council, the PBOC, the National Audit Office of the People's Republic of China ("NAO") and the subordinate institutions with administrative functions directly under the State Council may formulate rules and regulations within the scope of authorization of the respective departments based on the laws and administrative regulations, and the decisions and orders of the State Council. Provisions of departmental rules should be the matters related to the enforcement of the laws and administrative regulations, and the decisions and orders of the State Council. Without provisions under laws or administrative regulations, decisions and orders of the State Council, the provisions of departmental rules shall not undermine the civil rights and rights of legal persons and other organizations or strengthen the regulations in respect of their obligations and shall not enhance the power or reduce the legal responsibilities of the respective departments. The people's governments of the provinces, autonomous regions, municipalities under the center government and cities or autonomous prefectures divided into districts may formulate rules and regulations based on the laws, administrative regulations and local regulations of such provinces, autonomous regions and municipalities under the center government. The people's governments of cities divided into districts and autonomous prefectures may only formulate local regulations in respect of urban and rural construction and management, environmental protection and historical and cultural protection. Local regulations which have been enacted involving aspects other than those described above shall continue to be in effect.

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations and separate regulations and rules may contravene the Constitution. The authority of laws is greater than that of administrative regulations, local regulations and rules. The authority of administrative regulations is greater than that of local regulations and rules. The authority of local regulations is greater than that of the rules of the local governments at or below the corresponding level. The authority of the rules enacted by the people's governments of the provinces or autonomous regions is greater than that of the rules enacted by the people's governments of the cities divided into districts within the administrative areas of the provinces and the autonomous regions.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee but which contravene the Constitution or the Legislation Law. The Standing Committee of the NPC has the power to annul any administrative regulations that contravene the Constitution and laws, to annul any local regulations that contravene the Constitution, laws or administrative regulations, and to annul any autonomous regulations or separate regulations which have been approved by the standing committees of the people's congresses of the relevant provinces, autonomous regions or municipalities under the central government, but which contravene the Constitution and the Legislation Law. The State Council has the power to alter or annul any inappropriate rules and regulations of departments and rules



of local governments. The people's congresses of provinces, autonomous regions or municipalities under the central government have the power to alter and annul any inappropriate local regulations enacted or approved by their respective standing committees. The standing committees of the local people's congresses have the power to annul any inappropriate rules enacted by the people's governments at the corresponding level. The people's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the people's governments at a lower level.

According to the Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. Pursuant to the Resolution of the Standing Committee of the NPC Providing an Improved Interpretation of the Law (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on 10 June 1981, issues related to further clarification or supplement of laws should be interpreted or provided by the Standing Committee of the NPC, issues related to the application of laws in a court trial should be interpreted by the Supreme People's Court, issues related to the application of laws in a prosecution process should be interpreted by the Supreme People's Procuratorate, and the other issues related to laws other than the abovementioned should be interpreted by the State Council and the competent authorities. The State Council and its ministries and commissions are also vested with the power to give interpretations of the administrative regulations and departmental rules which they have promulgated. At the regional level, local regulations which need to be further clarified or supplemented shall be interpreted and provided by the standing committees of the provinces, autonomous regions and municipalities under the center government which formulated the respective regulations while issues associated with specific application of local regulations shall be explained by the competent departments of the people's governments of the provinces, autonomous regions and municipalities under the center government.

## **B. The PRC Judicial System**

Under the Constitution and the Law of Organization of the People's Courts of the PRC (《中華人民共和國人民法院組織法》), the PRC judicial system is made up of the Supreme People's Court, the local people's courts, the military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal and economic divisions, and certain people's courts based on the natures of the region, population and cases. The intermediate people's courts have divisions similar to those of the basic people's courts, and are entitled to organize other special divisions as needed (such as the intellectual property division). These two levels of people's courts are subject to supervision by people's courts at higher levels. The Supreme People's Procuratorate is authorized to supervise the judgment and ruling of the People's courts at all levels which have been legally effective, and the people's procuratorate at a higher level is authorized to supervise the judgment and ruling of a People's court at a lower level which have been legally effective. The Supreme People's Court is the highest judicial authority in the PRC. It supervises the administration of justice by the people's courts at all levels.



The people's courts apply a two-tier appellate system in the trial of cases, under which the judgments or rulings of the second instance at a people's court are final. The parties may appeal against the judgment or ruling of the first instance of a local people's court. The people's procuratorate may present a protest to the people's court at the next higher level in accordance with the procedures stipulated by the laws. In the absence of any protest by the parties and any protest by the people's procuratorate within the stipulated period, the judgments or rulings of the people's court are final. Judgments or rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court are final. Judgments or rulings of the first instance of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at the next higher level finds an error in a final and binding judgment or ruling which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment or ruling which has taken effect in the court over which he presides, a retrial of the case may be initiated according to the judicial supervision procedures.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) (the "PRC Civil Procedure Law") adopted on 9 April 1991 and amended on 27 June 2017 prescribes the conditions for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must abide by the PRC Civil Procedure Law. A civil case is generally heard by the court located in the defendant's place of domicile. The court of jurisdiction in respect of a civil action may also be chosen by explicit agreement among the parties to a contract, provided that the people's court having jurisdiction should be located at places directly connected with the disputes, such as the plaintiff's or the defendant's place of domicile, the place where the contract is executed or signed or the place where the object of the action is located. However, such choice may not in any circumstances contravene the regulations of differential jurisdiction and exclusive jurisdiction.

A foreign individual, a person without nationality or foreign enterprise or organization is generally given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a foreign court limit the litigation rights of PRC citizens or enterprises, the PRC court may apply the same limitations to the citizens and enterprises of such foreign country. A foreign individual, foreign enterprise or organization must engage a PRC lawyer in case he or it needs to engage a lawyer for the purpose of initiating actions or defending against litigations at a PRC court. In accordance with the international treaties to which the PRC is a signatory or participant or according to the principle of reciprocity, a PRC court and foreign court may request each other to serve legal documents, conduct investigation and collect evidence and conduct other actions on its behalf. A PRC court shall not accommodate any request made by a foreign court which will result in the violation of sovereignty, security or public interests of the PRC.

All parties to a civil action shall perform the legally effective judgments and rulings. If any party to a civil action refuses to abide by a judgment or ruling made by a people's court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people's

court for the enforcement of the same within two years subject to application for postponed enforcement or revocation. If a party fails to satisfy within the stipulated period a judgment which the court has granted an enforcement approval, the court may, upon the application of the other party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or ruling of a people's court against another party who is not or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or ruling. Likewise, if the PRC has entered into either a treaty relating to judicial enforcement with the relevant foreign country or a relevant international convention, a foreign judgment or ruling may also be recognized and enforced in accordance with the PRC enforcement procedures by a PRC court based on equitable principles unless the people's court considers that the recognition or enforcement of such judgment or ruling would violate the basic legal principles of the PRC, its sovereignty or national security, or would not be in the public interest.

### **C. The PRC Company Law, the Special Regulations and the Mandatory Provisions**

The Company Law of the PRC was adopted by the Standing Committee of the Eighth NPC at its Fifth Session on 29 December 1993 and came into effect on 1 July 1994. It was amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018. The revised PRC Company Law came into effect on 26 October 2018.

The Special Regulations of the State Council on the Overseas Offering and the Listing of Shares by Joint Stock Limited Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) (the "Special Regulations") were passed at the 22nd Standing Committee Meeting of the State Council on 4 July 1994 and promulgated and implemented on 4 August 1994. The Special Regulations include provisions in respect of the overseas share offering and listing of joint stock limited companies. The Mandatory Provisions for the Articles of Association of Companies to be Listed Overseas (《到境外上市公司章程必備條款》) ("the "Mandatory Provision") jointly promulgated by the former Securities Commission of the State Council and the former State Restructuring Commission on 27 August 1994 prescribe that the provisions should be incorporated in the articles of association of joint stock limited companies to be listed overseas stock exchanges. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix V – "Summary of Articles of Association" of this prospectus. References to a "company" made in this Appendix are to a joint stock limited company established under the PRC Company Law with H shares to be issued.

Set out below is a summary of the major provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions.

#### ***General***

A "joint stock limited company ("company")" refers to a corporate legal person established in China under the PRC Company Law with independent legal person properties

and entitlements to such legal person properties. The liability of the company is limited to the total amount of all assets it owns and the liability of its shareholders is limited to the extent of the shares they subscribe for.

### ***Incorporation***

A company may be incorporated by promotion or subscription. A company may be incorporated by a minimum of two but no more than 200 promoters, and at least half of the promoters must be resident in the PRC. Companies incorporated by promotion must have their entire registered capitals subscribed for by the promoters. Shares in company incorporated by promotion shall not be offered to others unless the registered capital has been fully paid up. For companies incorporated by subscription, the registered capital shall be the total paid-up capital as registered with the registration authorities subject to requirement of paid-in registered capital and the minimum registered capital by laws, administrative regulations and State Council decisions.

For companies incorporated by way of promotion, the promoters shall subscribe in writing for the shares and pay up their capital contributions as required by the articles of association. Transfer of titles to non-monetary assets shall be duly completed for assets contributed as capital. Promoters who fail to pay up their capital contributions in accordance with the foregoing provisions shall assume default liabilities in accordance with the covenants set out in the promoters' agreement. After capital contribution by promoters in accordance with the articles of association, a board of directors and a supervisory board shall be elected and the board of directors shall apply for registration of incorporation by filing the articles of association and other documents as required by the law or administrative regulations with the company registration authority.

For companies incorporated by subscription, not less than 35% of their total number of shares must be subscribed for by their promoters, unless otherwise provided for by the laws and administrative regulations. A promoter who offers shares to the public must publish a share offering document and prepare a share subscription form to be completed, signed and sealed by subscribers, specifying the number and value of shares to be subscribed for and the subscribers' addresses. The subscribers shall pay up monies for the shares subscribed for. Where a promoter is offering shares to the public, such offer shall be underwritten by security companies established under PRC law, and underwriting agreements shall be entered into. A promoter offering shares to the public shall also enter into agreements with banks in relation to the receipt of subscription monies. The receiving banks shall receive and keep in custody the subscription monies, issue receipts to subscribers who have paid the subscription monies and is obliged to furnish evidence of receipt of those subscription monies to relevant authorities. After the subscription monies for the share issue have been paid in full, a capital verification institution established under PRC law must be engaged to conduct a capital verification and furnish a report thereon. The promoters shall convene an inauguration meeting within 30 days following the full payment of subscription money. The notice of the meeting shall be dispatched to

subscribers or published 15 days before the meeting. The quorum of the inauguration meeting shall be subject to the promoters and subscribers representing more than half of the shares in total attending the meeting. In the inauguration meeting, the articles of associations shall be adopted and the members of the board of directors and supervisory board shall be elected. Directors and supervisors acted by representatives of employees shall be elected by employees or representatives of employees through democratic procedures. If there are shares remain unsubscribed by the cut-off date stipulated in the share offering document, or if the promoters fail to convene an inauguration meeting within 30 days after full payment of subscription monies, the subscribers may demand the refund of subscription monies together with the interest at bank rate of a deposit for the same period. Within 30 days of the conclusion of the inauguration meeting, the board of directors shall apply to the company registration authority for registration of the establishment of the company. A company is formally established and has the status of a legal person after approval of registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A company's promoter shall be liable for:

- (i) the debts and expenses incurred during incorporation jointly and severally if the company cannot be incorporated;
- (ii) the refund of subscription monies to subscribers together with interest at bank rate of deposit for the same period jointly and severally if the company cannot be incorporated; and
- (iii) the compensation of any damages suffered by the company as a result of the promoters' default in the course of its incorporation.

### ***Share Capital***

The promoters may make capital contribution in currencies, or non-monetary assets such as in kind or intellectual property rights or land use rights which can be appraised with monetary value and transferred lawfully, except for assets which are prohibited from being contributed as capital by the laws or administrative regulations. If a capital contribution is made in non-monetary assets, a valuation of the assets contributed must be carried out in accordance with the laws or administrative regulations on valuation without any over-valuation or under-valuation.

Shares shall be issued in a fair and equitable manner. The same class of shares must carry equal rights. Shares of the same class issued at the same time must be issued on the same conditions and at the same price. The same price per share shall be paid by any subscriber, an entity or an individual, and shall be equal to or greater than the nominal value of the share and shall not be less than the nominal value.

A company must obtain the approval of the CSRC to offer its shares to the overseas public. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors (including investors in Hong Kong Special Administration Region, Macau Special Administration Region and Taiwan Special Administration Region) and listed overseas (“Overseas Listed Foreign Shares”) shall be in registered form, denominated in Renminbi and subscribed for in foreign currency. Shares issued to foreign investors and investors in Hong Kong, Macau and Taiwan and listed in Hong Kong are designated as H shares, and those shares issued to investors in the PRC, except the regions above, are designated as domestic shares. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of H shares, to reserve not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued in addition to the number of underwritten shares provided that the total shares to be issued shall not exceed the total number of shares proposed to be issued. The shares reserved shall be part of the shares proposed to be issued.

Under the PRC Company Law, a company issuing registered share certificates shall maintain a shareholder registry which sets forth the following matters:

- (i) the name and domicile of each shareholder;
- (ii) the number of shares held by each shareholder;
- (iii) the serial numbers of shares held by each shareholder; and
- (iv) the date on which each shareholder acquired the shares.

#### ***Increase in Share Capital***

According to the PRC Company Law, if a company proposes to issue new shares, resolutions shall be passed at general meeting in accordance with the articles of association to determine the class, amount and issue price of the new shares, the commencement and closing dates of the issue and the class and amount of the new shares to be issued to existing shareholders.

When a company launches a public issue of new shares upon the approval by the CSRC, a new share offering document and financial report must be published and a subscription form must be prepared. After the new share issue of the company has been paid up, the change must be registered with the relevant administration bureau for industry and commerce and a public announcement must be made accordingly. Where an increase in registered capital of a company is made by means of an issue of new shares, the subscription of new shares by shareholders shall be made in accordance with the relevant provisions on the payment of subscription monies for the incorporation of a company.

*Reduction of Share Capital*

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (i) the company shall prepare a balance sheet and an inventory of assets;
- (ii) the reduction of registered capital must be approved by shareholders at general meeting;
- (iii) the company shall notify its creditors of the reduction in share capital within 10 days and publish an announcement of the reduction in newspapers within 30 days of the resolution approving the reduction being passed;
- (iv) the creditors of the company may demand the company to repay its debts or provide guarantees for the debts in 30 days after the receipt of the notice or in 45 days after the publication of the announcement; and
- (v) the company must apply to the relevant administration bureau for industry and commerce for registration of the change and reduction in registered capital.

*Repurchase of Shares*

A company may not repurchase its own shares other than for one of the following purposes:

- (i) reducing its registered capital;
- (ii) merging with another company which holds its shares;
- (iii) granting shares to its employees as incentives; and
- (iv) acquiring its own shares at the request of its shareholders who vote in a shareholders' general meeting against a resolution regarding a merger or division of our Company.

The acquisition by a company of its own shares on the grounds set out in (i) to (iii) above must be approved by way of a resolution of a shareholders' general meeting. Following the acquisition by a company of its own shares in accordance with these requirements, such shares must be canceled within 10 days of the date of the acquisition in the case of (i) and transferred or canceled within six months in the case of (ii) or (iv).

The acquisition by a company of its own shares in accordance with (iii) under the first paragraph of this subsection shall not exceed 5% of the total number of issued shares of the

company. Such acquisition shall be financed by funds allocated from the company's profits after taxation, and the shares so acquired shall be transferred to the employees within one year.

### *Transfer of Shares*

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. According to the PRC Company Law, a shareholder may effect a transfer of his shares on a stock exchange established in accordance with laws or by any other means as required by the State Council. Registered shares may be transferred after the shareholders endorse the back of the share certificates or in any other manner specified by the laws or administrative regulations. Following the transfer, the company shall enter the names and addresses of the transferees into its share register. No changes of registration in the share register described above shall be effected during a period of 20 days prior to convening a shareholders' general meeting or 5 days prior to the record date for the purpose of determining entitlements to dividend distributions, subject to any otherwise stipulated legal provisions on the registration of changes in the share register of listed companies. The transfer of bearer share certificates shall become effective upon the delivery of the certificates to the transferee by the shareholder. The Mandatory Provision provides that changes due to share transfer should not be made to shareholder registry within 30 days before a shareholders' general meeting or within 5 days before the record date for the purpose of determining entitlements to dividend distributions.

According to PRC Company Law, shares held by promoters may not be transferred within one year of the establishment of the company. Shares of the company issued prior to the public issue of shares may not be transferred within one year of the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in it and any changes in such shareholdings. During their terms of office, they may transfer no more than 25% of the total number of shares they hold in the company every year. They shall not transfer the shares they hold within one year of the date of the company's listing on a stock exchange, nor within six months after they leave their positions in the company. The articles of association may set out other restrictive provisions in respect of the transfer of shares in the company held by its directors, supervisors and the senior management.

### *Shareholders*

Under the PRC Company Law, the rights of shareholders include the rights:

- (i) to receive a return on assets, participate in significant decision-making and select management personnel;



- (ii) to petition the people's court to revoke any resolution passed at a shareholders' general meeting or a meeting of board of directors that has not been convened in compliance with the laws, administrative regulations or the articles of association or whose voting has been conducted in an invalid manner, or any resolution the contents of which is in violation of the articles of association, provided that such petition shall be submitted within 60 days of the passing of such resolution;
- (iii) to transfer the shares of the shareholders according to the applicable laws and regulations and the articles of association;
- (iv) to attend or appoint a proxy to attend shareholders' general meetings and to exercise the voting rights;
- (v) to inspect the articles of association, shareholder register, counterfoil of company debentures, minutes of shareholders' general meetings, board resolutions, resolutions of the supervisory board and financial and accounting reports and to make suggestions or inquiries in respect of the company's operations;
- (vi) to receive dividends in respect of the number of shares held;
- (vii) to receive residual properties of the company in proportion to their shareholdings upon the liquidation of the company; and
- (viii) any other shareholders' rights provided for in laws, administrative regulations, regulatory documents and the articles of association.

The obligations of shareholders include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by them and any other shareholder obligation specified in laws, administrative regulations, regulatory documents and the articles of association.

#### ***Shareholders' General Meetings***

The general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law. The general meeting may exercise its powers:

- (i) to decide on the company's operational objectives and investment plans;
- (ii) to elect and remove the directors and supervisors (not being representative(s) of employees) and to decide on the matters relating to the remuneration of directors and supervisors;



- (iii) to review and approve the reports of the board of directors;
- (iv) to review and approve the reports of the supervisory board or supervisors;
- (v) to review and approve the company's annual financial budgets and final accounts;
- (vi) to review and approve the company's profit distribution proposals and loss recovery proposals;
- (vii) to decide on any increase or reduction of the company's registered capital;
- (viii) to decide on the issue of corporate bonds;
- (ix) to decide on merger, division, dissolution and liquidation of the company or change of its corporate form;
- (x) to amend the company's articles of association; and
- (xi) to exercise any other authority stipulated in the articles of association.

A shareholders' general meeting is required to be held once every year. An extraordinary general meeting is required to be held within two months of the occurrence of any of the following:

- (i) the number of directors is less than the number stipulated by the laws or less than two-thirds of the number specified in the articles of association;
- (ii) the outstanding losses of the company amounted to one-third of the company's total paid-in share capital;
- (iii) shareholders individually or in aggregate holding 10% or more of the company's shares request that an extraordinary general meeting is convened;
- (iv) the board deems necessary;
- (v) the supervisory board so requests; or
- (vi) any other circumstances as provided for in the articles of association.

A shareholders' general meeting shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or is not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or is

not performing his duties, a director nominated by half or more of the directors shall preside over the meeting. Where the board of directors is incapable of performing or is not performing its duties to convene the general meeting, the supervisory board shall convene and preside over such meeting in a timely manner. If the supervisory board fails to convene and preside over such meeting, shareholders individually or in aggregate holding 10% or more of the company's shares for 90 days or more consecutively may unilaterally convene and preside over such meeting.

In accordance with the PRC Company Law, a notice of the general meeting stating the date and venue of the meeting and the matters to be considered at the meeting shall be given to all shareholders 20 days before the meeting. A notice of extraordinary general meeting shall be given to all shareholders 15 days prior to the meeting. For the issuance of bearer share certificates, the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting.

In accordance with the Mandatory Provisions, a notice of the general meeting stating, among other things, matters to be considered at the meeting shall be given to all shareholders 45 days before the meeting. A shareholder who intends to attend the meeting shall deliver his written reply regarding his attendance of the meeting to the company 20 days before the date of the meeting.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' general meeting, although the Special Regulations and the Mandatory Provisions provide that a company's general meeting may be convened when written replies to the notice of that meeting from shareholders holding shares representing no less than 50% of the voting rights in the company have been received 20 days before the proposed date. If that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders again by announcement of the matters to be considered at the meeting and the date and venue of the meeting, and the general meeting may be held by the company thereafter.

Under the PRC Company Law, a single shareholder who holds, or several shareholders who jointly hold, three percent or more of the shares of the company may submit an interim proposal in writing to the board of directors ten days before the general meeting is held. The board of directors shall, within two days upon receipt of the proposal, notify the other shareholders, and submit the said interim proposal to the general meeting for deliberation. The contents of the interim proposal shall fall within the scope of powers of the general meeting, and the proposal shall have a clear agenda and specific matters on which resolutions are to be made.

The general meeting shall not make resolutions on matters that are not clearly listed in the notices given to the shareholders.

If holders of bearer stocks attend a general meeting, they shall have their stocks kept at the company from five days before the meeting is held till the conclusion of the meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights. Resolutions of the general meeting must be passed by more than half of the voting rights held by shareholders present at the meeting, with the exception of matters relating to merger, division or dissolution of the company, increase or reduction of registered share capital, change of corporate form or amendments to the articles of association, which in each case must be passed by at least two-thirds of the voting rights held by the shareholders present at the meeting. Where the PRC Company Law and the articles of association provide that the transfer or acquisition of significant assets or the provision of external guarantees by the company must be approved by way of resolution of the general meeting, the directors shall convene a shareholders' general meeting promptly to vote on such matters. An accumulative voting system may be adopted for the election of directors and supervisors at the general meeting pursuant to the provisions of the articles of association or a resolution of the general meeting. Under the accumulative voting system, each share shall be entitled to the number of votes equivalent to the number of directors or supervisors to be elected at the general meeting, and shareholders may consolidate their votes for one or more directors or supervisors when casting a vote.

Minutes shall be prepared in respect of matters considered at the general meeting and the shareholders attending the meeting shall endorse such minutes by signature. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

According to the Mandatory Provisions, the increase or reduction of share capital, the issuance of shares of any class, warrants or other similar securities and bonds, the division, merger, dissolution and liquidation of the company, the amendments to the articles of association and any other matters, which, as resolved by way of an ordinary resolution of the general meeting, may have a material impact on the company and require adoption by way of a special resolution, must be approved through special resolutions by no less than two-thirds of the voting rights held by shareholders present at the meeting.

The Mandatory Provisions require a special resolution to be passed at the general meeting and the approval of the affected class shareholders at a class meeting to be held in the event of a variation or derogation of the class rights of a shareholder class. For this purpose, holders of domestic shares and H Shares are deemed to be shareholders of different classes.

### ***Board***

A company shall have a board, which shall consist of 5 to 19 members. Members of the board may include staff representatives, who shall be democratically elected by the

company's staff at a staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his/her duties as a director in accordance with the laws, administrative regulations and the articles of association until a duly reelected director takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of directors results in the number of directors being less than the quorum.

Under the PRC Company Law, the board of directors may exercise its powers:

- (i) to convene shareholders' general meetings and report on its work to the shareholders' general meetings;
- (ii) to implement the resolutions passed by the shareholders at the shareholders' general meetings;
- (iii) to decide on the company's operational plans and investment proposals;
- (iv) to formulate proposal for the company's annual financial budgets and final accounts;
- (v) to formulate the company's profit distribution proposals and loss recovery proposals;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (vii) to formulate proposals for the merger, division or dissolution of the company or change of corporate form;
- (viii) to decide on the setup of the company's internal management organs;
- (ix) to appoint or dismiss the company's general manager and decide on his/her remuneration and, based on the general manager's recommendation, to appoint or dismiss any deputy general manager and financial officer of the company and to decide on their remunerations;
- (x) to formulate the company's basic management system; and
- (xi) to exercise any other authority stipulated in the articles of association.

Meetings of the board of directors shall be convened at least twice each year. Notices of meeting shall be given to all directors and supervisors 10 days before the meeting.

Interim board meetings may be proposed to be convened by shareholders representing more than 10% of the voting rights, more than one-third of the directors or the supervisory board. The chairman shall convene the meeting within 10 days of receiving such proposal, and preside over the meeting. The board may otherwise determine the means and the period of notice for convening an interim board meeting. Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board shall be passed by more than half of all directors. Each director shall have one vote for a resolution to be approved by the board. Directors shall attend board meetings in person. If a director is unable to attend for any reason, he/she may appoint another director to attend the meeting on his/her behalf by a written power of attorney specifying the scope of authorization that his/her representative has. Resolutions of the board meetings shall be approved by simple majority of all members of the board.

If a resolution of the board of directors violates the laws, administrative regulations or the articles of association or resolutions of the general meeting, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director shall be relieved from that liability.

Under the PRC Company Law, the following person may not serve as a director in a company:

- (i) a person who is unable or has limited ability to undertake any civil liabilities;
- (ii) a person who has been convicted of an offense of corruption, bribery, embezzlement, misappropriation of property or destruction of the socialist economic order, or who has been deprived of his political rights due to his/her crimes, in each case where less than five years have elapsed since the date of completion of the sentence;
- (iii) a person who has been a former director, factory manager or manager of a company or an enterprise that has entered into in solvent liquidation and who was personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) a person who has been a legal representative of a company or an enterprise that has had its business license revoked due to violations of the law or has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation; and
- (v) a person who is liable for a relatively large amount of debts that are overdue.

Where a company elects or appoints a director to which any of the above circumstances applies, such election or appointment shall be null and void. A director to which any of the above circumstances applies during his/her term of office shall be released of his/her duties by the company.

Other circumstances under which a person is disqualified from acting as a director of a company as set out in the Mandatory Provisions.

The board shall appoint a chairman and may appoint a vice chairman.

The chairman and the vice chairman shall be elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and review the implementation of board resolutions. The vice chairman shall assist the chairman to perform his/her duties. Where the chairman is incapable of performing or is not performing his/her duties, the duties shall be performed by the vice chairman. Where the vice chairman is incapable of performing or is not performing his/her duties, a director nominated by more than half of the directors shall perform his/her duties.

### ***Supervisory Board***

A company shall have a supervisory board composed of not less than three members. The supervisory board consists of representatives of the shareholders and an appropriate proportion of representatives of the company's staff. The actual proportion shall be determined in the articles of association, provided that the proportion of representatives of the company's staff shall not be less than one-third. Representatives of the company's staff at the supervisory board shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The supervisory board shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory board shall be elected by more than half of the supervisors.

According to the Reply of the Overseas Listing Department of the CSRC and the Production System Department of the State Commission for Restructuring the Economic System on Opinions Concerning the Supplement and Amendment to Articles of Association by Companies to be Listed in Hong Kong (《中國證監會海外上市部、國家體改委生產體制司關於到香港上市公司對公司章程作補充修改的意見的函》), the chairman of the supervisory board shall be appointed by more than two-thirds of the supervisors.

The chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the chairman of the supervisory board is incapable of performing or is not performing his/her duties, the vice chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the vice chairman of the supervisory board is incapable of performing or is not performing his/her duties, a supervisor nominated by more than half of the supervisors shall convene and preside over supervisory board meetings. Directors and senior management shall not act concurrently as supervisors.

Each term of office of a supervisor is three years and he/she may serve consecutive terms if reelected. A supervisor shall continue to perform his/her duties as a supervisor in accordance with the laws, administrative regulations and the articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The supervisory board may exercise its powers:

- (i) to review the company's financial position;
- (ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated any laws, regulations, the articles of association or shareholders' resolutions;
- (iii) when the acts of a director or senior management personnel are detrimental to the company's interests, to require the director and senior management to correct these acts;
- (iv) to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' general meetings when the board fails to perform the duty of convening and presiding over shareholders' general meetings under the PRC Company Law;
- (v) to submit proposals to the shareholders' general meetings;
- (vi) to bring actions against directors and senior management pursuant to the relevant provisions of the PRC Company Law; and
- (vii) to exercise any other authority stipulated in the articles of association.

Supervisors may be present at board meetings and make inquiries or proposals in respect of the resolutions of the board. The supervisory board may investigate any irregularities identified in the operation of the company and, when necessary, may engage an accounting firm to assist its work at the cost of the company.

The circumstances under which a person is disqualified from acting as a director of a company as set out in the Mandatory Provisions shall also apply to the qualification of supervisory.

*Manager and Senior Management*

A company shall have a general manager who shall be appointed or removed by the board of directors. The general manager, who reports to the board of directors, may exercise his/her powers:

- (i) to manage the production, operation and administration of the company and arrange for the implementation of the resolutions of the board of directors;
- (ii) to arrange for the implementation of the company's annual business plans and investment proposals;
- (iii) to formulate proposals for the establishment of the company's internal management organs;
- (iv) to formulate the fundamental management system of the company;
- (v) to formulate the company's specific rules and regulations;
- (vi) to recommend the appointment or dismissal of any deputy manager and any financial officer of the company;
- (vii) to appoint or dismiss management personnel (other than those required to be appointed or dismissed by the board of directors); and
- (viii) to exercise any other authority granted by the board of directors.

Other provisions in the articles of association on the general manager's powers shall also be complied with. The general manager shall be present at meetings of the board of directors. However, the general manager shall have no voting rights at meetings of the board of directors unless he/she concurrently serves as a director.

According to the PRC Company Law, senior management refers to the general manager, deputy manager, financial officer, secretary to the board of a listed company and other personnel as stipulated in the articles of association.

*Duties of Directors, Supervisors, General Managers and Other Senior Management*

Directors, supervisors, the general manager, the deputy manager and senior management are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association, and carry out their duties in good faith and with due diligence.



Directors, supervisors, senior management are prohibited from accepting bribes or other unlawful income and from misappropriating the company's property. Directors and senior management are prohibited from:

- (i) misappropriating company funds;
- (ii) depositing company funds into accounts under their own names or the names of other individuals;
- (iii) loaning company funds to others or providing guarantees in favour of others supported by company's property in violation of the articles of association or without approval of the general meeting or the board of directors;
- (iv) entering into contracts or transactions with the company in violation of the articles of association or without approval of the general meeting or the board of directors;
- (v) using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating businesses similar to that of the company for their own benefits or on behalf of others without approval of the general meeting;
- (vi) accepting commissions paid by a third party for transactions conducted with the company;
- (vii) unauthorized divulgence of confidential information of the company; and
- (viii) other acts in violation of their duty of loyalty to the company.

Income generated by directors or senior management in violation of aforementioned shall be returned to the company.

A director, supervisor or senior management who contravenes any law, regulation or the company's articles of association in the performance of his/her duties resulting in any loss to the company shall be liable to the company for compensation.

Where a director, supervisor or senior management is required to attend a shareholders' general meeting, such director, supervisor or senior management shall attend the meeting and answer the inquiries from shareholders. Directors and senior management shall furnish all true information and data to the supervisory board, or if a limited liability company has no supervisory board, supervisors, without impeding the discharge of duties by the supervisory board or supervisors.

Where a director or senior management contravenes any law, regulation or the company's articles of association in the performance of his/her duties resulting in any loss to the company, shareholder(s) holding individually or in aggregate no less than 1% of the company's shares consecutively for at least 180 days may request in writing that the supervisory board institute litigation at a people's court on its behalf. Where the supervisory board violates the laws or administrative regulations or the articles of association in the discharge of its duties resulting in any loss to the company, such shareholder(s) may request in writing that the board of directors institutes litigation at a people's court on its behalf. If the supervisory board or the board of directors refuses to institute litigation after receiving this written request from the shareholder(s), or fails to institute litigation within 30 days of the date of receiving the request, or in case of emergency where failure to institute litigation immediately will result in irrecoverable damage to the company's interests, such shareholder(s) shall have the power to institute litigation directly at a people's court in its own name for the company's benefit. For other parties who infringe the lawful interests of the company resulting in loss to the company, such shareholder(s) may institute litigation at a people's court in accordance with the procedure described above. Where a director or senior management contravenes any laws, administrative regulations or the articles of association in infringement of shareholders' interests, a shareholder may also institute litigation at a people's court.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, general manager and other senior management shall have duty of loyalty to the company. They are required to faithfully perform their duties, to protect the interests of the company and not to use their positions in the company for their own benefits. The Mandatory Provisions contain detailed stipulations on these duties.

### ***Finance and Accounting***

A company shall establish its own financial and accounting systems according to the laws, administrative regulations and the regulations of the competent financial departments of the State Council. At the end of each financial year, a company shall prepare a financial report which shall be audited by an accounting firm in accordance with the laws. The financial and accounting reports shall be prepared in accordance with the laws, administrative regulations and the regulations of the financial departments of the State Council.

The company's financial reports shall be made available for shareholders' inspection at the company 20 days before the convening of an annual general meeting. A joint stock limited company that makes public stock offerings shall publish its financial reports.

When distributing each year's profits after taxation, the company shall set aside 10% of its profits after taxation for the company's statutory common reserve fund until the fund has reached 50% or more of the company's registered capital. When the company's statutory common reserve fund is not sufficient to make up for the company's losses for the

previous years, the current year's profits shall first be used to make good the losses before any allocation is set aside for the statutory common reserve fund. After the company has made allocations to the statutory common reserve fund from its profits after taxation, it may, upon passing a resolution at a shareholders' general meeting, make further allocations from its profits after taxation to the discretionary common reserve fund. After the company has made good its losses and made allocations to its discretionary common reserve fund, the remaining profits after taxation shall be distributed in proportion to the number of shares held by the shareholders, except for those which are not distributed in a proportionate manner as provided by the articles of association.

Profits distributed to shareholders by a resolution of a shareholders' general meeting or the board of directors before losses have been made good and allocations have been made to the statutory common reserve fund in violation of the requirements described above must be returned to the company. The company shall not be entitled to any distribution of profits in respect of shares held by it.

The premium over the nominal value of the shares of the company on issue and other income as required by competent governmental department to be treated as the capital reserve fund shall be accounted for as the capital reserve fund. The common reserve fund of a company shall be applied to make good the company's losses, expand its business operations or increase its capital. The capital reserve fund, however, shall not be used to make good the company's losses. Upon the transfer of the statutory common reserve fund into capital, the balance of the fund shall not be less than 25% of the registered capital of the company before such transfer.

The company shall have no accounting books other than the statutory books. The company's assets shall not be deposited in any account opened under the name of any individual.

#### ***Appointment and Retirement of Auditors***

Pursuant to the PRC Company Law, the appointment or dismissal of an accounting firm responsible for the company's auditing shall be determined by shareholders at a shareholders' general meeting or the board of directors in accordance with the articles of association. The accounting firm should be allowed to make representations when the general meeting or the board of directors conduct a vote on the dismissal of the accounting firm on their respective meetings. The company should provide true and complete accounting evidence, accounting books, financial and accounting reports and other accounting information to the engaged accounting firm without any refusal or withholding or falsification of information.

The Special Regulations require a company to engage an independent qualified accounting firm to audit the company's annual reports and to review and check other financial reports of the company. The accounting firm's term of office shall commence

from the end of the shareholders' annual general meeting to the end of the next shareholders' annual general meeting. The appointment, removal and expiry of appointment of accounting firm by our Company shall be reported to the CSRC.

#### ***Profit Distribution***

According to the PRC Company Law, a company shall not distribute profits before losses are covered and the statutory common reserve fund is provided. The Special Regulations require that any dividend and other distribution to H shareholders shall be declared and calculated in RMB and paid in foreign currency. Under the Mandatory Provisions, a company shall make foreign currency payments to shareholders through receiving agents.

#### ***Amendments to the Articles of Association***

Pursuant to PRC Company Law, the resolution of a shareholders' general meeting regarding any amendment to a company's articles of association requires affirmative votes by at least two-thirds of the votes held by shareholders attending the meeting. Pursuant to the Mandatory Provisions, the company may amend its articles of association according to the laws, administrative regulations and the articles of association. The amendment to articles of association involving content of the Mandatory Provisions will only be effective upon approval of the department in charge of company examination and approval and the securities regulatory department authorized by the State Council, while the amendment to articles of association involving matters of company registration shall be registered with the relevant authority in accordance with applicable laws.

#### ***Dissolution and Liquidation***

A company shall be dissolved for any of the following reasons:

- (i) the term of its operation set out in the articles of association has expired or other events of dissolution specified in the articles of association have occurred;
- (ii) the shareholders have resolved at a shareholders' general meeting to dissolve the company;
- (iii) the company is dissolved by reason of its merger or division;
- (iv) the business license of the company is revoked or the company is ordered to close down or to be dissolved in accordance with the laws; or
- (v) the company is dissolved by a people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation and

management of the company has suffered serious difficulties that cannot be resolved through other means, rendering on-going existence of the company a cause for significant losses to the shareholders.

In the event of paragraph (i) above, the company may carry on its existence by amending its articles of association. The amendments to the articles of association in accordance with the provisions described above shall require the approval of more than two-thirds of voting rights of shareholders attending a shareholders' general meeting.

Where the company is dissolved under the circumstances set forth in paragraph (i), (ii), (iv) or (v) above, it should establish a liquidation committee within 15 days of the date on which the dissolution matter occurs. The liquidation committee shall be composed of directors or any other person determined by a shareholders' general meeting. If a liquidation committee is not established within the prescribed period, the company's creditors may file an application with a people's court, requesting that the court appoint relevant personnel to form a liquidation committee to conduct the liquidation. The people's court should accept such application and form a liquidation committee to conduct liquidation in a timely manner.

The liquidation committee may exercise following powers during the liquidation:

- (i) to dispose of the company's assets and to prepare a balance sheet and an inventory of assets;
- (ii) to notify the company's creditors or publish announcements;
- (iii) to deal with any outstanding business related to the liquidation;
- (iv) to pay any overdue tax together with any tax arising during the liquidation process;
- (v) to settle the company's financial claims and liabilities;
- (vi) to handle the company's remaining assets after its debts have been paid off; and
- (vii) to represent the company in any civil procedures.

The liquidation committee shall notify the company's creditors within 10 days of its establishment, and publish an announcement in newspapers within 60 days.

A creditor shall lodge his claim with the liquidation committee within 30 days of receipt of the notification or within 45 days of the date of the announcement if he has not received any notification. A creditor shall, in making his claim, state all matters relevant to his creditor's rights and furnish relevant evidence. The liquidation committee shall register

such creditor's rights. The liquidation committee shall not make any settlement to creditors during the period of the claim.

Upon disposal of the company's property and preparation of the required balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan and submit this plan to a shareholders' general meeting or a people's court for endorsement. The remaining assets of the company, after payment of liquidation expenses, employee wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debts, shall be distributed to shareholders in proportion to shares held by them. The company shall continue to exist during the liquidation period, although it cannot engage in operating activities that are not related to the liquidation. The company's property shall not be distributed to shareholders before settlements are made in accordance with the requirements described above.

Upon liquidation of the company's property and preparation of the required balance sheet and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to a people's court for a declaration of bankruptcy in accordance with the laws. Following such declaration by the people's court, the liquidation committee shall hand over the administration of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or a people's court for confirmation of its completion. Following such confirmation, the report shall be submitted to the company registration authority to cancel the company's registration, and an announcement of its termination shall be published. Members of the liquidation committee are required to perform their duties in good faith and in compliance with relevant laws. Members of the liquidation committee shall be prohibited from abusing their authority in accepting bribes or other unlawful income and from misappropriating the company's properties. Members of the liquidation committee are liable to indemnify the company and its creditors in respect of any loss arising from their willful or material default.

Liquidation of a company declared bankrupt according to laws shall be processed in accordance with the laws on corporate bankruptcy.

#### ***Overseas Listing***

The shares of a company shall only be listed overseas after obtaining approval from the CSRC, and the listing must be arranged in accordance with procedures specified by the State Council.

Pursuant to The Special Regulations, a company may issue shares to overseas investors and list its shares overseas upon approval from the CSRC. Subject to approval by the CSRC of the company's plans to issue overseas-listed foreign invested shares and

domestic shares the board of directors of the company may make arrangement to implement such plans for such two kinds of shares to be issued respectively, within fifteen (15) months from the date of approval by the CSRC.

#### *Loss of Share Certificates*

If the share certificate(s) in registered form is either stolen, lost or destroyed, a shareholder may, in accordance with the public notice procedures set out in the PRC Civil Procedure Law, apply to a people's court for a declaration that such certificate(s) will no longer be valid. After such declaration has been obtained, the shareholder may apply to the company for the issue of a replacement certificate(s).

A separate procedure regarding the loss of share certificates and H share certificates of the overseas listed foreign invested shareholders of the PRC is provided for in the Mandatory Provisions, details of which are set out in the articles of association.

#### *Merger and Division*

A merger agreement shall be signed by merging companies and the involved companies shall prepare their respective balance sheets and inventory of assets. The companies shall within 10 days of the date of passing the resolution approving the merger notify their respective creditors and publicly announce the merger within 30 days. A creditor may, within 30 days of receipt of the notification, or within 45 days of the date of the announcement if he has not received the notification, demand the company to settle any outstanding debts or provide relevant guarantees. In case of a merger, the credits and debts of the merging parties shall be assumed by the surviving or the new company.

In case of a division, the company's assets shall be divided and a balance sheet and an inventory of assets shall be prepared. When a resolution regarding the company's division is approved, the company should notify all its creditor within 10 days of the date of passing such resolution and publicly announce the division in newspapers within 30 days. Unless an agreement in writing is reached with creditors in respect of the settlement of debts, the liabilities of the company which have accrued prior to such division shall be jointly borne by the separated companies.

Changes in the registration of the companies as a result of the merger or division shall, if so required, be registered with the relevant administration authority for industry and commerce.

In accordance with the laws, cancelation of a company shall be registered when a company is dissolved and incorporation of a company shall be registered when a new company is incorporated.



**D. The PRC Securities Laws, Regulations and Regulatory Regimes**

The PRC has promulgated a number of regulations that relate to the issuance and trading of our shares and disclosure of information. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions governing securities markets, supervising securities companies, regulating public offerings of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking relevant research and analysis. On 29 March 1998, the State Council consolidated the aforementioned two departments and reformed the CSRC.

On 22 April 1993, the Provisional Regulations Concerning the Issuance and Trading of Shares (《股票發行與交易管理暫行條例》) were promulgated by the State Council to govern the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, clearing and transfer of listed equity securities, as well as the disclosure of information, investigation, penalties and dispute resolutions with respect to a listed company.

On 25 December 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of regulations Joint Stock Limited Companies (《國務院關於股份有限公司境內上市外資股的規定》). These regulations principally govern the issuance, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign shares.

The Securities Law of the People's Republic of China (the "PRC Securities Law") took effect on 1 July 1999 and was revised as at 28 August 2004, 27 October 2005, 29 June 2013 and 31 August 2014, respectively. It was the first national securities law in the PRC, and is divided into 12 chapters and 240 articles regulating, among other matters, the issuance and trading of securities, takeovers of listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The PRC Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the PRC Securities Law provides that domestic enterprises must obtain prior approval from the State Council Securities regulatory authorities to list shares outside the PRC. Currently, the issuance and trading of foreign issued securities (including shares) are principally governed by the rules and regulations promulgated by the State Council and the CSRC.

**E. Arbitration and Enforcement of Arbitral Awards**

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (the "PRC Arbitration Law") was enacted by the Standing Committee of the NPC on 31 August 1994, which became effective



on 1 September 1995 and was amended on 1 September 2017. It is applicable to economic disputes involving foreign parties where all parties have entered into a written agreement to resolve disputes by arbitration before an arbitration committee constituted in accordance with the PRC Arbitration Law. The PRC Arbitration Law provides that an arbitration committee may, before the promulgation of arbitration regulations by the PRC Arbitration Association, formulate interim arbitration rules in accordance with the PRC Arbitration Law and the PRC Civil Procedure Law. Where the parties have agreed to settle disputes by means of arbitration, a people's court will refuse to handle a legal proceeding initiated by one of the parties at such people's court, unless the arbitration agreement has lapsed.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, required by the Hong Kong Listing Rules, also in contracts between the company and each director or supervisor. Pursuant to such provision, whenever a dispute or claim arises from any right or obligation concerning the affairs of the company provided in the articles of association, the PRC Company Law or other relevant laws and administrative regulations among (i) the holders of overseas listed foreign shares and the company; (ii) the holders of overseas listed foreign shares and a holder of domestic shares; or (iii) the holders of overseas listed foreign shares and the company's directors, supervisors or other management personnel, such parties shall be required to refer such dispute or claim to arbitration at either the CIETAC or the HKIAC. Disputes in respect of the definition of shareholder and disputes in relation to the company's shareholder registry need not be resolved by arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen in accordance with the securities arbitration rules of the HKIAC.

Under the PRC Arbitration Law, an arbitral award shall be final and binding on the parties involved in the arbitration. If any party fails to comply with the award, the other party to the award may apply to a people's court for its enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural irregularity (including irregularity in the composition of the arbitration committee, or the making of an award on matters beyond the scope of the arbitration or the arbitration commission having no jurisdiction).

Any party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not located within the PRC may apply to a foreign court with jurisdiction over the case for enforcement of the award. Likewise, an arbitral award made by a foreign arbitration body may be recognized and enforced by a PRC court in accordance with the principle of reciprocity or any international convention concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention") adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention

shall be recognized and enforced by other parties thereto subject to their rights to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of that state. At the time of the PRC's accession to the Convention, the Standing Committee of the NPC declared that (i) the PRC will only recognize and enforce foreign arbitral awards based on the principle of reciprocity; and (ii) the New York Convention will only be applied to disputes deemed under PRC law to be arising from contractual or non-contractual mercantile legal relations.

An arrangement for reciprocal enforcement of arbitral awards between Hong Kong and the PRC was made on 18 June 1999 and became effective on 1 February 2000. The arrangement allows awards made by PRC arbitral authorities to be enforced in Hong Kong and awards by Hong Kong arbitral authorities to be enforced in the PRC. If it is considered that the enforcement of awards by Hong Kong arbitral authorities is not in the public interest of China, the court of PRC may decline the enforcement of such awards.

#### **SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW**

The Hong Kong laws applicable to a company incorporated in Hong Kong are based on the Companies Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC that is seeking a primary listing of shares on the Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of certain material differences between Hong Kong company laws applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

##### **Corporate Existence**

Under Hong Kong company laws, a company with share capital, is incorporated by the Registrar of Companies in Hong Kong which issues a certificate of incorporation to the company upon its incorporation and the company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain pre-emptive provisions. A public company's articles of association do not contain such pre-emptive provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or public subscription.

**Share Capital**

Under the new Companies Ordinance, the concept of the nominal value (also known as par value) of shares of a Hong Kong company has been abolished, and the companies have increased flexibility to alter its share capital by (i) increasing its share capital; (ii) capitalizing its profits; (iii) allotting and issuing bonus shares with or without increasing its share capital; (iv) converting its shares into larger or smaller number of shares; and (v) canceling its shares. The concept of authorized capital no longer applies to a Hong Kong company formed on or after 3 March 2014 as well. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not provide for authorized share capital. Our registered capital is the amount of our issued share capital. Any increase in our registered capital must be approved by our shareholders' general meeting and the relevant PRC governmental and regulatory authorities.

Under the Securities Law, a company which is authorized by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and asset verification must be carried out to ensure no overvaluation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

**Restrictions on Shareholding and Transfer of Shares**

Under PRC law, our Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the state, PRC legal persons, natural persons, qualified foreign institutional investors, or eligible foreign strategic investors. Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors. In addition, pursuant to the Announcement on Officially Launching the Pilot Shanghai-Hong Kong Stock Connect (《批准啟動滬港股票交易互聯互通機制試點的公告》) (the "Shanghai-Hong Kong Stock Connect Notice") jointly announced by the CSRC and the Securities and Futures Commission of Hong Kong on 10 November 2014, qualified PRC investors could buy specified overseas listed shares through systems such as the Shanghai-Hong Kong Stock Connect.

Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to our document cannot be transferred within one year from the

listing date of the shares on a stock exchange. Shares in a joint stock limited liability company held by its directors, supervisors and managers and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company's issue of shares and the 12-month lockup on controlling shareholders' disposal of shares, as illustrated by the undertakings given by us and our Controlling Shareholders to the Stock Exchange described in the section headed "Share Capital" in this prospectus.

### **Financial Assistance for Acquisition of Shares**

The PRC Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing financial assistance for the purpose of an acquisition of such shares similar to those under the Hong Kong company law.

### **Variation of Class Rights**

The PRC Company Law has no special provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, please refer to the section headed "Appendix V – Summary of Articles of Association" to this prospectus for details.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of the company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

### **Directors, Senior Management and Supervisors**

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions,

however, contain certain restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office.

### **Board of Supervisors**

Under the PRC Company Law, a joint stock limited company's directors and managers are subject to the supervision of a Board of Supervisors. There is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

### **Derivative Action by Minority Shareholders**

Hong Kong laws permit minority shareholders to initiate a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name.

The PRC Company Law provides shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate their fiduciary obligations and diligent duties to a company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the board of supervisors to initiate proceedings in the people's court. In the event that the board of supervisors violates their fiduciary obligations and diligent duties to a company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the board of supervisors or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favour of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors in default.

**Protection of Minorities**

Under Hong Kong laws, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

**Notice of Shareholders' Meetings**

Under the PRC Company Law, notice of a shareholder's annual general meeting must be given not less than 20 days before the meeting. Under the Special Regulations and the Mandatory Provisions, at least 45 days' written notice must be given to all shareholders, and shareholders who wish to attend the meeting must reply in writing at least 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum period of notice of a general meeting, other than an annual general meeting, is 14 days. The notice period for an annual general meeting is 21 days.

**Quorum for Shareholders' Meetings**

Under Hong Kong laws, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member. The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that general meetings may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent at least 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter.

**Voting**

Under Hong Kong laws, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting.

**Financial Disclosure**

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its shareholders' annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its financial statements, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

**Information on Directors and Shareholders**

The PRC Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the shareholders' rights of Hong Kong companies under Hong Kong law.



**Receiving Agent**

Under the PRC Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong laws is six years, while under the PRC law this limitation period is three years. The Mandatory Provisions require the relevant company to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of overseas listed foreign shares dividends declared and all other monies owed by the company in respect of its shares.

**Corporate Reorganisation**

Corporate reorganisation involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to the Companies Ordinance, which requires the sanction of the court. Under PRC law, merger, division, dissolution or change to the status of a joint stock limited liability company has to be approved by shareholders in general meeting.

**Dispute Arbitration**

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through legal proceedings in the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

**Mandatory Deductions**

Under the PRC Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong laws.

**Remedies of our Company**

Under the PRC Company Law, if a director, supervisor or senior management in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or senior management should be responsible to the company for such damages. In addition, the Listing Rules require listed companies' articles to provide for remedies of the company similar to those available under Hong Kong laws (including rescission of the relevant contract and recovery of profits from a director, supervisor or officer).



**Dividends**

The company has the power in certain circumstances to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong laws, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is three years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

**Fiduciary Duties**

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Special Regulations, directors and supervisors are not permitted to engage in any activities which compete with or damage the interests of their company.

**Closure of Register of Shareholders**

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas, as required by the PRC Company Law and the Mandatory Provisions, share transfers shall not be registered within 30 days before the date of a shareholders' meeting or within five days before the base date set for the purpose of distribution of dividends.

This appendix sets out the summary of the principal provisions of the Articles of Association of the Company and their subsequent amendments which will be effective on the listing date. The principal objective of this appendix is to provide potential investors with an overview of the Articles of Association of the Company, hence it does not contain all information that may be important to potential investors. As stated in the section “Documents to be Delivered to the Registrar of Companies in Hong Kong and Available for Inspection” in Appendix VIII of this prospectus, the full Chinese text of the Articles of Association is available for inspection.

## **DIRECTORS**

### **Power to allocate and issue shares**

The Articles of Association does not contain clauses that authorize the Board of Directors to allot or issue shares. The Board of Directors shall prepare proposals for share allotment or issuance, which are subject to Shareholders’ approval in general meeting in the form of a special resolution. Any such allotment or issuance shall be in accordance with the procedures stipulated in applicable laws and administrative regulations.

### **Power to dispose of the PRC issuer’s or its subsidiaries’ assets**

Upon a disposal of the fixed assets by the Board of Directors, if the sum of the expected value of the fixed assets to be disposed of, and the aggregate value received from the fixed assets of the Company disposed of within the four months immediately preceding this proposal for disposal exceeds 33% of the value of fixed assets indicated on the latest audited balance sheet submitted to the Shareholders’ general meeting, the Board of Directors shall not dispose of or agree to dispose of such fixed assets without the prior approval of the Shareholders’ general meeting.

The above disposal of fixed assets refers to the transfer of rights and interests in certain assets, but does not include the provision of guarantees with fixed assets.

The validity of the transactions with respect to the disposal of fixed assets by the Company shall not be affected by the violation of the above restrictions found in the Articles of Association.

### **Compensation or payments for loss of office**

It shall be provided in the written contract entered into between the Company and the Directors or Supervisors in connection with their emoluments that they are entitled to compensation or other payments for loss of office or retirement as a result of the acquisition of the Company, subject to the approval of the Shareholders’ general meeting in advance. Acquisition of the Company refers to any of the following circumstances:

- (I) an acquisition offer made to all of the Shareholders by any person; or

- (II) an acquisition offer made by any person such that the said person will become the controlling shareholder. The definition of controlling shareholder is consistent with that in the Articles of Association.

If the relevant Director or Supervisor fails to comply with the requirements stipulated within this provision, any payment received by such Director or Supervisor shall belong to the person who sells the Shares for accepting the aforesaid offer. The Director or Supervisor shall bear all expenses arising from the distribution of such payments in a proportional manner and all related expenses shall not be deducted from these payments.

#### **Loans to Directors, Supervisors and other senior management**

The Company shall neither provide the Directors, Supervisors, the managers or other senior management of the Company or the parent company with loans or loan guarantees either directly or indirectly; nor provide persons related to the above personnel with loans or loan guarantees.

The preceding provisions shall not apply in the following circumstances:

- (I) The Company provides loans its subsidiaries or the Company provides loan guarantees for its subsidiaries;
- (II) The Company provides the Directors, Supervisors, the manager and other senior management with loans, loan guarantees or other funds pursuant to the appointment contracts approved at the Shareholders' general meeting to pay the expenses incurred for the purpose of the Company or performing his or her duties to the Company; and
- (III) In case that the normal scope of business of the Company covers the provision of loans or loan guarantees, the Company may provide the Directors, Supervisors, the manager or other senior management or his or her related personnel with loans or loan guarantees, provided that conditions for provision of loans and loan guarantees shall be normal commercial conditions.

As for such loans provided by the Company in violation of the preceding provisions, the person who receives the loan(s) must forth with repay such loan(s) immediately, regardless of the terms of said loans.

Any guarantee for a loan provided by the Company in violation of the above requirements shall not be mandatorily enforced against the Company, except under the following circumstances:

- (I) Provision of loans to personnel related to the Directors, Supervisors, the manager and other members of senior management of the Company or its parent company and the loan provider has no knowledge of the relevant circumstances at the time of making the loan;
- (II) The loan provider has lawfully sold the collateral provided by the Company to a bona fide purchaser.

For the purpose of the above, guarantee includes the acts of the guarantor bearing the liabilities or providing properties to ensure that the obligor performs the obligations.

**Provision of financial assistance to purchase the PRC issuer's or its subsidiaries' shares**

The Company or its subsidiaries shall not provide any financial aid at any time or in any manner to any person that acquires or plans to acquire the shares of the Company. Such person includes anyone who undertakes obligations, directly or indirectly, resulting from acquiring the Shares.

The Company or its subsidiaries shall not provide the person mentioned in the preceding paragraph with financial aid at any time or in any manner, to mitigate or discharge the obligations of the abovementioned obligor.

The following activities are not deemed as activities prohibited by the preceding provision:

- (I) Related financial aid provided by the Company is genuinely for the interest of the Company and the main purpose of the financial aid is not to acquire the shares of the Company, or such financial aid is an incidental part of a master plan of the Company;
- (II) The lawful distribution of the Company's properties by way of dividends;
- (III) Distribution of dividends in the form of Shares;
- (IV) Reducing the registered capital, repurchasing the shares or adjusting the shareholding structure, etc. pursuant to the Articles of Association;
- (V) The Company providing loans within its scope of business and in the ordinary course of its business (provided that such loans shall not result in a reduction of the net assets of the Company or even if the net assets are reduced, such financial aid is provided out of the distributable profit of the Company);
- (VI) The Company providing the employee stock ownership plan with funding (provided that such funds shall not result in reduction in the net assets of the Company or even if the net assets are reduced, such financial aid is provided out of the distributable profit of the Company).

The financial aid mentioned above includes but not limited to the following approaches:

- (I) Gifts;
- (II) Provision of guarantees (including acts of the guarantor assuming liabilities or providing properties to ensure that the obligor performs the obligations), provision of compensation (excluding compensation arising out of the Company's own fault), release or waiver of rights;

(III) Provision of loans or signing of contracts whereby the Company performs obligations before others, change of the parties to the loans or contracts as well as the transfer of the rights under the loans or contracts;

(IV) Financial aid provided by the Company in any other manner when it is insolvent, has no net assets, or when its net assets would thereby be reduced to a material extent.

The abovementioned assuming obligations includes an instance where an obligator undertakes obligations by entering into contracts or making arrangements (no matter whether the contracts or arrangements are mandatorily enforceable or whether the obligator bears the obligations by himself or herself or jointly with any other person) or changing its financial status in any other manner.

#### **Disclosure of interests in contracts with the PRC issuer or its subsidiaries**

A Director, Supervisor, Manager and other members of senior management of the Company who directly or indirectly has material interests in any contracts, transactions or arrangements executed or proposed to be executed with the Company (except for the appointment contracts of service between the Directors, Supervisors, Manager and other members of senior management and the Company), shall, as soon as possible, disclose to the Board of Directors, the nature and extent of his interest, regardless of whether or not such matters require the approval of the Board of Directors under the normal circumstance.

Unless the interested Directors, Supervisors, Manager and other members of senior management of the Company have made such disclosure to the Board of Directors as required by the preceding paragraph of this article, and the relevant matter has been approved by the Board of Directors at the Board meeting in which such Directors, Supervisors, Manager or other members of senior management have not been counted into the quorum and voted at the meeting, the Company shall be entitled to rescind such contracts, transactions or arrangements, except as to any other party which is a bona fide party without knowledge of the violation of duties on the part of such Directors, Supervisors, Manager and other members of senior management.

Where related personnel of the Directors, Supervisors, Manager and other members of senior management have interests in certain contracts, transactions or arrangements, such Directors, Supervisors, Manager and other members of senior management shall also be deemed to have interests.

**Remuneration**

The Company shall enter into written agreements with the Directors and Supervisors of the company regarding remuneration, which shall be subject to prior approval of the Shareholders' general meeting. The foregoing remuneration matters include:

- (I) Remuneration for providing services as the Directors, Supervisors or members of senior management of the Company;
- (II) Remuneration for providing services as the Directors, Supervisors or members of senior management of the subsidiaries of the Company;
- (III) Remuneration for providing other services for management of the Company and its subsidiaries;
- (IV) Compensation received by the Directors or Supervisors as a result of loss of position or retirement.

Except under a contract entered into in accordance with the foregoing paragraph, no proceedings may be brought by a Director or Supervisor against the Company for any benefits due to him in respect of the above matters.

**Retirement, appointment, removal**

Serve as the Director, Supervisor, manager or one of the member of other senior management of the Company if:

- (I) he does not possess civil capacity or possess limited civil capacity;
- (II) he has been convicted for corruption, bribery, infringement of property or misappropriation of property or other offences which disrupted the social or economic order, in which a period of less than five years has lapsed since the sentence was served, or he has been deprived of his political rights, where a period of less than five years has lapsed since the sentence was served;
- (III) he is a former Director, factory manager or manager of a company or an enterprise which has been dissolved or liquidated due to poor operation and management and is personally liable for the dissolution or liquidation of such company or enterprise, where a period of less than three years has lapsed since the date of completion of the dissolution or liquidation of such company or enterprise;
- (IV) he is a former legal representative of a company or an enterprise the business licence of which was revoked and such company or enterprise was ordered to wind up as a result of violation of laws and is personally liable therefor, where a period of less than three years has lapsed since the date of revocation of the business licence of such company or enterprise;

- (V) he has a relatively substantial amount of debts which have become overdue;
- (VI) he is currently under investigation by judicial authorities for violation of criminal law;
- (VII) he is not permitted to act in the capacity of leader of an enterprise according to laws and administrative regulations;
- (VIII) he is not a natural person;
- (IX) he has been determined by relevant competent authorities for violation of relevant applicable securities regulations and such conviction involves a finding that he has acted fraudulently or dishonestly, where a period of less than five years has lapsed from the date of such determination.

The validity of any act carried out by a Director, manager or other members of senior management of the Company on the Company's behalf to a bona fide third party shall not be affected by any irregularity in his office, election or any defect in his qualifications.

The fiduciary duty of a Director, Supervisor, manager and other senior management of the Company may not necessarily cease upon the conclusion of his term, and their obligations to keep the commercial secrets of the Company shall survive beyond the conclusion of his term. The duration of other obligations and duties shall be determined in accordance with the principle of fairness, taking into account the lapse between the time when a Director, Supervisor, Manager or other members of senior management of the Company leaves the office and the occurrence of the relevant event, and the situation and the circumstances under which his relation with the Company was ceased.

The shareholders may by informed decisions at the general meeting to discharge the liability of any Director, Supervisor, Manager and any other members of senior management of the Company as a result of violation of any specific duty, except for the circumstances as specified in Article 61 of the Articles of Association.

The Company shall have a Board of Directors consisting of 9 Directors, of which there shall be 1 chairman, 1 vice chairman and 3 independent non-executive directors.

Directors shall be elected at the general meeting, with a term of three years. Directors may be eligible for re-election upon expiration of the term.

A written notice of the intention of nomination of a Director candidate and of his willingness to be elected shall be sent to the Company seven days prior to the date of the general meeting.

Without violating the relevant laws, regulations and regulatory rules in connection with the listing of the Company, the term of appointment of the newly elected director to fill a casual vacancy in the Board or any director appointed so as to increase the number of directors will be effective from the date of appointment to the next annual general meeting of the Company and such director will then be eligible for re-election.

The Chairman and the Vice Chairman shall be elected and removed with approval of more than half of all the directors. The Chairman and the Vice Chairman shall hold office for a period of three years and are eligible for re-election.

A Director needs not to hold the shares of the Company.

There is no provisions in the Articles of Association relating to retirement of Directors upon reaching any age limit.

The Board of Directors of the Company shall consist of at least three independent non-executive Directors, representing at least one-third of its total number; and at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise. Moreover, at least one of the independent non-executive Directors of the Company must be ordinarily resident in Hong Kong.

### **Borrowing powers**

Subject to the compliance with applicable laws and regulations of PRC, the Company has the power to raise and borrow money. The Articles of Association do not contain any specific provision in respect of the manner in which borrowing powers may be exercised by the Directors nor do they contain any specific provision in respect of the manner in which such powers may be varied, other than: (a) provisions which give the Directors the power to formulate proposals for the issuance of debentures by the Company, and (b) provisions which provide that the issuance of debentures of the Company must be approved by the shareholders in the general meeting by way of a special resolution.

### **ALTERATIONS TO CONSTITUTIONAL DOCUMENTS**

The Company may amend the Articles of Association based on the provisions of the laws, administrative regulations and Articles of Association.

Where the amendments to the Articles of Association involve the contents of the Mandatory Provisions, it shall not take effect until approved by the competent company examinations department authorized by the State Council and the CSRC; where the amendment of the Articles of Association involves the Company's registration, it shall be necessary to carry out the lawfully prescribed procedures for a change in registration.

### **VARIATION OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES**

Shareholders who hold different classes of shares shall be known as class shareholders.



Class shareholders shall be entitled to rights and assume obligations according to the provisions of laws, regulations and the Articles of Association. Where the capital of the issuer includes shares which do not carry voting rights, the words “non-voting” shall appear in the designation of such shares.

Where the share capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favourable voting rights, must include the words “restricted voting” or “limited voting”.

Rights conferred on any class of shareholders in the capacity of shareholders may not be varied or abrogated unless approved by a special resolution of shareholders at a general meeting, and by the class shareholders so affected at a separate meeting conducted according to Articles 97 to 101 of the Articles of Association. The quorum for such separate class meeting (other than an adjourned meeting) shall be the holders of at least one-third of the issued shares of the class.

The following circumstances shall be deemed as a variation or abrogation of rights of a class shareholder:

- (I) an increase or decrease in the number of shares of such class, or an increase or decrease in the number of shares of another class having voting rights or distribution rights or other privileges equal to or superior to those of the shares of such class;
- (II) the conversion of all or part of the shares of such class into the shares of another class or the conversion or creation of a right of conversion of all or part of the shares of another class into the shares of such class;
- (III) the removal or reduction of rights to receive accrued dividends or rights to cumulative dividends attached to the shares of such class;
- (IV) the reduction or removal of the preferential rights attached to the shares of such class for the receipt of dividends or for the distribution of assets in the event that the Company is liquidated;
- (V) the addition, removal or reduction of the rights of conversion, options rights, voting rights, transfer rights, pre-emptive rights, or rights to acquire securities of the Company attached to the shares of such class;
- (VI) the removal or reduction of the rights to receive payment receivable from the Company in the particular currencies attached to the shares of such class;
- (VII) the creation of a new class of shares having voting rights or distribution rights or other privileges equal to or superior to those of the shares of such class;
- (VIII) the restriction of the transfer or ownership of the shares of such class or the imposition of stricter restrictions thereof;

- (IX) the issue of any rights to subscribe for, or to convert into, shares in the Company of the same class or another class;
- (X) the enhancement of rights or privileges of the shares of other classes;
- (XI) the restructuring of the Company pursuant to which shareholders of different classes assume disproportionate liability;
- (XII) the revision or abrogation of the provisions of this Chapter.

The class shareholders so affected, whether or not otherwise entitled to vote at a general meeting, shall nevertheless be entitled to vote at any class meeting with respect to matters set forth in Clauses (II) to (VIII), (XI) to (XII) above, but interested shareholder(s) shall not be entitled to vote in class meetings.

Apart from the holders of other classes of shares, holders of domestic shares and holders of non-listed foreign shares shall be deemed to be of the same class; holders of domestic shares and holders of overseas listed foreign shares shall be deemed to be of different classes; and holders of non-listed foreign shares and holders of overseas listed foreign shares shall be deemed to be of different classes.

The special procedures for voting of class shareholders shall not apply under the following circumstances:

- (I) where, upon approval by a special resolution passed at a general meeting (subject to the unconditional authorisation or the terms and conditions stipulated in the resolution), the Company authorises, allocates or issues domestic shares and overseas listed foreign shares either separately or concurrently once every twelve months, and the number of each of the domestic shares and overseas listed foreign shares to be issued does not exceed 20% of the number of the respective outstanding shares;
- (II) where such shares are part of a plan of the Company to issue domestic shares or overseas listed foreign shares at its establishment, which is completed within 15 months from the approval by the CSRC or other competent regulatory bodies under the State Council.

### **SPECIAL RESOLUTIONS – MAJORITY REQUIRED**

The resolutions of the Shareholders' general meeting are categorized as ordinary resolutions and special resolutions.

An ordinary resolution can be adopted by one-half of the votes held by the Shareholders (including proxies) in attendance of the Shareholders' general meeting.

A special resolution can be adopted by two-thirds majority of the votes held by the Shareholders (including proxies) in attendance of the Shareholders' general meeting.

#### **VOTING RIGHTS (GENERALLY AND ON A POLL)**

When voting at the Shareholders' general meeting, the Shareholder (or proxy) may exercise his or her voting rights in accordance with the number of Shares with voting power held with each Share representing one vote.

When voting at a general meeting, shareholders (including their proxies) who are entitled to two or more votes are not required to vote against or in favor of their total number of votes.

When the number of dissenting votes equals to the number of supporting votes, no matter by a show of hands or by a vote, the chairman of the meeting is entitled to one additional vote.

#### **REQUIREMENTS FOR GENERAL MEETINGS**

The Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. The Board of Directors may convene a general meeting. The annual general meeting shall be convened once a year and be held within six months upon the end of the previous fiscal year.

#### **ACCOUNTS AND AUDIT**

##### **Financial and accounting policies**

The Company shall establish its financial and accounting systems in accordance with the laws, administrative regulations and accounting principles of the PRC formulated by the Ministry of Finance.

A financial report shall be prepared at the end of each financial year and shall be examined and verified according to laws.

The Board of Directors shall present to the shareholders, at each annual general meeting, such financial reports as required by applicable laws, administrative regulations, directives promulgated by local government and competent authorities. The Company shall make up its annual accounts to a date falling not more than 6 months before the end date of such fiscal year or the accounting reference period in respect of the annual financial statement.

The Company's financial reports shall be made available for shareholders' inspection at the Company 20 days prior to the date of annual general meeting. Each shareholder of the Company is entitled to obtain a copy of the financial reports referred to in this Chapter.

The financial statements of the Company shall, in addition to being prepared in accordance with the PRC accounting standards and regulations, be prepared in accordance with either international accounting standards or that of the place of listing overseas where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, explanations shall be given in the notes to the financial statements. When the Company distributes its after-tax profits for that financial year, the lower of the after-tax profits as shown in (i) the financial statement prepared in accordance with the PRC accounting standards and regulation; or (ii) the international accounting standards or that of the place of listing overseas where the Company's shares are listed, shall be adopted.

The interim results or financial information published or disclosed by the Company shall be prepared in accordance with the PRC accounting standards and regulations as well as the international accounting standards or such accounting standards in the place of listing overseas.

The Company shall publish the financial report twice each accounting year, namely, publish the interim financial report within 60 days after the end of the first 6 months of the accounting year, and publish the annual financial report within 120 days after the end of the accounting year.

The Company shall not establish account books other than those required by law. The assets of the Company shall not be deposited in any account opened under a personal name.

#### **Appointment and Dismissal of Accountants**

The Company shall retain an independent accounting firm that fulfils the requirements provided by the relevant regulations of the PRC to audit the Company's annual financial report and review the Company's other financial reports. For the purposes of the Articles of Association, the accounting firm retained by the Company at any time shall be the Company's auditor.

The term of an accounting firm retained by the Company shall commence upon the conclusion of one annual general meeting and shall sustain until the conclusion of the next annual general meeting of the Company.

The accounting firm engaged by the Company shall have the following rights:

- (I) to inspect books, records and vouchers of the Company at any time, and to require the Directors, manager and other members of senior management of the Company to provide relevant information and explanations;
- (II) to require the Company to take all reasonable steps to obtain from its subsidiaries any information and explanations necessary for the discharge of its duties;

(III) to attend any general meeting and to receive all notices of, and other informations relating to, any general meeting which any shareholder is entitled to receive, and to speak at any general meeting in relation to matters concerning its role as the Company's retained accounting firm.

Irrespective of the provisions in the contract concluded between the Company and the accounting firm, the general meeting may remove the accounting firm by an ordinary resolution before the term of the accounting firm expires. Notwithstanding such provisions, the accounting firm's entitlement to claim for damages arising out of its removal shall not be affected thereby.

The remuneration of an accounting firm or the manner in which such firm is to be compensated shall be decided by the general meeting. The remuneration of an accounting firm retained by the Board of Directors shall be decided by the Board of Directors.

The general meeting shall decide to retain, remove or discontinue the retention of an accounting firm and file with the CSRC.

#### **NOTICE AND AGENDA OF SHAREHOLDER'S GENERAL MEETING**

The Shareholders' general meeting is the authorized organ of the Company that can perform duties and exercise powers in accordance with the law.

Without the approval of a resolution of the Shareholders' general meeting, the Company shall not enter into a contract with any person other than the Directors, Supervisors, the manager and other senior management that would make such person responsible for the management of all or the main business of the Company.

Under any of the following circumstances, the Board of Directors shall convene an extraordinary general meeting within two months:

- (I) The number of Directors is less than the number specified in the Company Law or less than two thirds of the number required in the Articles of Association;
- (II) The uncovered losses of the Company reach one-third of its total paid-in share capital;
- (III) The Shareholders holding 10% or more issued Shares with voting rights request to convene an extraordinary general meeting in writing;
- (IV) The Board of Directors considers it necessary or the Supervisory Committee proposes convening an extraordinary general meeting.

When convening a Shareholders' general meeting, the Company shall send a written notice to inform all registered Shareholders of the matters to be deliberated at the meeting as well as the date and venue of the meeting 45 days before it is convened. Shareholders planning to attend shall send to the Company a written reply to that effect 20 days before the meeting is held.

At the Company's annual general meeting, the Shareholders individually or jointly holding 5% or more Shares with voting rights are entitled to submit written proposals to the Company.

The Company shall calculate the number of Shares with voting rights represented by the Shareholders planning to attend the Shareholders' general meeting in accordance with the written replies received 20 days before the meeting is convened. In the event that the number of Shares with voting rights represented by the Shareholders planning to attend is no less than one-half of the total number of Shares with voting power, the Company may convene the Shareholders' general meeting. If not, the Company shall again inform the Shareholders of all matters to be deliberated and the date and venue of the new meeting within five days in the form of an announcement before the Shareholders' general meeting may be convened.

The notice of the Shareholders' general meeting shall meet the following requirements:

- (I) Made in writing;
- (II) Specified the venue, date and duration of the meeting;
- (III) Specified the matters and resolutions to be deliberated at the meeting;
- (IV) Provision to the Shareholders of the materials and explanations necessary for the Shareholders to make sound decisions about the matters to be deliberated. This principle includes, but is not limited to, the provision of the detailed terms and contract(s), if any, of the proposed transaction(s) and serious explanations about related causes and effects when the Company proposes mergers, redemption of shares, restructuring of stock capital or other restructuring;
- (V) In the event that any of the Directors, Supervisors, the manager or other senior management has material interests at stake in matters to be deliberated, the nature and extent of the interests at stake shall be disclosed. If the matters to be deliberated affect any Director, Supervisor, the manager or other senior management as a Shareholder in a manner different from how they affect other Shareholders of the same type, the difference shall be explained;
- (VI) Inclusion of the full text of any special resolution to be proposed for adoption at the meeting;
- (VII) A clear explanation that the Shareholder is entitled to attend and vote at the general Shareholders' meeting, or to appoint one or more proxy(ies) to attend and vote at the meeting on his or her behalf and that such person(s) may not necessarily be a Shareholder(s) of the Company;
- (VIII) Specified delivery time and place of the power of attorney for proxy voting of the meeting; and

- (IX) Name and telephone number of the contact person in relation to the shareholders' general meeting.

The notice of the Shareholders' general meeting shall be sent in person or by postage paid mail, to the Shareholders (regardless of whether such Shareholders have the right to vote at the Shareholders' general meeting or not), and each recipient's address shall be according to the address indicated on the register of Shareholders. For holders of Domestic Shares, the notice of the Shareholders' general meeting may be given in the form of a public announcement.

The public announcement provided in the preceding provision shall be published in one or more newspapers designated by the CSRC within a period of 45 to 50 days before the meeting is convened. Once the announcement is made, all holders of Domestic Shares shall be deemed to have received the notice of the Shareholders' general meeting.

In the event that the notice of the meeting is not sent to persons entitled to receive it due to accident or oversight, or such persons fail to receive notice of the meeting, the meeting and resolutions made at the meeting shall not be held invalid.

The following matters shall be resolved by ordinary resolutions at the general meeting:

- (I) reports of the Board of Directors and the Board of Supervisors;
- (II) any plans for the distribution of profits and for recovering losses formulated by the Board of Directors;
- (III) removal of the members of the Board of Directors and Supervisors, and decision on their remuneration and methods of payment;
- (IV) preliminary and final annual budgets, balance sheets, profit accounts, and other financial statements of the Company;
- (V) other matters other than those required by laws, administrative regulations, or by the Articles of Association to be approved by a special resolution.

The following matters shall be resolved by special resolutions at the general meeting:

- (I) the increase or reduction in share capital and the issuance of shares of any class, warrants and other similar securities;
- (II) the issuance of debentures of the Company;
- (III) the division, merger, dissolution, liquidation or change in the form of the Company;
- (IV) the amendments to the Articles of Association;

- (V) other matters that ordinary resolutions have been made at the general meeting indicating that resolutions regarding such matters will substantially impact the Company and such matters need to be passed by special resolutions.

Where the Shareholders request the Board to convene an extraordinary general meeting or classified Shareholders' meeting, the following procedures shall be followed:

- (I) The Shareholders who separately or jointly hold 10% or more of the Shares with voting rights may request the Board to convene an extraordinary general meeting or classified Shareholders' meeting by signing a written requirement or several copies with the same format and to illustrate the subject of the meetings. The Board of Directors shall convene an extraordinary general meeting or classified Shareholders' meeting as soon as possible upon the receipt of the aforesaid written request. The Shareholders shall calculate the aforesaid number of shareholdings as from the date of the submission of the written requirement.
- (II) If the Board of Directors fails to issue a notice of meeting within 30 days upon the receipt of the aforesaid written request, the Shareholders who submit the requirement may call and convene a meeting by themselves within 4 month after the Board of Directors receives the said request, of which the convening procedure shall be at best the same as if convened by the Board of Directors.

If the Shareholders call and convene a meeting by themselves due to the Board of Directors being unable to convene a meeting in accordance with the aforesaid requirement, the expenses reasonably resulted therefrom shall be borne by the Company and be deducted from the amounts due to the Directors as a result of loss of office.

The Chairman of the Board of Directors shall preside over the general meetings. If the Chairman of the Board is unable to attend the meeting for any reason, the meeting shall be chaired by the Vice Chairman of the Board. If both the Chairman of the Board and the vice Chairman of the Board are unable to attend the meeting, the Board of Directors may appoint a director of the Company to call and chair the meeting. In the event that no chairman of the meeting is so designated, the attending shareholders shall elect one of the directors to act as the chairman of the meeting. In the event that, for any reasons, the shareholders fail to elect a chairman, then the shareholder holding the largest number of the voting shares present in person or by proxy shall be the chairman of the meeting.



**TRANSFER OF SHARES**

Fully paid H shares may be freely transferred pursuant to the Articles of Association. However, unless the transfer complies with the following conditions, the Board of Directors may refuse to process with transfer documents without stating any reasons therefor:

- (I) That transferring and other documents relating to or affecting the title to any registered securities shall be registered and the fee or fees levied pursuant to the Listing Rules is/are paid to the Company;
- (II) The transferring documents relate only to H shares;
- (III) The stamp duty payable on the transferring documents has been paid;
- (IV) The relevant share certificates and the evidence as required by the Board of Directors to prove that the transferor has the right to transfer the shares have been provided;
- (V) If the shares is to be transferred to joint holders, the number of the joint holders shall not exceed four;
- (VI) The shares is free from all lien;
- (VII) No share shall be transferred to minors, mentally disabled persons or any persons without legal capacity.

**POWER OF THE PRC ISSUER TO REPURCHASE ITS OWN SHARES**

The Company may repurchase its shares upon the approval by relevant competent authorities of the PRC and according to the procedures set forth in the Articles of Association under the circumstances below:

- (I) reducing its capital;
- (II) merging with other companies that hold shares of the Company;
- (III) awarding shares to the employees of the Company;
- (IV) shareholders objecting to resolutions of the general meeting concerning merger or division of the Company, requiring the Company to buy their shares;
- (V) other circumstances specified by laws and administrative regulations.

Repurchase of the Company's shares for reasons set out in Clauses (I) to (III) of this article shall be subject to resolution at a general meeting. After the Company has repurchased its shares in accordance with the preceding clauses of this article, such shares shall be cancelled within 10

days after repurchase in the circumstances set out in Clause (I), or shall be transferred or cancelled within 6 months in the circumstances set out in Clauses (II) and (IV). Shares repurchased by the Company in accordance with Clause (III) of this article shall not exceed 5% of the total shares issued by the Company; the repurchase cost shall be covered by the after-tax profit of the Company; and the shares repurchased shall be transferred to employees within one year.

As approved by relevant authorities, the Company may repurchase its shares by the following means:

- (I) by making a general offer to all of its shareholders for the repurchase of shares on a pro rata basis;
- (II) by open dealing on a stock exchange;
- (III) by an off-market agreement outside of the stock exchange.

After the Company repurchases shares in accordance with law, it shall cancel or transfer such shares in accordance with laws and administrative regulations, and shall apply to the Market Supervision Administration of Taizhou City, Zhejiang Province for change in registered capital or shareholding and make announcement accordingly.

The aggregate par value of the cancelled shares shall be deducted from the Company's registered capital.

#### **POWER OF ANY SUBSIDIARY OF THE PRC ISSUER TO OWN SHARES IN ITS PARENT**

The Articles of Association contains no restrictions preventing any subsidiary of the Company from holding shares.

#### **DIVIDENDS AND OTHER METHODS OF DISTRIBUTION**

The Company's after-tax profit shall be allocated in the following order:

- (I) the making up of any loss;
- (II) allocation to the statutory reserve fund;
- (III) setting aside of any reserves in accordance with the resolution passed at the general meeting;
- (IV) payment of ordinary share dividends. No profit shall be distributed as dividends or in any other form as bonus before making up losses and setting aside of the Company's statutory reserve fund.

Any amount paid up in advance of calls on any shares may carry interest but shall not entitle the holder of such shares to participate in respect thereof in a dividend subsequently declared.

The power to cease sending dividend warrants by post will not be exercised until such dividend warrants have been so left uncashed on two consecutive occasions. However, such power may also be exercised after the first occasion on which such a dividend warrant is returned undelivered.

Subject to the laws and regulations of the PRC and the rules of Stock Exchange of Hong Kong Limited, the Company may exercise its power to forfeit unclaimed dividends, but only upon the expiry of the period for which the dividends can be claimed.

With regard to the exercise of power to issue warrants in bearer form, no new warrants shall be issued to replace one that has been lost, unless the Company is satisfied beyond reasonable doubt that the original has been destroyed.

The capital reserve fund shall include the followings:

- (I) any premium which exceeds the proceeds from issuance of shares at par value;
- (II) any other income credited to the capital reserve fund as required by the finance department of the State Council.

Reserves of the Company may be applied towards the following objectives:

- (I) making up of losses, except that capital reserves may not be used.
- (II) conversion into capital. In the case of conversion of statutory reserves into capital through capitalisation, the balance of the statutory reserves shall not be less than 25% of the registered capital of the Company prior to the conversion.
- (III) expansion of the Company's production and operation.

The dividend distribution plans of the Company shall be voted at the general meeting. After the Board of Directors takes into account the Company's financial position and subject to the relevant laws and regulations, shareholders may authorise by ordinary resolution the Board of Directors to distribute and pay dividends.

The Company may distribute its dividends in the form of cash or shares.

The Company shall appoint a receiving agent in Hong Kong for the shareholders of the overseas-listed foreign shares.

Such receiving agent shall receive and keep dividends of the overseas-listed foreign shares on behalf of such relevant shareholders so as to be paid to such shareholders. The receiving agent appointed by the Company shall meet relevant requirements of the laws of the places or the relevant regulations of the stock exchange in which the Company's shares are listed. The receiving agent appointed by the Company in respect of H shares listed on the Stock Exchange of Hong Kong Limited shall be a trust company registered under the Trustee Ordinance of Hong Kong.

**PROXIES**

Any Shareholder who is entitled to attend and vote at the Shareholders' general meeting has the right to appoint one or more persons (who may not necessarily be Shareholders) as his or her proxy/ies to attend and vote at the meeting in his or her place. Pursuant to the authorization of the Shareholder, the proxy may exercise the following rights:

- (I) Speak for the Shareholder at the general meeting;
- (II) Demand a poll individually or with others; and
- (III) Exercise the right to vote by a show of hands or a poll, but the Shareholder proxies may only exercise the right to vote by a poll when more than one proxy is appointed.

The Shareholder shall entrust the proxy via written power of attorney, which shall be signed by the principal or the proxy he entrusts in writing. If the principal is a legal person, the power of attorney shall be stamped with the seal of the legal person or signed by the director or the duly appointed proxy. If several persons are appointed as the shareholder's proxies, the power of attorney shall specify the number of shares to be represented by each proxy.

The proxy form shall be deposited at the address of the Company or other places specified in the notice of convening the meeting not less than twenty-four hours prior to the time to convene the meeting according to the proxy form or twenty-four hours prior to the designated time for voting. Where the proxy form is signed by a person authorised by the principal, the power of attorney or other authorisation instruments shall be notarised. The notarised power of attorney or other authorisation instruments, together with the proxy form, shall be lodged at the address of the Company or such other place as specified in the notice to the meeting.

In the case that the principal is a legal person, the proxy shall be authorised by the legal representative, the Board or other authority body of that legal person to attend the Company's general meeting.

Any form issued to Shareholders by the Board of Directors of the Company for the appointment of proxies shall enable Shareholders to freely instruct their proxies to vote for or against any resolution, and give separate instructions in respect of the matters to be voted on under each subject. The proxy form shall contain a statement that a proxy may vote at his own discretion in the absence of specific instructions from the Shareholder.

Where the principal is deceased, incapacitated to act, withdrawn from the appointment or the signed power of attorney, or where the relevant shares have been transferred prior to the voting, a vote given in accordance with the letter of authorization shall remain valid provided that no written notice of such event has been received by the Company prior to the commencement of the relevant meeting.

#### **CALLS ON SHARES AND FORFEITURE OF SHARES**

The Company shall have the right to cease delivering dividend warrants by post to the Shareholders of overseas listed foreign Shares. If such warrants have been left uncashed, such right can only be exercised after the dividend warrants have been left uncashed twice consecutively. However, if a dividend warrant fails to reach the expected recipient in the initial mail delivery and is returned, the Company may exercise the right promptly.

The Company shall have the right to sell the Shares of the Shareholders of overseas listed foreign Shares who are untraceable subject to the following conditions:

- (i) the Company has distributed dividends on such Shares for at least three times in a period of twelve years and the dividends are not claimed by anyone during that period; and
- (ii) after the expiration of the twelve-year period, the Company makes a public announcement in newspapers, stating its intention to sell such Shares, and notifies the Stock Exchange of such intention.

#### **INSPECTION OF REGISTER OF MEMBERS**

The Company shall keep a register of Shareholders, which shall include the following particulars:

- (I) the name (title), address (residence), occupation or nature of each shareholder;
- (II) the class and number of shares held by each shareholder;
- (III) the amount paid-up or payable in respect of shares held by each shareholder;
- (IV) the serial numbers of the shares held by each shareholder;
- (V) the date on which a person registers as a shareholder;
- (VI) the date on which a person ceases to be a shareholder.

The register of shareholders shall be sufficient evidence of the holding of the Company's shares by a shareholder; unless there is evidence to the contrary.

The transfer and transmission of shares shall be entered into the register of Shareholders.

Pursuant to the understanding reached and agreement entered into between the CSRC and the overseas securities regulatory authorities, the Company may keep an overseas register of the holders of the overseas-listed foreign Shares and entrust an overseas entity to manage it.

The original register of Shareholders of overseas-listed foreign Shares Listed in Hong Kong shall be maintained in Hong Kong. And a duplicate of the same shall be maintained in the Company's residence; the appointed overseas agent(s) shall ensure the consistency between the original and the duplicate of the register of Shareholders of overseas listed foreign shares at all times.

If there is any inconsistency between the original and the duplicate of the register of shareholders of overseas-listed foreign shares, the original version shall prevail.

Different parts of the register of Shareholders shall not overlap one another. No transfer of the shares registered in any part of the register shall, during the existence of that registration, be registered in any other parts of the register of Shareholders.

When the Company convenes the general meeting, pays dividends, goes into liquidation and is involved in other actions that require the confirmation of equities, the Board of Directors shall fix a date as the equity registration date. Upon expiration of which the Shareholders whose names appear on the register of Shareholders shall be the Shareholders of the Company.

Any person who objects to the register of Shareholders and requests to register his or her name (title) in the register of Shareholders, or to remove his or her name (title) from the register of Shareholders may apply to the court with jurisdiction to amend the register of Shareholders.

#### **QUORUM FOR GENERAL MEETINGS**

The Company shall calculate the number of voting Shares represented by the Shareholders intending to attend the general meeting according to the written reply received 20 days prior to such meeting. If the number of Shares carrying voting rights represented by the Shareholders intending to attend the meeting no less than one half of the total number of Shares carrying voting rights, the Company may convene the general meeting; if this number is not reached, the Company shall again inform the Shareholders of the matters to be deliberated, the date and venue of the meeting within five days in the form of an announcement before the Shareholders' general meeting is to be convened.

#### **RIGHTS OF THE MINORITIES IN RELATION TO FRAUD OR OPPRESSION THEREOF**

In addition to the obligations as required under laws, administrative regulations or the listing rules of the stock exchange(s) where the Company's Shares are listed, when exercising his rights as a Shareholder, a controlling Shareholder (under the definition of the following

provisions) shall not make decision on the following issues that are detrimental to the interest of all or some of the Shareholders by exercising their voting rights:

- (I) Relieving a Director or Supervisor of their responsibility to act in good faith for the best interests of the Company;
- (II) Approving a Director or a Supervisor (for his/her own or for the benefit of others) in depriving the Company of its assets in any form, including (but not limited to) any opportunities that are advantageous to the Company;
- (III) Approving a Director or a Supervisor (for his/her own or for the benefit of others) in depriving other Shareholders of their personal interests, including (but not limited to) any distribution rights and voting rights, but excluding the Company's restructuring submitted to the general meeting for approval in accordance with the Articles of Association.

The controlling Shareholder(s) referred to in the preceding paragraph shall refer to the person(s) satisfying any of the following conditions:

- (I) The person may elect more than half of the Director(s) when acting alone or in concert with others;
- (II) The person may exercise or control the exercise of 30% or more of voting rights of the Company when acting alone or in concert with others;
- (III) The person holds 30% or more of the outstanding Shares of the Company when acting alone or in concert with others;
- (IV) The person may de facto control the Company in any other manner when acting alone or in concert with others.

#### **PROCEDURES ON LIQUIDATION**

The Company shall be dissolved and liquidated according to laws upon any of the following circumstances:

- (I) A resolution for dissolution is passed at a general meeting;
- (II) A merger or division of the Company for which a dissolution becomes necessary;
- (III) The Company is announced bankrupt according to the laws due to overdue debts;
- (IV) The Company is ordered to be close down for violation of laws and administrative regulations in accordance with the laws;

(V) The term of the Company's business operations has expired.

In the event of dissolution pursuant to Clauses (I) and (V) of the preceding article, the Company shall set up a liquidation committee within 15 days, and the members of the liquidation committee shall be decided by an ordinary resolution at the general meeting. If the liquidation committee is not duly set up, the creditors may request the People's Court to designate related persons to form a liquidation committee to carry out liquidation.

If the Company is dissolved pursuant to Clause (III) of the preceding article, a liquidation committee comprising shareholders, the relevant departments and relevant professionals shall be arranged by the People's Court in accordance with relevant laws to carry out the liquidation.

If the Company is dissolved pursuant to Clause (IV) of the preceding article, a liquidation committee comprising shareholders, the relevant departments and relevant professionals shall be arranged by the relevant supervisory authority to carry out the liquidation.

Where the board of directors has decided to liquidate the Company for any reason other than the Company's declaration of its own insolvency, the Board of Directors shall state in the notice convening the general meeting that it has made full inquiry into the affairs of the Company and is of the opinion that the Company shall be able to settle its debts in full within 12 months from the commencement of the liquidation.

The Board of Directors of the Company shall stop exercising its powers and functions upon passing of the resolution for a liquidation at the general meeting.

The liquidation committee shall act in accordance with the instructions from the general meeting to report at least once every year to the meeting on the committee's income and expenses, the business and the progress of the liquidation of the Company; and to present a final report to the general meeting upon completion of the liquidation.

The liquidation committee shall, within 10 days of its establishment, notify the creditors, and, within 60 days of its establishment, publish at least three times announcements on newspapers. The liquidation committee shall register creditor's rights.

Creditors shall, within 30 days of receipt of the written notice, or for creditors who have not personally received such notice, shall within 45 days of the date of the announcement, contact the liquidation committee to claim their rights. In claiming their rights, the creditors shall explain matters relating to their rights and provide evidentiary materials.

During liquidation, the liquidation committee shall exercise the following functions and powers:

- (I) to organise the Company's assets and prepare a balance sheet and an inventory of assets respectively;



- (II) to notify or to publish an announcement to the creditors;
- (III) to dispose of any continuing businesses of the Company in connection with the liquidation;
- (IV) to pay outstanding taxes;
- (V) to settle claims and debts;
- (VI) to organise the remaining assets subsequent to the settlement of the Company's debts;
- (VII) to represent the Company in civil proceedings.

Following the settlement of the Company's assets and the preparation of a balance sheet and an inventory of assets by the liquidation committee, the liquidation committee shall formulate a liquidation proposal and present it to the general meeting or the relevant competent authorities.

The Company's assets shall be liquidated in accordance with the sequence required by laws and regulations, if there is no applicable law, such liquidation shall be carried out in accordance with a fair and reasonable sequence determined by the liquidation committee.

Any assets of the Company remaining after payment has been made in accordance with the provisions of the preceding paragraph shall be distributed to its shareholders according to the class of shares and the proportion of shares held.

During the liquidation period, the Company shall not commence new business activities.

If the Company is liquidated due to dissolution, the liquidation committee shall immediately apply to the People's Court for a declaration of bankruptcy if it becomes aware, having settled the Company's assets, prepared a balance sheet and an inventory of assets, that the Company's assets are insufficient to repay its debts. Upon the Company being declared bankrupt by a ruling of the People's Court, the liquidation committee shall transfer to the People's Court all matters arising out of the liquidation.

Following the completion of liquidation of the Company, the liquidation committee shall prepare a liquidation report, a statement of income and expenses and financial accounts for the liquidation, which shall be verified by a registered accountant in the PRC and submitted to the general meeting or the relevant competent authorities for confirmation.

The liquidation committee shall, within 30 days of such confirmation of general meeting or relevant competent authorities, submit the aforementioned documents to the Administration for Industry and Commerce of Taizhou City, Zhejiang Province for an application for a cancellation of registration of the Company, and publish an announcement in respect of the termination of the Company.

**ANY OTHER PROVISIONS MATERIAL TO THE PRC ISSUER OR THE SHAREHOLDERS THEREOF****General Provisions**

The Company is a permanently existing joint stock limited liability company.

The Company is an independent enterprise legal person.

All capital of the Company is divided into shares with same par value per share, the liabilities of the shareholders of the Company shall be limited to the shares they hold, and the Company is liable for its debts to the extent of its entire assets.

Shareholders may institute legal proceedings against the Company pursuant to the Articles of Association; the Company may institute legal proceedings against its Shareholders pursuant to the Articles of Association; Shareholders may institute legal proceedings against Shareholders pursuant to the Articles of Association; Shareholders may institute legal proceedings against the Directors, Supervisors, Manager and other senior management of the company pursuant to the Articles of Association.

**Shareholders**

The shareholders of the Company refer to the legal holders of shares of the Company, whose names (titles) are registered in the register of shareholders.

The shareholders shall enjoy rights and assume obligations on the basis of the class and amount of shares held; shareholders who hold shares of the same class shall enjoy the same rights and assume the same obligations. All shareholders of different classes of the company shall rank pari passu among themselves as to dividends or distributions in any other form.

The Company's shareholders of ordinary shares shall enjoy the following rights:

- (I) the right to receive dividends and other distributions proportional to the number of shares held;
- (II) the right to attend general meetings either in person or by proxy and exercise the voting right;
- (III) the right to supervise, advise or inquire the business operating activities of the Company;
- (IV) the right to transfer the shares according to the laws, administrative regulations and provisions of the Articles of Association;

(V) the right to obtain relevant information in accordance with provisions of the Articles of Association, including:

1. to obtain the Articles of Association, subject to payment of the cost;
2. to inspect and copy, subject to payment at a reasonable charge, of the followings:
  - (1) all parts of the register of shareholders;
  - (2) personal profiles of the Company's Directors, Supervisors, Manager and other members of senior management including:
    - (a) their present and former names and aliases;
    - (b) their principal addresses (residence);
    - (c) their nationalities;
    - (d) their full-time and all other part-time occupations and duties;
    - (e) their identification documents and the numbers thereof;
  - (3) conditions on the Company's share capital;
  - (4) the latest audited financial statement, and the report of the Board of Directors, auditors and the Board of Supervisors of the Company;
  - (5) special resolutions of the Company;
  - (6) report(s) showing the aggregate par value, number, maximum and minimum price with respect to each class of shares repurchased by the Company since the end of the last accounting year, and the aggregate fees paid by the Company for this purpose;
  - (7) a copy of the latest annual inspection report that has been filed with the Department of Administration of Industry and Commerce or other competent authorities of the PRC; and
  - (8) minutes of Shareholders Meeting, and resolutions of meetings of the board of directors and the Board of Supervisors.

The Company shall make available the documents mentioned in Clauses (1) to (8) other than Clause (2) above and other applicable documents at its Hong Kong office for inspection, free of charge, by the public and shareholders in accordance with

requirements of the Listing Rules (the documents mentioned in Clause (8) shall be available for inspection by shareholders only).

If any shareholder needs to access the relevant information or obtain such material as set out in the preceding article, the said shareholder shall provide the Company with written documents evidencing the type and number of shares held by the said shareholder, and the Company shall provide such information as required by the said shareholder upon authentication of the said shareholder;

(VI) the right to receive distribution of the remaining assets proportional to the number of shares held when the Company dissolves or liquidates;

(VII) other rights conferred by the laws, administrative regulations and the Articles of Association.

The Company shall not otherwise stay or infringe any rights attached to any shares on the sole basis that the holders of such shares with direct or indirect interests in such shares have failed to disclose the said interests to the Company.

The shareholders of ordinary shares of the Company shall assume the following obligations:

(I) to observe the Articles of Association;

(II) to effect payment for the subscription of shares according to the number of shares subscribed and the method of contribution;

(III) to assume other obligations as the laws, administrative regulations and the Articles of Association require.

Shareholders are not liable to further contribution to any share capital other than such terms as agreed upon by the subscriber of the shares on subscription.

### **Board of Supervisors**

The Company shall establish a Board of Supervisors. The Board of Supervisors shall supervise the Board of Directors, Directors, Manager and other members of senior management of the Company and shall prevent them from abusing powers, infringing interests of the shareholders, the Company and its employees.

The Board of Supervisors shall consist of three Supervisors, one of whom shall be appointed as the chairman of the Board of Supervisors. The term of office of a supervisor shall be three years, a supervisor may be re-elected upon the expiration of his/her term.

The Board of Supervisors shall consist of two shareholder representatives and one employee representative of the Company. The shareholder representatives shall be elected and removed by the general meeting and the employee representatives shall be democratically elected and removed by employees of the Company.

The chairman of the Board of Supervisors shall be elected or removed by approval of more than half of all the supervisors. The chairman convenes and conducts meetings of the supervisory board. If the chairman cannot or does not carry out his duties, more than half of the supervisors will nominate a supervisor to convene and conduct the meeting.

Directors, Manager, the chief financial officer or members of senior management of the Company shall not be concurrently appointed as Supervisors.

The Board of Supervisors shall hold at least one meeting every six months, which shall be called by the chairman of the Board of Supervisors. Supervisors have right to propose the convening of an interim meeting of the Board of Supervisors.

The Board of Supervisors shall be held accountable to the general meeting and exercise the following functions and powers in accordance with the laws:

- (I) to review the Company's financial affairs;
- (II) to supervise the work of the Directors, Manager and other members of senior management who have violated laws, administrative regulations or the Articles of Association of the Company;
- (III) to demand redress from Directors, manager or any other members of senior management should their acts be deemed against the Company's interests;
- (IV) to review such financial information as the financial reports, business reports and any plans for distribution of profits to be submitted by the Board of Directors to the general meeting, and to retain, on the Company's behalf any certified public accountants or chartered auditors to assist in the review of such information should any doubt arises with respect thereof;
- (V) to propose the convening of extraordinary general meetings;
- (VI) to coordinate with Directors on behalf of the Company or initiate legal proceedings against the Directors;
- (VII) other functions and powers designated by the general meetings.

A supervisor can attend the board meetings.

All reasonable fees incurred in the retaining of such professionals as lawyers, certified public accountants or chartered auditors by the Board of Supervisors in the exercise of its functions and powers shall be borne by the Company.

Supervisors shall fulfil their obligations of supervision in accordance with the provisions of the laws, administrative regulations and the Articles of Association of the Company.

### **Secretary to the Board of Directors**

The Company shall have a Secretary to the Board of Directors, who shall be a member of the senior management of the Company.

The secretary to the Company's Board of Directors shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the Board of Directors.

A Director or senior management of the Company may be concurrently appointed as the Secretary to the Board of Directors. The accountant of the Accounting firm appointed by the Company cannot serve concurrently as the Secretary to the Board of Directors.

In the event that the secretary to the Company's Board of Directors is held concurrently by a Director, and an action is required to be conducted separately by a Director and a Secretary, the person who holds the offices of Director and Secretary shall not perform such action in dual capacity.

### **Resolution of disputes**

The Company shall abide by the following principles for dispute resolution:

- (I) Any disputes or claims (i) between the Company and the Directors or Supervisors or members of senior management; and (ii) between holders of foreign shares (including holders of overseas listed foreign shares and holders of non-listed foreign shares) and the Company, between holders of foreign shares (including holders of overseas listed foreign shares and holders of non-listed foreign shares) and the Directors, Supervisors, manager or other members of senior management, and between holders of overseas listed foreign shares and holders of non-listed foreign shares or holders of domestic shares, with respect to any rights or obligations by virtue of the Articles of Association, the Company Law, the Special Provisions and any rights or obligations conferred upon or imposed by any other relevant laws and administrative regulations concerning the affairs of the Company, shall be submitted to arbitration by the parties concerned.

When the aforementioned disputes or claims of rights is submitted to arbitration, the entire claim or dispute shall be submitted to arbitration, and all persons whose causes of action were based on the same ground, giving rise to the dispute or claim or whose participation shall be necessary for the resolution of such dispute or claim, shall, where such person is the Company, Shareholders, Directors, Supervisors, Manager, or other members of senior management of the Company, comply with the arbitration.

Disputes with respect to the definition of shareholders and disputes concerning the register of shareholders need not be resolved by arbitration.

- (II) A claimant may select an arbitration to be administered either by the CIETAC in accordance with its Rules, or the HKIAC in accordance with its Securities Arbitration Rules.

Once a claimant submits a dispute or claim of rights to arbitration, the other party must submit to the arbitration institution selected by the claimant.

If a claimant selects the HKIAC as the arbitration institution, either party to the dispute or claim may apply for the arbitration venue to be in Shenzhen, in accordance with the Securities Arbitration Rules of the HKIAC.

- (III) If any disputes or claims fro rights as a result of Clause (I) are settled by arbitration, the laws of the PRC shall govern, except otherwise provided by the laws and administrative regulations.

- (IV) The award of the arbitration shall be conclusive and binding on all the parties.

*The following is the text of a letter and a valuation certificate prepared for the purpose of incorporation in this prospectus received from Colliers International (Hong Kong) Ltd., an independent valuer, in connection with its valuation as at 31 August 2019 of the property interests held by our Group.*

Colliers International (Hong Kong) Ltd  
**Valuation & Advisory Services**  
Company Licence No: C-006052

Suite 5701 Central Plaza  
18 Harbour Road Wanchai  
Hong Kong



### **The Board of Directors**

Wenling Zhejiang Measuring and Cutting  
Tools Trading Centre Company Limited

Qianyangxia Village  
Wenqiao Town  
Wenling City  
Zhejiang Province  
the PRC

25 October 2019

Dear Sirs,

### **INSTRUCTIONS, PURPOSE AND VALUATION DATE**

We refer to your instructions for us to assess the market value of the property interests located in The People's Republic of China ("The PRC") held by Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited (the "Company") and its subsidiaries (together with our Company referred to as the "Group" hereinafter). We confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion in respect of the market value of the property interests as at 31 August 2019 (the "valuation date").

### **VALUATION STANDARDS**

The valuation has been carried out in accordance with the HKIS Valuation Standards 2017 published by The Hong Kong Institute of Surveyors effective from 30 December 2017 with reference to the International Valuation Standards (2017) published by the International Valuation Standards Council effective from 1 July 2017, and the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.



**BASIS OF VALUATION**

Our valuation has been undertaken on the basis of market value, which is defined by The Hong Kong Institute of Surveyors as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

**VALUATION ASSUMPTIONS**

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

As the property interests are held under long term land use rights, we have assumed that the owner has free and uninterrupted rights to use the property for the whole of the unexpired term of the land use rights.

**VALUATION METHODOLOGY**

In the valuation of the property interests held by our Group for investment, Income Capitalisation Method has been adopted. Income Capitalisation Method estimates the value of properties or assets on a market basis by capitalizing rental incomes on a fully leased basis. This method is used when a property or asset is leased out for specific terms. It considers both the current passing rental income from existing tenancies and the potential future reversionary income at market level, by capitalising both at appropriate rates.

In the valuation of the property interests held by our Group for owner occupation and future development, we have adopted the market approach assuming sale of property interests in their existing state and by making reference to comparable sale transactions as available in the relevant markets.

**LAND TENURE AND TITLE INVESTIGATION**

We have been provided with copies of documents including a State-owned Land Use Rights Grant Contract, a Real Estate Title Certificate and official plans, in relation to the titles of the property interests and have made relevant enquiries where possible. However, we have not scrutinized the original documents to verify ownership or to verify any amendments, which may not appear on the copies handed to us. We have relied to a considerable extent on the information provided by our Group.

We have relied on the advices given by our Group's PRC Legal Advisers, AllBright Law Offices, regarding the titles of the property interests in The PRC. We do not accept liability for any interpretation that we have placed on such information.

All legal documents disclosed in this letter are for reference only. No responsibility is assumed for any legal matters concerning the legal titles to the property interests set out in this letter.

### **SOURCES OF INFORMATION**

We have relied to a considerable extent on the information provided by our Group and the PRC Legal Advisers of our Group, in respect of the titles of the property interests in The PRC. We have also accepted advice given by our Group on matters such as identification of the property, particulars of occupancy, statutory notices, easements, tenure, areas, site plans and all other relevant matters. Dimensions, measurements and areas included in the valuation are based on information contained in the documents provided to us and are, therefore, only approximations.

We have also been advised by our Group that no material factors or information have been omitted or withheld from the information supplied and consider that we have been provided with sufficient information to reach an informed view. We believe that the assumptions used in preparing our valuation are reasonable and have had no reason to doubt the truth and accuracy of the information provided to us by our Group which is material to the valuation.

### **SITE INSPECTION**

We have inspected the exterior and, where possible, the interior of the property. No structural survey has been made, but in the course of our inspections, we did not note any serious defects. We are not, however, able to report whether the property is free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We are unaware of any adverse ground conditions affecting the property and have not had sight of a ground and soil survey. We have not carried out investigations on site to determine the suitability of the ground conditions and services etc. for any future developments. We have further assumed that there is no significant pollution or contamination in the locality which may affect any future developments.

### **SITE MEASUREMENT**

We have not carried out detailed on-site measurements to verify the correctness of the areas in respect of the property interests but have assumed that the areas shown on the documents and plans provided to us are correct. All documents have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

**CURRENCY**

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (“RMB”).

Our valuation certificate is attached hereto.

Yours faithfully,  
For and on behalf of  
**Colliers International (Hong Kong) Ltd.**  
**David Faulkner**  
*Registered Professional Surveyor (GP)*  
*BSc (Hons) FRICS FHKIS MAE*  
*Managing Director*  
**Valuation & Advisory Services – Asia**

*Note:* Mr. David Faulkner holds a Bachelor’s Degree in Urban Land Economics and he is a Registered Professional Surveyor with over 39 years’ experience in real estate and asset valuations. His experience in valuations covers Hong Kong, Macau, Taiwan, Mainland China and other overseas countries. Mr. Faulkner is a fellow member of The Royal Institution of Chartered Surveyors and a fellow member of the Hong Kong Institute of Surveyors, a practising member of the Academy of Experts.

## SUMMARY OF VALUES

**Group 1 – Property interests held by our Group for investment in the PRC**

<b>No. Property</b>	<b>Market value in existing state as at 31 August 2019 RMB</b>
1 Basement to Level 3 of a trading centre located at Qianyangxia Village, Wenling City, Taizhou, Zhejiang Province, The PRC	849,000,000

**Group 2 – Property interests held by our Group for owner occupation in the PRC**

<b>No. Property</b>	<b>Market value in existing state as at 31 August 2019 RMB</b>
2 Level 4 of a trading centre located at Qianyangxia Village, Wenling City, Taizhou, Zhejiang Province, The PRC	14,300,000

**Group 3 – Property interests held by our Group for future development in the PRC**

<b>No. Property</b>	<b>Market value in existing state as at 31 August 2019 RMB</b>
3 A parcel of an industrial land located at Wenqiao County, Wenling City, Taizhou, Zhejiang Province, The PRC	63,500,000

<b>Grand Total:</b>	926,800,000
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## VALUATION CERTIFICATE

## Group 1 – Property interests held by our Group for investment in the PRC

No	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 August 2019
1	Basement to Level 3 of trading centre located at Qianyangxia Village, Wenling City, Taizhou, Zhejiang Province, The PRC	<p>The property comprises 4 storeys of a trading centre (from basement floor to Level 3), which is erected on a parcel of land with a site area of approximately 32,078.00 sq.m..</p> <p>The property was completed in about 2009.</p> <p>The gross floor area of the property is approximately 71,817.50 sq.m..</p> <p>The land use rights of the subject site were granted for a term expiring on 15 November 2046 for commercial uses (Please refer to Note No. 4 below).</p>	<p>The property is currently leased to different tenants at an occupancy rate of 63.8% subject to a monthly rental income of approximately RMB4,039,818 exclusive of management fees and outgoings with the latest lease expiry date in October 2035.</p>	RMB849,000,000 (Renminbi Eight Hundred and Forty Nine Million)

## Notes:

- The property was inspected by Charlotte Xu *MRICS* on 7 May 2018.
- The valuation of the property was prepared by Jason Fung *MRICS MHKIS RPS (GP) MCIREA Registered Real Estate Appraiser PRC* and Charlotte Xu *MRICS*.
- Pursuant to a State-owned Land Use Rights Grant Contract, Wen Tu He Rang Zi No. (2006) dated 16 November 2006 and entered into between 中華人民共和國浙江省溫嶺市國土資源局 and 溫嶺市浙江工量刃具交易中心有限公司 (“Gongliang”), the land use rights of the subject site with a site area of approximately 32,078.00 sq.m. were granted to the Gongliang at a consideration of RMB16,120,000 for a term of 40 years for commercial uses.
- Pursuant to a Real Estate Title Certificate, Zhe (2018) Wen Ling Shi Bu Dong Chan Quan Di No. 000D091 dated 3 January 2018 and issued by 溫嶺市國土資源局, the land use rights of the subject site with a site area of approximately 32,078.00 sq.m. and the building ownership rights of the subject building with a gross floor area of approximately 74,245.72 sq.m. were legally vested in Gongliang. The land use rights were granted for a term expiring on 15 November 2046 for commercial uses.

5. The general description and market information of the property are summarised as below:

Location	:	The property is located at Qianyangxia Village, Wenling City, Taizhou, Zhejiang Province, The PRC
Transportation	:	Wenzhou Longwan International Airport and Wenling Railway Station are located approximately 120 kilometres and 13 kilometres away from the property respectively.
Nature of Surrounding Area	:	The subject area is a predominately rural area.

6. We have been provided with a legal opinion regarding the property by AllBright Law Offices, which contains, inter alia, the following:

- a) The Group has legally obtained the real estate title of the property;
- b) The Group can legally occupy, use, collect income from, mortgage or by other means handle the real estate title of the property within the land use rights term; and
- c) The realty rights of the property has been mortgaged to 浙商银行股份有限公司台州分行 and 浙江民泰商业银行股份有限公司台州温岭支行.

7. In the course of our valuation of the property, we have considered and analysed the retail and carparking rent comparables in the vicinity. These comparables are adopted as they are considered relevant to the property in terms of physical and locational attributes. In terms of time, location, size, level and quality, etc., we have made relevant adjustments on unit rents. Considering the characteristic of each comparable, corresponding weighting was given. Adopted market rent is calculated by the weighted average of the adjusted unit rents of the comparable. The average retail market rent and average carparking market rent of the property adopted as at valuation date is RMB209 per square metre per month and RMB400 per space per month respectively.

## Group 2 – Property interests held by our Group for owner occupation in The PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 August 2019
2	Level 4 of a trading centre located at Qianyangxia Village, Wenling City, Taizhou, Zhejiang Province, The PRC	<p>The property comprises Level 4 of a trading centre, which is erected on a parcel of land with a site area of approximately 32,078.00 sq.m.. The property was completed in about 2009.</p> <p>The gross floor area of the property is approximately 2,387.20 sq.m. (Please refer to Note No. 4 below).</p> <p>The land use rights of the subject site were granted for a term expiring on 15 November 2046 for commercial uses (Please refer to Note No. 4 below).</p>	The property is currently occupied by our Group for ancillary office purposes.	RMB14,300,000 (Renminbi Fourteen Million Three Hundred Thousand)

*Notes:*

1. The property was inspected by Charlotte Xu *MRICS* on 7 May 2018.
2. The valuation of the property was prepared by Jason Fung *MRICS MHKIS RPS (GP) MCIREA Registered Real Estate Appraiser PRC* and Charlotte Xu *MRICS*.
3. Pursuant to a State-owned Land Use Rights Grant Contract, Wen Tu He Rang Zi No. (2006) dated 16 November 2006 and entered into between 中華人民共和國浙江省溫嶺市國土資源局 and 溫嶺市浙江工量刃具交易中心有限公司 (“Gongliang”), the land use rights of the subject site with a site area of approximately 32,078.00 sq.m. were granted to the Gongliang at a consideration of RMB16,120,000 for a term of 40 years for commercial uses.
4. Pursuant to a Real Estate Title Certificate, Zhe (2018) Wen Ling Shi Bu Dong Chan Quan Di No. 000D091 dated 3 January 2018 and issued by 溫嶺市國土資源局, the land use rights of the subject site with a site area of approximately 32,078.00 sq.m. and the building ownership rights of the subject building with a gross floor area of approximately 74,245.72 sq.m. were legally vested in Gongliang. The land use rights were granted for a term expiring on 15 November 2046 for commercial uses.

5. The general description and market information of the property are summarised as below:

- Location : The property is located at Qianyangxia Village, Wenling City, Taizhou, Zhejiang Province, The PRC
- Transportation : Wenzhou Longwan International Airport and Wenling Railway Station are located approximately 120 kilometres and 13 kilometres away from the property respectively.
- Nature of Surrounding Area : The subject area is a predominately rural area.

6. We have been provided with a legal opinion regarding the property by AllBright Law Offices, which contains, inter alia, the following:

- a) The Group has legally obtained the real estate title of the property;
- b) The Group can legally occupy, use, collect income from, mortgage or by other means handle the real estate title of the property within the land use rights term; and
- c) The realty rights of the property has been mortgaged to 浙商银行股份有限公司台州分行 and 浙江民泰商业银行股份有限公司台州温岭支行.

7. In the course of our valuation of the property, we have considered and analysed the commercial units sale comparables in the vicinity. These comparables are adopted as they are considered relevant to the property in terms of physical and locational attributes. The unit rates of the commercial unit sale comparables are ranging from RMB5,700 to RMB9,800 per square metre. The unit rate adopted in the valuation are consistent with the unit rates of the relevant comparables after due adjustments in terms of location, age, size and quality, etc. The adopted unit rate of the property is RMB6,000 per square metre.



## VALUATION CERTIFICATE

## Group 3 – Property Interests Held by the Group for future development in The PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 August 2019
3	A parcel of an industrial land located at Wenqiao County, Wenling City, Taizhou, Zhejiang Province, The PRC	<p>The property comprises a parcel of land with a site area of approximately 50,757.00 square metres. (Please refer to Note No. 4 below).</p> <p>The land use rights of the subject site were granted for a term expiring on 27 January 2069 for industrial uses (Please refer to Note No. 4 below).</p>	The property is currently vacant.	<p>RMB63,500,000 (Renminbi Sixty Three Million Five Hundred Thousand)</p> <p>100% interest to be attributable to the Group:</p> <p>RMB63,500,000 (Renminbi Sixty Three Million Five Hundred Thousand)</p>

## Notes:

- The property was inspected by Charlotte Xu *MRICS* on 7 May 2018.
- The valuation of the property was prepared by Jason Fung *MHKIS MRICS RPS(GP) MCIREA Registered Real Estate Appraiser PRC* and Charlotte Xu *MRICS*.
- Pursuant to a State-owned Land Use Rights Grant Contract, Wen Tu Rang He Zi No. 2018-103 dated 29 December 2018 and entered into between 中華人民共和國浙江省溫嶺市國土資源局 and 溫嶺市旭日投資有限公司 (“Xuri”), the land use rights of the subject site with a site area of approximately 50,757.00 square metres were granted to the Xuri at a consideration of RMB63,500,000 for a term of 50 years for industrial uses.
- Pursuant to a Real Estate Title Certificate, Zhe (2019) Wen Ling Shi Bu Dong Chan Quan Di No. 0011450 dated 24 May 2019 and issued by 溫嶺市自然資源和規劃局, the land use rights of the subject site with a site area of approximately 50,757.00 square metres. The land use rights were granted for a term expiring on 27 January 2069 for industrial uses.
- The general description and market information of the property are summarized as below:

Location	:	The property is located at Wenqiao County, Wenling City, Taizhou, Zhejiang Province, Zhejiang Province, The PRC
Transportation	:	Wenzhou Longwan International Airport and Wenling Railway Station are located approximately 110 kilometres and 9 kilometres away from the property respectively.
Nature of Surrounding Area	:	The subject area is a predominately industrial and rural area.

6. We have been provided with a legal opinion regarding the property by AllBright, which contains, inter alia, the following:
  - a) The Group has legally obtained the real estate title of the property; and
  - b) The Group can legally occupy, use, collect income from, mortgage or by other means handle the real estate title of the property within the land use rights term.
  
7. In the course of our valuation of the property, we have considered and analysed the land sale comparables in the vicinity. These comparables are adopted as they are considered relevant to the property in terms of physical and locational attributes. The accommodation value of the land sale comparables are ranging from RMB564 to RMB636 per square metre. The unit rate adopted in the valuation are consistent with the unit rates of the relevant comparables after due adjustments in terms of location, term and size, etc. The adopted accommodation value of the property is RMB569 per square metre.

**A. FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation**

The predecessor of our Company, Wenling City Wenxi Measuring and Cutting Tools Trading Centre Company Limited\* (溫嶺市溫西工量刃具交易中心有限公司), was established as a limited liability company in the PRC on 14 May 2003. Our Company was renamed as Wenling City Zhejiang Measuring and Cutting Tools Trading Centre Company Limited\* (溫嶺市浙江工量刃具交易中心有限公司) on 27 June 2006. On 3 May 2018, our Company was converted into a joint stock company with limited liability under the laws of the PRC with a registered share capital of RMB60 million. After the conversion, our Company was renamed as Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited\* (溫嶺浙江工量刃具交易中心股份有限公司).

Our Company has established a principal place of business in Hong Kong at 40/F, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong and has been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 20 September 2018. Ms. Fok Po Yi of 40/F, Sunlight Tower, No. 248 Queens's Road East, Wanchai, Hong Kong has been appointed as our agent for the acceptance of service of process in Hong Kong.

As our Company was established in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in Appendix V to this prospectus. A summary of certain relevant aspects of the laws and regulations of the PRC is set out in Appendix IV to this prospectus.

**2. Changes in share capital of our Company**

Our Company was established in the PRC as a limited liability company with an initial registered capital of RMB100,000 on 14 May 2003. The following sets out the changes in our Company's share capital since our Company's establishment:

- (a) on 16 June 2006, pursuant to a shareholders' resolutions, our Company increased its registered capital by RMB1.70 million from RMB100,000 to RMB1.80 million;
- (b) on 5 March 2009, pursuant to a shareholders' resolutions, our Company increased its registered capital by RMB16.20 million from RMB1.80 million to RMB18 million;
- (c) on 8 December 2017, Market Development Service Centre transferred its entire 19.90% equity interest in our Company to Market Group, which is directly and wholly owned by Market Development Service Centre, at nil consideration;

- (d) on 18 December 2017, Wenqiao Town People’s Government transferred its entire 19.30% equity interest in our Company to Qiaoling Investment, which is directly and wholly owned by Wenqiao Town People’s Government, at nil consideration;
- (e) on 18 December 2017, Qianyangxia Village Committee transferred its entire 17.50% equity interest in our Company to Qianyang Investment, which is indirectly and wholly owned by Qianyangxia Village Committee, at nil consideration;
- (f) on 18 December 2017, Maoyang Village Committee transferred its entire 11.50% equity interest in our Company to Maowei Investment, which is indirectly and wholly owned by Maoyang Village Committee, at nil consideration;
- (g) on 18 December 2017, Zhongjie Village Committee transferred its entire 9.65% equity interest in our Company to Zhongjie Hede Investment, which is indirectly and wholly owned by Zhongjie Village Committee, at nil consideration;
- (h) on 18 December 2017, Shangjie Village Committee transferred its entire 9.65% equity interest in our Company to Shangyu Investment, which is indirectly and wholly owned by Shangjie Village Committee, at nil consideration;
- (i) on 18 December 2017, Xuzhai Village Committee transferred its entire 6.50% equity interest in our Company to Botao Investment, which is indirectly and wholly owned by Xuzhai Village Committee, at nil consideration;
- (j) on 18 December 2017, Zhang Laoqiao Village Committee transferred its entire 3.00% equity interest in our Company to Zhang Laoqiao Investment, which is indirectly and wholly owned by Zhang Laoqiao Village Committee, at nil consideration;
- (k) on 3 May 2018, our Company was converted into a joint stock limited liability company with a registered capital of RMB60 million, comprising 60,000,000 Domestic Shares with a nominal value of RMB1.00 each, which was subscribed by all the then existing Shareholders in proportion to their then respective equity interests in our Company immediately prior to such conversion; and
- (l) immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised, our registered capital will be RMB80 million, comprising 20,000,000 H Shares and 60,000,000 Domestic Shares, representing 25% and 75%, respectively, of the total issued share capital of our Company.

For details of changes in the registered capital of our Company since its establishment, please refer to the section headed “History, Development and Reorganisation” in this prospectus.

Save as disclosed in the section headed “History, Development and Reorganisation” in this prospectus, there has not been any change in the share capital to our Company within the two years preceding the date of this prospectus.

### **3. Resolutions of our shareholders passed at our Company’s extraordinary general meeting held on 1 August 2018**

Pursuant to the resolutions of our Shareholders passed at our Company’s extraordinary general meeting held on 1 August 2018, among other things, the following resolutions were passed by our Shareholders:

- (a) subject to the completion of the Global Offering, the Articles of Association has been approved and adopted, which shall become effective on the Listing Date;
- (b) approving the issue of H Shares with a nominal value of RMB1.00 each (the number of our H Shares so issued shall not exceed 20,000,000 Shares representing 25% of the total number of issued shares of our Company after the Global Offering) and granting of the Over-allotment Option in respect of no more than 3,000,000 H Shares representing approximately 15% of the number of H Shares issued as above mentioned; and
- (c) authorising the Board to handle all matters relating to, among other things, the issue of H Shares and the listing of H Shares on the Stock Exchange.

### **4. Reorganisation**

Our Group underwent the Reorganisation in preparation for the Listing. For further details, please refer to the paragraph headed “History, Development and Reorganisation” in this prospectus.

## **B. OUR SUBSIDIARIES**

Our Company’s subsidiaries are set out under the financial statement in the Accountants’ Report as included in Appendix I to this prospectus.

Save as disclosed in the section headed “History, Development and Reorganisation” in this prospectus, there has not been any changes in the share capital to any of our subsidiaries within the two years preceding the date of this prospectus.

## C. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

### 1. Summary of material contracts



We have entered into the following contracts (not being contract entered into in the ordinary course of business) within the two years preceding the date of this prospectus which are or may be material:

- (a) the agreement between our Company and Zhejiang Urban and Rural Auctioneer Co., Ltd. (浙江城鄉拍賣有限公司) (the “**Auctioneer**”) dated 2 April 2018, pursuant to which our Company engaged the Auctioneer as auctioneer in respect of the disposal of our entire 26% equity interest in Tiangong Technology at a minimum bid price of RMB279,000 and our Company shall pay to the Auctioneer 8% of the final bid price as commission;
- (b) the Deed of Indemnity;
- (c) the deed of non-competition dated 15 October 2019 entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee for our subsidiaries) regarding certain non-competition undertakings; and
- (d) the Hong Kong Underwriting Agreement.


### 2. Intellectual property rights

#### (i) Trademarks

- (a) As at the Latest Practicable Date, we have registered the following trademarks which we consider to be material to our business:

Trademark	Name of registrant	Place of registration	Registration number	Class	Validity period
ZJTTC	Our Company	the PRC	9918488	35	7 November 2012 to 6 November 2022
	Our Company	the PRC	9918361	35	7 November 2012 to 6 November 2022
	Our Company	the PRC	6385198	35	21 July 2010 to 20 July 2020

- (b) As at the Latest Practicable Date, we have registered the following trademark in Hong Kong which we consider to be material to our business:

Trademark	Name of registrant	Place of registration	Registration number	Class	Validity period
	Our Company	Hong Kong	304516533	35	4 May 2018 to 3 May 2028

(ii) *Domain names*

As at the Latest Practicable Date, we have registered the following domain names which we consider to be material to our business:

Registrant	Domain name	Effective date/ Registration date	Expiry date
Our Company	cnglj.com	23 June 2010	23 June 2021
Our Company	glrjzs.com	22 June 2016	22 June 2020

**D. FURTHER INFORMATION ABOUT OUR DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS**

**1. Disclosure of interests**

(i) *Disclosure of interests of our Directors, Supervisors and chief executives of our Company*

Immediately following completion of the Global Offering and assuming the Over-allotment Option is not exercised, none of our Directors, Supervisors or the chief executives of our Company has any interests or short positions in any Shares, underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will be required: (i) to be notified to our Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of Part XV of the SFO, to be entered in the register required to be kept therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange once our H Shares are listed.

*(ii) Disclosure of interests of our substantial shareholders*

So far as our Directors are aware, immediately following the Global Offering (without taking into account any H Shares that may be issued upon the exercise of the Over-allotment Option), each of the following persons will have an interest and/or short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, directly or indirectly, interested in 10% or more of any class of shares carrying rights to vote in all circumstances at the general meetings of any other member of our Group:

Shareholder	Capacity/nature of interest	Number and Shares held after the Global Offering <sup>(Note 1)</sup>	Shareholding in the relevant class of Shares after the Global Offering <sup>(Note 2)</sup>	Percentage of interest in the total share capital of our Company after the Global Offering <sup>(Note 3)</sup>
Market Group	Beneficial owner <i>(Note 4)</i>	58,200,000 Domestic Shares (L)	97%	72.75%
Market Development Service Centre	Interest in controlled corporation <i>(Notes 4 &amp; 5)</i>	58,200,000 Domestic Shares (L)	97%	72.75%
Qiaoling Investment	Beneficial owner <i>(Note 4)</i>	58,200,000 Domestic Shares (L)	97%	72.75%
Wenqiao Town People's Government	Interest in controlled corporation <i>(Notes 4 &amp; 6)</i>	58,200,000 Domestic Shares (L)	97%	72.75%
Maowei Investment	Beneficial owner <i>(Note 4)</i>	58,200,000 Domestic Shares (L)	97%	72.75%
Maoyang Village Share Economic Cooperative	Interest in controlled corporation <sup>(Note 7)</sup>	58,200,000 Domestic Shares (L)	97%	72.75%
Maoyang Village Committee	Interest in controlled corporation <i>(Notes 4 &amp; 7)</i>	58,200,000 Domestic Shares (L)	97%	72.75%



Shareholder	Capacity/nature of interest	Number and Shares held after the Global Offering <sup>(Note 1)</sup>	Shareholding in the relevant class of Shares after the Global Offering <sup>(Note 2)</sup>	Percentage of interest in the total share capital of our Company after the Global Offering <sup>(Note 3)</sup>
Qianyang Investment	Beneficial owner <i>(Note 4)</i>	58,200,000 Domestic Shares (L)	97%	72.75%
Qianyangxia Village Share Economic Cooperative	Interest in controlled corporation <sup>(Note 8)</sup>	58,200,000 Domestic Shares (L)	97%	72.75%
Qianyangxia Village Committee	Interest in controlled corporation <i>(Notes 4 &amp; 8)</i>	58,200,000 Domestic Shares (L)	97%	72.75%
Shangyu Investment	Beneficial owner <i>(Note 4)</i>	58,200,000 Domestic Shares (L)	97%	72.75%
Shangjie Village Share Economic Cooperative	Interest in controlled corporation <sup>(Note 9)</sup>	58,200,000 Domestic Shares (L)	97%	72.75%
Shangjie Village Committee	Interest in controlled corporation <i>(Notes 4 &amp; 9)</i>	58,200,000 Domestic Shares (L)	97%	72.75%
Zhongjie Hede Investment	Beneficial owner <i>(Note 4)</i>	58,200,000 Domestic Shares (L)	97%	72.75%
Zhongjie Village Share Economic Cooperative	Interest in controlled corporation <sup>(Note 10)</sup>	58,200,000 Domestic Shares (L)	97%	72.75%
Zhongjie Village Committee	Interest in controlled corporation <i>(Notes 4 &amp; 10)</i>	58,200,000 Domestic Shares (L)	97%	72.75%
Botao Investment	Beneficial owner <i>(Note 4)</i>	58,200,000 Domestic Shares (L)	97%	72.75%

Shareholder	Capacity/nature of interest	Number and Shares held after the Global Offering <sup>(Note 1)</sup>	Shareholding in the relevant class of Shares after the Global Offering <sup>(Note 2)</sup>	Percentage of interest in the total share capital of our Company after the Global Offering <sup>(Note 3)</sup>
Xuzhai Village Share Economic Cooperative	Interest in controlled corporation <sup>(Note 11)</sup>	58,200,000 Domestic Shares (L)	97%	72.75%
Xuzhai Village Committee	Interest in controlled corporation <sup>(Notes 4 &amp; 11)</sup>	58,200,000 Domestic Shares (L)	97%	72.75%
Zhang Laoqiao Investment	Beneficial owner <sup>(Note 4)</sup>	58,200,000 Domestic Shares (L)	97%	72.75%
Zhang Laoqiao Village Share Economic Cooperative	Interest in controlled corporation <sup>(Note 12)</sup>	58,200,000 Domestic Shares (L)	97%	72.75%
Zhang Laoqiao Village Committee	Interest in controlled corporation <sup>(Notes 4 &amp; 12)</sup>	58,200,000 Domestic Shares (L)	97%	72.75%

*Notes:*

1. The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the Domestic Shares.
2. The calculation is based on the percentage of shareholding in the Domestic Shares.
3. The calculation is based on the total number of 80,000,000 Shares in issue after the Global Offering.
4. Pursuant to the Concert Party Agreement and Concert Party Supplemental Agreement, details of which are set out in the paragraph headed “History, Development and Reorganisation – Concert Party Arrangement” of this prospectus, immediately following completion of the Global Offering (without taking into account any H Shares to be issued upon exercise of the Over-allotment Option), Market Development Service Centre, Wenqiao Town People’s Government, Qianyangxia Village Committee, Maoyang Village Committee, Zhongjie Village Committee, Shangjie Village Committee, Xuzhai Village Committee and Zhang Laoqiao Village Committee and their respective controlled corporations are acting in concert with one another and each of them is deemed to exercise or control the exercise of an aggregate of 72.75% of the voting power at the general meetings of our Company pursuant to the SFO.

5. Market Development Service Centre holds the entire equity interest of Market Group. Therefore, under the SFO, Market Development Service Centre is deemed or taken to be interested in all the Shares which are beneficially owned by Market Group.
6. Wenqiao Town People's Government holds the entire equity interest of Qiaoling Investment. Therefore, under the SFO, Wenqiao Town People's Government is deemed or taken to be interested in all the Shares which are beneficially owned by Qiaoling Investment.
7. Maoyang Village Committee holds the entire equity interest of Maoyang Village Share Economic Cooperative which holds the entire equity interests of Maowei Investment. Therefore, under the SFO, each of Maoyang Village Committee and Maoyang Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Maowei Investment.
8. Qianyangxia Village Committee holds the entire equity interest of Qianyangxia Village Share Economic Cooperative which holds the entire equity interests of Qianyang Investment. Therefore, under the SFO, each of Qianyangxia Village Committee and Qianyangxia Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Qianyang Investment.
9. Shangjie Village Committee holds the entire equity interest of Shangjie Village Share Economic Cooperative which holds the entire equity interests of Shangyu Investment. Therefore, under the SFO, each of Shangjie Village Committee and Shangjie Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Shangyu Investment.
10. Zhongjie Village Committee holds the entire equity interest of Zhongjie Village Share Economic Cooperative, which holds the entire equity interests of Zhongjie Hede Investment. Therefore, under the SFO, each of Zhongjie Village Committee and Zhongjie Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Zhongjie Hede Investment.
11. Xuzhai Village Committee holds the entire equity interest of Xuzhai Village Share Economic Cooperative which holds the entire equity interests of Botao Investment. Therefore, under the SFO, each of Xuzhai Village Committee and Xuzhai Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Botao Investment.
12. Zhang Laoqiao Village Committee holds the entire equity interest of Zhang Laoqiao Village Share Economic Cooperative which holds the entire equity interests of Zhang Laoqiao Investment. Therefore, under the SFO, each of Zhang Laoqiao Village Committee and Zhang Laoqiao Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Zhang Laoqiao Investment.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Global Offering, have an interest or short position in Shares or underlying Shares, which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of any class of shares carrying rights to vote in all circumstances at the general meetings of any other member of our Group.

## 2. Directors' and Supervisors' service contracts

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, each of our Directors and Supervisors has entered into a service contract in respect of, among others, compliance of relevant laws and regulations, observations of the Articles of Association and provision on arbitration with our Company, for a term of three (3) years commencing on the Listing Date subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable laws, rules or regulations.

Save as disclosed above, none of our Directors or Supervisors has or is proposed to have a service contract with us (other than contracts expiring or determinable by the employer within one year without the payment of compensation other than statutory compensation).

## 3. Directors' and Supervisors' remuneration

During the Track Record Period, the aggregate amount of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind (if applicable) paid by us to our Directors were approximately RMB55,000, RMB69,000, RMB63,000, RMB100,000 and RMB45,000, respectively.

During the Track Record Period, the aggregate amount of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind (if applicable) paid by us to our Supervisors were approximately RMB46,000, RMB60,000, RMB62,000, RMB86,000 and RMB27,000, respectively.

Save as disclosed above, no other payments have been paid or are payable by us to our Directors and Supervisors during the Track Record Period.

There is no arrangement under which any Director or Supervisor has waived or agreed to waive future emoluments, nor has there been any waiver of emoluments by any Director or Supervisor during the current financial year.

Under the current arrangements, our Directors will be entitled to receive compensation (including remuneration and benefits in kind) from our Company for the year ending 31 December 2019 under arrangement in force as at the date of this prospectus which is expected to be approximately RMB730,000 in aggregate.

Under the current arrangements, our Supervisors will be entitled to receive compensation (including remuneration and benefits in kind) from our Company for the year ending 31 December 2019 under arrangement in force as at the date of this prospectus which is expected to be approximately RMB90,000 in aggregate.

Each of our Directors and Supervisors is entitled to reimbursement for all reasonable expenses properly incurred in the performance of his or her duties.

#### **4. Agency fees or commissions paid or payable**

Save as disclosed in the section headed “Underwriting” in 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 within the two years immediately preceding the issue of this prospectus.

#### **5. Related party transactions**

During the two years preceding the date of this prospectus, we have engaged in the material related party transactions as described in Note 26 Section II to the Accountants’ Report set out as Appendix I to this prospectus.

#### **6. Disclaimers**

Save as disclosed in this prospectus and as at the Latest Practicable Date:

- (a) our Directors are not aware of any other person (not being a Director or Supervisor or the chief executive of our Company) who will, immediately following completion of the Global Offering, have interests and/or short positions in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company pursuant to 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 any class of shares carrying rights to vote in all circumstances at the general meetings of any other member of our Group;
- (b) none of our Directors or Supervisors or the chief executive of our Company has any interest and/or short position in the Shares, underlying Shares or debentures of our Company, our subsidiary or any of the 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 deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once our Shares are listed;
- (c) none of our Directors or Supervisors nor any of the parties listed in the paragraph headed “E. Other Information – 7. Qualifications of experts” of this Appendix was interested, directly or indirectly, in the promotion of, or in any assets which had been, within the two years immediately preceding the date of

this prospectus, acquired or disposed of by or leased to any member of our Company, or were proposed to be acquired or disposed of by or leased to any member of our Company;

- (d) none of our Directors or Supervisors nor any of the parties listed in the paragraph headed “E. Other Information – 7. Qualifications of experts” of this Appendix was materially interested in any contract or arrangement subsisting at the date of this prospectus which was significant to the business of our Company taken as a whole;
- (e) none of the experts referred to in the paragraph headed “E. Other Information – 7. Qualifications of experts” of this Appendix is interested legally or beneficially in any shares in any member of our Group or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Company; and
- (f) none of our Directors, Supervisors or their respective associates nor, to the knowledge of our Directors, any Shareholders who held more than 5% of the total number of Shares as at the Latest Practicable Date had any interest in the five largest customers or subcontractor of our Company.

## **E. OTHER INFORMATION**

### **1. Tax and other indemnity**

The Controlling Shareholders have entered into the Deed of Indemnity in favour of our Company (for ourselves and as trustee for each of our subsidiaries) to provide indemnities on a joint and several basis, in respect of, among other matters, any claims, payments, suits, damages, settlement payments, costs and expenses which would be incurred or suffered by our Group as a result of any litigation, arbitration and/or legal proceedings, whether criminal, administrative, contractual, tortious or otherwise against any member of our Group in relation to any act, nonperformance, omission or otherwise, taxation resulting from or by reference to any income, profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) as well as any other claim to which any member of our Group may be subject and payable on or before the date on which the Global Offering becomes unconditional and all liabilities incurred by it arising from any material non-compliance committed by any member of the Group on or before the Listing Date.

The Controlling Shareholders are under no liability under the Deed of Indemnity in respect of any taxation or amount:

- (a) to the extent that provision has been made for such taxation in the consolidated audited accounts of our Company as set out in the Accountants' Report in Appendix I to this prospectus or in the audited accounts of the relevant members of our Group for the Track Record Period (the "Accounts");
- (b) to the extent that such taxation or amount arises or is incurred as a result of any change in the law having retrospective effect coming into force after the date on which the Global Offering becomes unconditional or to the extent that such taxation or amount arises or is incurred as a result of an increase in rates of taxation after the date on which the Global Offering becomes unconditional with retrospective effect (except the imposition of or an increase in the rate of Hong Kong profits tax or any tax of anywhere else in the world on the profits of companies for the current or any earlier financial period);
- (c) which would not have arisen but for any act or omission of, or transaction by any member of our Group voluntarily effected (other than pursuant to a legally binding commitment created on or before the date on which the Global Offering becomes unconditional) without prior written consent or agreement of the Controlling Shareholders; or
- (d) to the extent that any provision or reserve made for such taxation or amount in the Accounts is established to be an overprovision or an excessive reserve.

## **2. Estate duty**

Our Directors have been advised that no material liability for estate duty under PRC laws is likely to be imposed on us.

## **3. Litigation**

As at the Latest Practicable Date, no member of our Group was involved in any material litigation, arbitration or administrative proceedings. So far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

## **4. Restrictions on share repurchase**

Please refer to "Appendix IV – Summary of Principal Legal and Regulatory Provisions – C. The PRC Company Law, the Special Regulations and the Mandatory Provisions – Repurchase of Shares" in this prospectus for details.

**5. Sole sponsor**

The Sole Sponsor has declared its independence pursuant to Rule 3A.07 of the Listing Rules. Our Company has agreed to pay the Sole Sponsor a fee of HK\$6,250,000 to act as the sole sponsor to our Company in relation to the Global Offering.

The Sole Sponsor has made an application on our behalf to the Listing Committee for listing of, and permission to deal in, our H Shares. All necessary arrangements have been made enabling our H Shares to be admitted into CCASS.

**6. Preliminary expenses**

Our preliminary expenses are approximately RMB130,000. All preliminary expenses and all expenses relating to the Global Offering are borne by our Company.

**7. Qualifications of experts**

The qualifications of the experts, as defined under the Listing Rules, who have given reports, letter or opinions (as the case may be) in this prospectus are as follows:

<b>Name</b>	<b>Qualifications</b>
Cinda International Capital Limited	A corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
KPMG	Certified public accountants
AllBright Law Offices	Legal advisers as to PRC laws
Colliers International (Hong Kong) Limited	Property valuer
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

**8. Compliance adviser**

In accordance with the requirements of the Listing Rules, our Company will appoint Cinda International Capital Limited as its compliance adviser to provide advisory services to our Company to ensure compliance with the Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full year commencing after the Listing Date or until the agreement is terminated, whichever is the earlier.



**9. No material adverse change**

Save as disclosed in this prospectus, our Directors confirm that there has been no material adverse change in our financial or trading position since 30 April 2019.

**10. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

**11. Bilingual prospectus**

The English language and Chinese language versions 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).

**12. Miscellaneous**

Saved as disclosed in this prospectus,

- (a) within the two years preceding the date of this prospectus, we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of our Company, if any, is under option or is agreed conditionally or unconditionally to be put under option;
- (c) we have not issued nor agreed to issue any founder shares, management shares or deferred shares;
- (d) our Company has no outstanding convertible debt securities or debentures;
- (e) within the two years immediately preceding the issue of this prospectus, no commission, discount, brokerage or other special term has been granted in connection with the issue or sale of any capital of our Company or any member of our Group;
- (f) there is no arrangement under which future dividends are waived or agreed to be waived;

- (g) there has been no interruption in our business which may have or have had a significant effect on the financial position of our Group in the last 12 months preceding the date of this prospectus;
- (h) none of the equity and debt securities of our Company, if any, is listed or dealt with in any other stock exchange or trading system nor is any listing or permission to deal being or proposed to be sought;
- (i) there is no subsidiary in our Group which is a sino-foreign equity joint venture or which operates as or under a cooperative or contractual joint venture;
- (j) our Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited company and do not expect to be subject to the PRC Sino-Foreign Joint Venture Law (中華人民共和國中外合資經營企業法); and
- (k) as at the Latest Practicable Date, there is no restriction affecting the remittance of profits or repatriation of capital of our Company into Hong Kong from outside Hong Kong.

### 13. Consents of experts

Each of the experts as referred to in the paragraph headed “E. Other Information – 7. Qualifications of experts” of this Appendix has given, and has not withdrawn, their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any member of our Company or the right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of our Company.

### 14. Promoters

The promoters of our Company are Market Group, Qiaoling Investment, Qianyang Investment, Maowei Investment, Zhongjie Hede Investment, Shangyu Investment, Botao Investment, Zhang Laoqiao Investment and Mr. Huang Yugen. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given to the promoters named above in connection with the Global Offering or the related transactions described in this prospectus.

**1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to a copy of this prospectus and 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 “Statutory and General Information – E. Other Information – 13. Consents of experts” in Appendix VII to this prospectus; and
- (c) copies of the material contracts referred to in “Statutory and General Information – C. Further Information about the Business of Our Group – 1. Summary of material contracts” in Appendix VII to this prospectus.

**2. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Stevenson, Wong & Co. in association with AllBright Law Offices at 39/F, Gloucester Tower, The Landmark, 15 Queen’s 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 Articles of Association;
- (b) the Accountants’ Report prepared by KPMG, the text of which is set out in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of our Company for the three financial years ended 31 December 2018 and for the four months ended 30 April 2019;
- (d) the report on the unaudited pro forma financial information of our Company from KPMG, the text of which is set out in Appendix II to this prospectus;
- (e) the PRC legal opinions issued by our PRC Legal Advisers in respect of the general matters and property interests of our Company in the PRC;
- (f) the letter, summary of values and valuation certificates prepared by Colliers International (Hong Kong) Limited, the text of which is set out in Appendix VI to this prospectus;
- (g) the F&S Report;
- (h) the PRC Company Law, the Special Regulations and the Mandatory Provisions together with the unofficial English translations thereof;

- (i) the material contracts referred to in the section headed “Statutory and General Information – C. Further Information about the Business of Our Group – 1. Summary of material contracts” in Appendix VII to this prospectus;
- (j) the written consents referred to in the section headed “Statutory and General Information – E. Other Information – 13. Consents of experts” in Appendix VII to this prospectus; and
- (k) the service contracts referred to in the section headed “Statutory and General Information – Further Information about Our Directors, Supervisors, Senior Management and Substantial Shareholders – Directors’ and Supervisors’ service contracts” in Appendix VII to this prospectus.



温岭浙江工量刃具交易中心股份有限公司  
Wenling Zhejiang Measuring and Cutting Tools  
Trading Centre Company Limited\*