China PengFei Group Limited
中国鹏飞集团有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3348

SHARE OFFER

Sole Sponsor

安信國際
ESSENCE INTERNATIONAL

Essence Corporate Finance (Hong Kong) Limited

Sole Global Coordinator

安信國際
ESSENCE INTERNATIONAL

Essence International Securities (Hong Kong) Limited

Joint Bookrunners

安信國際
ESSENCE INTERNATIONAL

華贏證券
Solomon Securities

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

China PengFei Group Limited
中国鹏飞集团有限公司

(Incorporated in the Cayman Islands with limited liability)

SHARE OFFER

Number of Offer Shares	:	125,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	12,500,000 Shares (subject to reallocation)
Number of International Offer Shares	:	112,500,000 Shares (subject to reallocation and Over-allotment Option)
Offer Price	:	not more than HK$1.58 per Offer Share and not less than HK$1.05 per Offer Share (payable in full on application in Hong Kong dollars, subject to refund, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%)
Nominal value	:	HK$0.01 per Share
Stock code	:	3348

Sole Sponsor

安信國際 ESSENCE INTERNATIONAL

Essence Corporate Finance (Hong Kong) Limited

Sole Global Coordinator

安信國際 ESSENCE INTERNATIONAL

Essence International Securities (Hong Kong) Limited

Joint Bookrunners

安信國際 ESSENCE INTERNATIONAL

華贏證券 Solomon Securities

Joint Lead Managers

安信國際 ESSENCE INTERNATIONAL

華贏證券 Solomon Securities

Global GROUP 高寶集團證券

博協勤同 協同博勤證券有限公司 Nobleseed Securities Limited

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 the paragraph headed "Documents Delivered to the Registrar of Companies" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

Prior to making an investment decision, prospective investors should carefully consider 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 Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 8 November 2019 and, in any event, not later than 12:00 noon on Thursday, 14 November 2019. The Offer Price will be not more than HK$1.58 and is currently expected to be not less than HK$1.05 unless otherwise announced. If, for any reason, the Offer Price is not agreed on or before Thursday, 14 November 2019 between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, the Share Offer will not proceed and will lapse. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK$1.58 for each Share together with a brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price as finally determined should be lower than HK$1.58.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares in the Share Offer and/or the indicative Offer Price Range below that stated in this prospectus (which is HK$1.05 to HK$1.58 per Share) 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, notices of the reduction in the number of Offer Shares in the Share Offer and/or the indicative Offer Price Range will be published on the website of our Company at **www.pengfei.com.cn** and the website of the Stock Exchange at **www.hkexnews.hk** as soon as practicable following the decision to make such reduction and in any event, not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then such applications can be subsequently withdrawn if the number of Offer Shares in the Share Offer and/or the indicative Offer Price Range is so reduced. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the Company on the Price Determination Date, the Share Offer (including the Hong Kong Public Offering) will lapse and will not proceed. Further details are set out in the sections headed "Structure and Conditions of the Share Offer" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Hong Kong Offer Shares, are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Offer Shares commences on the Stock Exchange. Such grounds are set out in "Underwriting — Hong Kong Public Offering — Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

31 October 2019

We will issue an announcement in Hong Kong to be published on the website of our Company at **www.pengfei.com.cn** and the website of the Stock Exchange at **www.hkex.com.hk** if there is any change in the following expected timetable of the Hong Kong Public Offering. All times and dates stated below refer to Hong Kong local times and dates. Further information on the Share Offer is set forth in the section headed "Structure and Conditions of the Share Offer" in this prospectus.

The period during which an application for our Hong Kong Offer Shares can be lodged pursuant to the terms of this prospectus and the Application Forms will expire on Thursday, 7 November 2019. Such period is longer than the time period usually adopted in other initial public offering transactions in Hong Kong. See the section headed "How to apply for Hong Kong Offer Shares" in this prospectus for the channels that you may use for subscribing for our Hong Kong Offer Shares.

	Date *(Note 1)*
Hong Kong Public Offering commences and **WHITE** and **YELLOW** Application Forms available from	9:00 a.m. on Thursday, 31 October 2019
Latest time to complete electronic applications under **HK eIPO White Form** service through one of the below ways *(Note 3)*: (1) the designated website at www.hkeipo.hk (2) the IPO App, which can be downloaded by searching "**Tricor IPO App**" in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp	11:30 a.m. on Thursday, 7 November 2019
Application lists open *(Note 2)*	11:45 a.m. on Thursday, 7 November 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 Thursday, 7 November 2019
Latest time to give **electronic application instructions** to HKSCC *(Note 4)*	12:00 noon on Thursday, 7 November 2019
Latest time to lodge **WHITE** and **YELLOW** Application Forms	12:00 noon on Thursday, 7 November 2019
Application lists close	12:00 noon on Thursday, 7 November 2019
Expected Price Determination Date *(Note 5)*	Friday, 8 November 2019

Announcement of the final Offer Price, the level of indications of interest in the International Offering, the level of applications under the Hong Kong Public Offering, the basis of allotment and the results of applications in the Hong Kong Public Offering to be published on the website of our Company at **www.pengfei.com.cn** and the website of the Stock Exchange at **www.hkexnews.hk** on or before	Thursday, 14 November 2019
Announcement of results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including our website at **www.pengfei.com.cn** and the website of the Stock Exchange at **www.hkex.com.hk** (for further details, please see "How to apply for Hong Kong Offer Shares — 11. Publication of Results" in this prospectus) from	Thursday, 14 November 2019
Results of allocations in the Hong Kong Public Offering will be available at **www.tricor.com.hk/ipo/result** and **www.hkeipo.hk/IPOResult** or the "Allotment Result" in the IPO App with a "search by ID" function	Thursday, 14 November 2019
Despatch/Collection of **HK eIPO White Form** e-Auto Refund payment instructions or refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before *(Notes 6 and 7)*	Thursday, 14 November 2019
Despatch/Collection of Share certificates of our Offer Shares or deposit of Share certificates of our Offer Shares into CCASS in respect of wholly or partially successful applications under the Hong Kong Public Offering on or before *(Note 8)*	Thursday, 14 November 2019
Dealings in the Shares on the Stock Exchange expected to commence on	9:00 a.m. on Friday, 15 November 2019

Notes:

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

2. If there is a "**black**" rainstorm warning or a tropical cyclone warning signal number 8 or above or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 7 November 2019, the application lists will not open on that day. For details, please see "How to Apply for Hong Kong Offer Shares — 10. Effect of bad weather or Extreme Conditions on the opening of the application lists" in this prospectus.

3. You will not be permitted to submit your application through the designated website at **www.hkeipo.hk** or the IPO App after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website or the IPO App prior to 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.

4. Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to "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 around Friday, 8 November 2019. If, for any reason, the Offer Price is not agreed by 12:00 noon on Thursday, 14 November 2019 between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Share Offer will not proceed and will lapse accordingly.

6. Applicants for 1,000,000 Hong Kong Offer Shares or more on **WHITE** Application Forms or through the **HK eIPO White Form** service and have provided all information required by their Application Forms may collect refund cheques (where relevant) and/or Share certificates (where relevant) in person from our Hong Kong Branch 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 Thursday, 14 November 2019 or any other day that we publish in the newspaper as the date of despatch of Share certificates/e-Auto Refund payment instructions/refund cheques.

   Individuals who opt for personal collection must not authorise any other person(s) to make collection on their behalf. Corporate applicants which opt for personal collection must attend by their authorised representative(s) bearing a letter of authorisation from such corporation(s) stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar. Applicants for 1,000,000 Hong Kong Offer Shares or more on **YELLOW** Application Forms may collect their refund cheques, if any, in person but may not elect to collect their Share certificates personally, which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participants' stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

   Applicants who apply through the **HK eIPO White Form** service and paid their applications monies through single bank account may have refund monies (if any) dispatched to their application payment bank 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) dispatched 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.

   Uncollected Share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. For further information, applicants should refer to "How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies" in this prospectus.

7. Refund cheques/e-Auto Refund payment instructions will be despatched in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the final Offer Price is less than the maximum Offer Price of HK$1.58 per Offer Share.

8. Share certificates for the Offer Shares are expected to be issued on or before Thursday, 14 November 2019 but will only become valid certificates of title at 8:00 a.m. on Friday, 15 November 2019 provided that (a) the Share Offer has become unconditional in all respects; and (b) none of the Underwriting Agreements has been terminated in accordance with its terms.

For details of the structure of the Share Offer, including conditions of the Share Offer, applicants should refer to the section headed "Structure and Conditions of the Share Offer" in this prospectus.

Prospective investors of our Hong Kong Offer Shares should note that the Hong Kong Underwriters are entitled to terminate their obligations under the Hong Kong Underwriting Agreement by notice in writing to us given by the Sole Global Coordinator (for itself and on behalf of the Underwriters) upon the occurrence of any of the events set forth in the section headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

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 or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Hong Kong 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 and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Share Offer. Information contained in our website, located at ***www.pengfei.com.cn*** *does not form part of this prospectus.*

CONTENTS

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

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

OVERVIEW

We are a leading manufacturer of rotary kilns, grinding equipment and their related equipment in the PRC and the global market and have been in the industry for over 20 years. Our rotary kiln is used to raise materials to a high temperature (calcination) in a continuous process. It is used to produce materials such as cement, lime, iron ore, non-ferrous metal ore, etc, for building materials, metallurgy, chemical and environmental protection industries. Our grinding equipment is used to break down solid materials such as cement, lime, etc into smaller pieces by grinding, crushing or cutting. Products in the grinding equipment system are mainly used in building materials industry. According to the F&S Report, in 2018, we were the largest supplier of rotary kilns and their related equipment in the PRC and the global market in terms of revenue with a market share of 22.0% and 13.3%, respectively and we were the second largest supplier of grinding equipment and their related equipment in the PRC and the global market in terms of revenue with a market share of 13.1% and 7.9%, respectively.

We engage in equipment manufacturing and installation, and construction of production line business which are divided into three business lines, namely (i) manufacturing of equipment, in which we engage in the design, manufacturing and sales of equipment including related parts and components for various industries including building materials, metallurgy, chemical and environmental protection industries; (ii) installation services, in which we mainly provide installation services to our customers under our manufacturing of equipment business; and (iii) construction of production line, in which we act as an EPC service provider providing bespoke one-stop solutions in respect of design, procurement, construction and/or trial operations of production lines.

During the Track Record Period, our total revenue and revenue by business lines is set out below:

	Year ended 31 December						Four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Manufacturing of equipment	575,626	74.1	653,701	69.1	780,410	76.8	203,911	83.2	283,006	70.8
Installation services	30,786	4.0	17,140	1.8	21,985	2.2	3,035	1.2	7,290	1.8
Construction of production line	170,249	21.9	275,302	29.1	213,806	21.0	38,118	15.6	109,606	27.4
Total	776,661	100.0	946,143	100.0	1,016,201	100.0	245,064	100.0	399,902	100.0

For further details, please see the section headed "Business — Business model" in this prospectus.

OUR PRODUCTS AND SERVICES

Our products under the manufacturing of equipment business consist of two main categories, namely: (i) rotary kiln system which mainly includes rotary kilns, preheaters, dryers, coolers, ancillary machinery and related parts and components; (ii) grinding equipment system which mainly includes tube mills, roller presses, vertical mills, separators, ancillary machinery and related parts and components. Our installation services are part and parcel of our manufacturing of equipment business. During the Track Record Period, our revenue generated by our manufacturing of equipment business is set out below:

	Year ended 31 December						Four months ended 30 April			
Product category	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Rotary kiln system	315,611	54.8	343,487	52.5	479,422	61.4	85,158	41.8	225,748	79.8
Grinding equipment system	246,376	42.8	295,155	45.2	277,484	35.6	110,295	54.1	46,982	16.6
Others	13,639	2.4	15,059	2.3	23,504	3.0	8,458	4.1	10,276	3.6
Total	575,626	100.0	653,701	100.0	780,410	100.0	203,911	100.0	283,006	100.0

For further details, please see the section headed "Business — Manufacturing of equipment and installation services business" in this prospectus.

For our construction of production line business, we primarily focus on the construction of production line projects for building materials industry, such as cement production line projects and production line projects for non-building materials industries including metallurgy, chemical and environmental protection. However, during the Track Record Period, our Group had not recognized any revenue from construction of production line projects for non-building materials industries and all revenue generated by our Group's construction of production line business was attributable to customers in the building materials industry. During the Track Record Period, most of our customers under our construction of production line business were located outside the PRC, including "Belt and Road" countries such as Bangladesh, Kazakhstan, Turkey and Uzbekistan.

The table below sets out the breakdown of our revenue generated by our construction of production line business by geographical location for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Mainland China	21,451	12.6	1,523	0.6	—	—	—	—	—	—
Outside Mainland China	148,798	87.4	273,779	99.4	213,806	100.0	38,118	100.0	109,606	100.0
	170,249	100.0	275,302	100.0	213,806	100.0	38,118	100.0	109,606	100.0

For further details, please see the section headed "Business — Construction of production line business" in this prospectus.

CUSTOMERS, SUPPLIERS AND SUB-CONTRACTORS

For the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, our revenue contributed by our top five customers was approximately RMB310.5 million, RMB448.4 million, RMB388.4 million and RMB281.0 million, respectively, representing approximately 40.0%, 47.4%, 38.2% and 70.3% of our total revenue, respectively. For the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, our revenue contributed by our largest customers was approximately RMB123.3 million, RMB256.1 million, RMB138.5 million and RMB110.9 million, respectively, representing approximately 15.9%, 27.1%, 13.6% and 27.7% of our total revenue, respectively. Please refer to the section headed "Business — Customers, sales and marketing — Information on our top-five customers" in this prospectus for further details.

The principal raw materials procured by us include steel materials, such as steel plates, castings and forgings, the principal parts and components procured by us include motors, reducers and axle bearings. We purchase most of our raw materials, parts and components and other equipment from local suppliers in the PRC. During the Track Record Period, our total cost of raw materials amounted to approximately RMB461.3 million, RMB553.3 million, RMB543.4 million and RMB241.9 million, respectively, representing approximately 72.7%, 73.6%, 67.9% and 77.1%, respectively of our total costs of sales. For the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, our cost of purchase from our top five suppliers was approximately RMB155.5 million, RMB241.6 million, RMB340.8 million and RMB140.6 million, respectively, representing approximately 33.3%, 32.9%, 38.5% and 40.4% of our total cost of purchase, respectively. All of our top five suppliers are from the PRC. For the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, our total cost of purchase contributed by our largest supplier was approximately RMB72.1 million, RMB84.2 million, RMB143.1 million and RMB66.3 million respectively, representing approximately 15.4%, 11.5%, 16.2% and 19.0% of our total cost of purchase, respectively. Please refer to the section headed "Business — Suppliers, procurement and inventory management — Information on our top five suppliers" in this prospectus for further details.

We outsource certain design, civil construction and installation works to third party sub-contractors to ensure the progress and quality of the projects. Services to be provided by our third party sub-contractors will depend on the needs of individual projects. We will continue to engage such third party sub-contractors as and when the need arises.

During the Track Record Period, we did not experience any difficulty in identifying and engaging sub-contractors. As at the Latest Practicable Date, our number of years of business relationships with such sub-contractors on average is six years. Our Directors believe that there are no associated risks with outsourcing arrangements as there are substitute sub-contractors readily available in the market. Please see the section headed "Business — Suppliers, procurement and inventory management — Sub-contractors" for further details.

COMPETITVE STRENGTHS

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

- We have strong market position as a leading manufacturer of rotary kilns, grinding equipment and their related equipment in the PRC and the global market
- We sell our products and provide our services to customers around the world and have well-established business relationships with customers located in "Belt and Road" countries
- We have an established research and development team that possesses strong research and development capabilities
- We are able to offer customised products and act as EPC service provider providing bespoke one-stop solution services to customers
- We have established a well-recognised brand and have a good market reputation
- Our management team has extensive industry knowledge and experience

BUSINESS STRATEGIES

Our Company will maintain our competitiveness and growth and increase shareholder value by implementing the following strategies:

- We intend to invest in a project for manufacturing rotary kilns that possess the latest roasting and pyrolysis technology and increase productivity
- We intend to further invest in our research and development capabilities
- We intend to expand our customer base
- We intend to continue to expand our construction of production line business in the international market

REGULATORY NON-COMPLIANCE

During the Track Record Period, we did not fully comply with certain legal and statutory requirements in the PRC with respect to our business operations. Such non-compliances include our failure to fully make contributions in respect of social insurance and housing provident fund for some of our employees and our failure to maintain our fire safety measures up to the required standard. As at the Latest Practicable Date, we had rectified the non-compliance and we had not been and were not involved in any material non-compliance incident that has led to fines, enforcement actions or other penalties that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations. Please refer to the section headed "Business — Licences and regulatory compliance — Legal compliance" in this prospectus for further details of these incidents, possible legal consequences, maximum operational and financial impacts and the rectification measures taken by us.

OUR CONTROLLING SHAREHOLDERS

Immediately upon completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares to be allocated and issued upon the exercise of the Over-Allotment Option), Mr. Wang Jiaan (王家安) and Ambon will be our Controlling Shareholders within the meaning of the Listing Rules as they together will jointly hold approximately 41.49% of the total number of issued Shares of our Company. For details regarding the shareholding interest of our Controlling Shareholders, please refer to the sections headed "Relationship with Controlling Shareholders" and "Substantial Shareholder" in this prospectus.

COMPETITVE LANDSCAPE

According to the F&S Report, the rotary kiln and their related equipment market in the PRC was concentrated with the top five players accounting for 58.1% of the market share in 2018 and there were over 500 players in the rotary kiln and their related equipment market in the PRC. In 2018, the rotary kilns and their related equipment market was led by our Company which occupied 22.0% of the total market share in the PRC in terms of revenue. Globally, the market size by revenue of rotary kilns and their related equipment market in 2018 was RMB3,605.0 million, with the top five players taking up approximately 39.9% of the overall market and there were over 1,000 players in the rotary kiln and their related equipment market in the world. Our Company ranked first and accounted for approximately 13.3% of the total market share of the rotary kilns and their related equipment market in the world in 2018 in terms of revenue.

Our Company also ranked the second largest company by revenue in the PRC's grinding equipment and their related equipment market in 2018, with a market share of 13.1% in terms of revenue in 2018. According to the F&S Report, the grinding equipment and their related equipment market in the PRC was concentrated with the top five players accounting for approximately 58.3% of the market share and there were over 500 players in the PRC's grinding equipment and their related equipment market in 2018. Globally, the market size by revenue of grinding equipment and their related equipment market in 2018 was RMB3,525.0 million, with the top five players taking up approximately 40.3% of the overall market and there were over 1,200 players in the grinding equipment and their related equipment market in the world. Our Company ranked second with 7.9% of the total market share of the grinding equipment and their related equipment market in the world in 2018. For further details, please refer to "Industry overview — Competitive Landscape Analysis" in this prospectus.

KEY OPERATION AND FINANCIAL DATA

The following tables set forth a summary of our consolidated financial information. We have derived the summary from our consolidated financial information set out in the Accountants' Report in Appendix I to this prospectus. The summary consolidated financial information should be read together with the consolidated financial information in Appendix I to this prospectus, including the accompanying notes and the information set forth in the section headed "Financial Information" in this prospectus. Our financial information was prepared in accordance with IFRSs.

Selected financial data from consolidated statements of profit or loss and other comprehensive income

The following sets forth our selected financial data from consolidated statements of profit or loss and other comprehensive income during the years and periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	776,661	946,143	1,016,201	245,064	399,902
Cost of sales and services	(634,400)	(751,723)	(799,836)	(193,369)	(313,879)
Gross profit	142,261	194,420	216,365	51,695	86,023
Other income	7,434	8,554	27,332	1,262	794
Other gains and losses	14,605	1,244	8,324	(944)	(1,577)
Selling and distribution expenses	(41,110)	(62,777)	(74,749)	(21,897)	(36,563)
Administrative expenses	(41,273)	(41,024)	(41,557)	(13,607)	(14,447)
Research expenditure	(32,579)	(31,497)	(32,377)	(9,890)	(11,694)
(Provision) reversal of loss allowance on trade and other receivables and contract assets, net	(8,883)	(532)	(2,514)	412	(2,316)
Listing expenses	—	—	(11,772)	—	(3,328)
Finance costs	(353)	(1,605)	(1,204)	(199)	(180)
Profit before tax	40,102	66,783	87,848	6,832	16,712
Income tax expense	(6,528)	(9,127)	(14,532)	(1,184)	(2,946)
Profit and total comprehensive income for the year/period	33,574	57,656	73,316	5,648	13,766
Profit (loss) and total comprehensive income (expenses) for the year/period attributable to:					
- Owners of the Company	31,842	58,720	72,506	6,132	13,877
- Non-controlling interests	1,732	(1,064)	810	(484)	(111)
	33,574	57,656	73,316	5,648	13,766

Selected financial data from consolidated statements of financial position

The following sets forth our selected financial data from consolidated statements of financial position as of the dates indicated:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	266,707	233,977	212,184	202,166
Investment properties	44,199	15,460	14,001	13,579
Intangible assets	199	167	109	132
Right-of-use assets	38,624	28,653	40,005	40,810
Deposits paid for acquisition of property, plant and equipment	7,274	—	—	—
	357,003	278,257	266,299	256,687

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets				
Inventories	160,946	248,663	419,135	495,366
Trade, bills and other receivables	425,165	435,669	578,403	594,244
Contract assets	30,557	47,024	66,424	76,670
Contract costs	10,565	9,895	12,724	22,935
Value-added tax recoverable	10,901	12,573	3,497	15,084
Prepayments to suppliers	76,649	78,505	92,364	142,217
Amounts due from related parties	—	51,398	—	—
Financial assets at fair value through profit or loss ("FVTPL")	—	304,600	3,426	215,471
Term deposits	29,396	—	—	—
Restricted bank deposits	21,267	47,858	13,597	26,412
Bank balances and cash	228,302	96,589	233,881	162,872
	993,748	1,332,774	1,423,451	1,751,271
Current liabilities				
Trade, bills and other payables	363,934	521,205	668,621	643,941
Contract liabilities	592,417	603,868	692,381	1,047,076
Amount due to a related party	802	—	817	801
Dividends payable	—	2,299	19,270	—
Tax payable	5,480	4,522	5,114	886
Bank borrowing	—	3,000	—	—
	962,633	1,134,894	1,386,203	1,692,704
Net current assets	31,115	197,880	37,248	58,567
Total assets less current liabilities	388,118	476,137	303,547	315,254
Capital and reserves				
Paid-in/share capital	37,316	88,702	51,386	51,386
Reserves	342,331	384,093	245,585	259,462
Equity attributable to owners of the Company	379,647	472,795	296,971	310,848
Non-controlling interests	260	(1,319)	(1,064)	(1,175)
Total equity	379,907	471,476	295,907	309,673
Non-current liability				
Deferred tax liabilities	8,211	4,661	7,640	5,581
	388,118	476,137	303,547	315,254

We had net assets of approximately RMB379.9 million, RMB471.5 million, RMB295.9 million and RMB309.7 million as at 31 December 2016, 2017, 2018 and 30 April 2019, respectively. The decrease in our net assets as at 31 December 2018 as compared to the previous year was primarily attributable to the declaration of dividend of approximately RMB201.9 million for the year ended 31 December 2018.

Selected financial data from consolidated statements of cash flows

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Operating cash flow before movements in working capital	48,253	76,562	96,450	11,793	23,907
Net cash from (used in) operating activities	118,528	60,361	(7,941)	(60,075)	168,309
Net cash (used in) from investing activities	(29,062)	(178,894)	320,027	184,788	(216,200)
Net cash used in financing activities	(13,411)	(13,460)	(176,021)	(23,698)	(21,035)
Net increase (decrease) in cash and cash equivalents	76,055	(131,993)	136,065	101,015	(68,926)
Cash and cash equivalents at beginning of year/period	146,743	233,302	96,589	96,589	233,881
Cash and cash equivalents at end of year/period	233,302	96,589	233,881	195,550	162,872

For the year ended 31 December 2018, we had net cash used in operating activities of approximately RMB7.9 million, which was primarily contributed by an increase in inventories of approximately RMB139.6 million and an increase in trade, bills and other receivables of approximately RMB150.5 million. This cash flow was offset by an increase in trade, bills and other payables of approximately RMB142.8 million and an increase in contract liabilities of approximately RMB88.5 million. We have experienced a net cash outflow from operating activities for the year ended 31 December 2018 as a result of (a) increased cash used for inventory along with the increased ending value of backlog of our manufacturing of equipment business; (b) prolonged payment approval process of one production line project customer; and (c) increased number of domestic customers who have settled payments by bank acceptance bills. With a view to improving our cash flow position, we will actively follow up with our customers for payment and negotiate with our suppliers for alternative payment method including bank acceptance bills.

For the four months ended 30 April 2019, we had net cash from operating activities of approximately RMB168.3 million, which was primarily contributed by an increase in contract liabilities of approximately RMB354.7 million. This cash flow was partially offset by (a) an increase in inventories of approximately RMB66.1 million; (b) an increase in prepayments to suppliers of approximately RMB49.9 million; and (c) a decrease in trade, bills and other payables of approximately RMB23.9 million.

KEY FINANCIAL RATIOS

The table below sets out the key financial ratios for our Group as at the dates indicated:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
				(annualised)
Key financial ratio				
Gross profit margin *(Note 1)*	18.3%	20.5%	21.3%	21.5%
Net profit margin *(Note 2)*	4.1%	6.2%	7.1%	3.5%
Current ratio *(Note 3)*	103.3%	117.5%	102.7%	103.5%
Quick ratio *(Note 4)*	86.6%	95.6%	72.5%	74.2%
Gearing ratio *(Note 5)*	255.7%	241.0%	469.3%	546.3%
Return on assets *(Note 6)*	2.4%	3.6%	4.3%	2.1%
Return on equity *(Note 7)*	8.4%	12.4%	24.4%	13.4%

Notes:

1. Gross profit margin is calculated based on our gross profit divided by the total revenue for the respective year/period.
2. Net profit margin equals to our profit and total comprehensive income for the year/period attributable to owners of the Company divided by our revenue for the year/period, multiplied by 100%.
3. Current ratio equals to our total current assets divided by our total current liabilities as at the respective dates, multiplied by 100%.
4. Quick ratio equals to our total current assets less our inventories divided by our total current liabilities as at the respective dates, multiplied by 100%.
5. Gearing ratio equals to our total liabilities divided by our equity attributable to owners of the Company as at the respective dates, multiplied by 100%.
6. Return on assets equals to our profit and total comprehensive income for the year/period attributable to owners of the Company divided by the closing balance of our total assets, multiplied by 100%.
7. Return on equity equals to our profit and total comprehensive income for the year/period attributable to owners of the Company divided by the closing balance of our equity attributable to owners of the Company, multiplied by 100%.

Our gearing ratio decreased from 255.7% as at 31 December 2016 to 241.0% as at 31 December 2017. The decrease in gearing ratio was due to the continuing increase in our net profit for the year ended 31 December 2016 and 31 December 2017. Such ratio increased to 469.3% as at 31 December 2018 as a result of the dividend in an amount of approximately RMB201.9 million being declared during the same period. Such ratio further increased to 546.3% as at 30 April 2019 as a result of the increased balance of our contract liabilities as at 30 April 2019 as compared to 31 December 2018. For further details of our key financial ratios, please refer to paragraph headed "Financial Information — Key financial ratios" in this prospectus.

Gross profit and gross profit margin

During the Track Record Period, we recorded gross profit of approximately RMB142.3 million, RMB194.4 million, RMB216.4 million and RMB86.0 million, and gross profit margin of 18.3%, 20.5%, 21.3% and 21.5% for the relevant period, respectively.

The table below sets out a breakdown of our gross profit by business line for the years/periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Gross profit										
Manufacturing of equipment	94,690	66.6	154,009	79.2	168,964	78.1	46,540	90.0	58,305	67.8
Installation services	—	—	—	—	—	—	—	—	—	—
Contruction of production line	47,571	33.4	40,411	20.8	47,401	21.9	5,155	10.0	27,718	32.2
Total	142,261	100.0	194,420	100.0	216,365	100.0	51,695	100.0	86,023	100.0

Our overall gross profit increased by 36.6% from approximately RMB142.3 million for the year ended 31 December 2016 to approximately RMB194.4 million for the year ended 31 December 2017, mainly due to the increase in gross profit from our manufacturing of equipment business of approximately RMB59.3 million. Our overall gross profit further increased by 11.3% to approximately RMB216.4 million for the year ended 31 December 2018, mainly due to the increase in gross profit from our manufacturing of equipment business of approximately RMB15.0 million. The increase in gross profit for the four months ended 30 April 2018 as compared to the same period in 2019 was mainly attributable to the increase in gross profit from our construction of production line business of approximately RMB22.6 million.

For the three years ended 31 December 2018 and the four months ended 30 April 2018 and 2019, gross profit from our manufacturing of equipment business constituted approximately 66.6%, 79.2%, 78.1%, 90.0% and 67.8% of our total gross profit, while gross profit from our construction of production line business constituted approximately 33.4%, 20.8%, 21.9%, 10.0% and 32.2% of our total gross profit. As a result, our overall gross profit margin was substantially affected by the gross profit and revenue of our manufacturing of equipment business during the Track Record Period.

The table below sets forth details of our gross profit margin by business line for the years/periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	%	%	%	% (unaudited)	%
Gross profit margin					
Manufacturing of equipment	16.4	23.6	21.7	22.8	20.6
Installation services	—	—	—	—	—
Construction of production line	27.9	14.7	22.2	13.5	25.3
Overall gross profit margin	18.3	20.5	21.3	21.1	21.5

Manufacturing of equipment business

Gross profit margin for our manufacturing of equipment business increased to 23.6% for the year ended 31 December 2017 from 16.4% for the year ended 31 December 2016 primarily due to (a) higher proportion of overseas sales with higher gross profit margin as compared with our China sales due to relatively less competitive environment and our brand recognition in the overseas market; and (b) the improvement in production efficiency resulting from higher utilisation rate of our production plant thereby led to a decrease in our manufacturing overhead per unit product.

Gross profit margin for our manufacturing of equipment business decreased to 21.7% for the year ended 31 December 2018 mainly due to the lower proportion of our sales outside Mainland China with higher profit margin as compared to our Mainland China sales given the less competitive environment and our brand recognition in the overseas market offsetting the effect of improvement in our production efficiency.

Gross profit margin for our manufacturing of equipment business decreased from 22.8% for the four months ended 30 April 2018 to 20.6% for the same period in 2019 mainly due to sales made to a few major customers in Mainland China during the four months ended 30 April 2019 which accounted for approximately 54.9% of revenue generated from manufacturing of equipment business at lower gross profit margin with a view to maintain a stable and long term business relationship with such customers.

Installation services business

Our installation services business line is part and parcel of our manufacturing of equipment business. We outsource installation works to sub-contractors and provide quotation to our customers under manufacturing of equipment business on an overall basis after obtaining price quotation from our installation services sub-contractors. As sales contracts of our manufacturing of equipment and installation services businesses generally do not provide a stand-alone price for each of our contractual obligations, we estimate the stand-alone price of our installation services based on fees charged by our sub-contractor for the provision of such services. As such, we did not record any gross profit for our installation services business during the Track Record Period. For further details, please refer to the paragraph headed "Critical accounting policies — Revenue recognition" in the Financial Information section of this prospectus.

Construction of production line business

Gross profit margin for our construction of production line business decreased to 14.7% for the year ended 31 December 2017 from 27.9% for the year ended 31 December 2016. Such decrease was mainly attributable to the relatively low gross profit generated from our Turkey Cement Production Line which accounted for 86.2% of the total gross profit for our construction of production line business for the year ended 31 December 2017. The increase of gross profit margin for our construction of production line business from 14.7% for the year ended 31 December 2017 to 22.2% for the year ended 31 December 2018 was mainly attributable to our Kazakhstan Cement Production Line which accounted for 73.7% of the total gross profit of our construction of production line business for the year ended 31 December 2018 with a gross profit margin of 25.2%. The increase in gross profit margin of our construction of production line project from 13.5% for the four months ended 30 April 2018 to 25.3% for the four months ended 30 April 2019 was mainly attributable to our Kazakhstan Cement Production Line which accounted for 98.7% of the total gross profit of our construction of production line business for the four months ended 30 April 2019.

For further details, please refer to the section headed "Financial Information — Discussion of selected items in consolidated statements of profit or loss and other comprehensive income — Gross profit and gross profit margin" in this prospectus.

Other income, gains and losses

During the Track Record Period, we received government subsidies from local governments amounting to approximately RMB2.0 million, RMB3.7 million, RMB23.8 million and RMB20,000, representing approximately 5.9%, 6.4%, 32.5% and 0.15% of our profit and total comprehensive income for the relevant year and period, respectively. Government subsidies that we received are unconditional and in connection with the enterprise development support, innovation capability incentives and/or expenses related to the Listing incurred by the Group during the Track Record Period. The aforesaid government subsidies were classified as other income. For details, please refer to paragraph headed "Financial Information — Discussion of selected items in consolidated statements of profit or loss and other comprehensive income — Other income" in this prospectus.

We recorded (a) foreign exchange gains of approximately RMB14.3 million and RMB4.7 million for the years ended 31 December 2016 and 2018, respectively, representing approximately 42.7% and 6.4% of the profit and total comprehensive income for the years ended 31 December 2016 and 2018; and (b) foreign exchange losses of approximately RMB12.5 million for the year ended 31 December 2017 and approximately RMB3.9 million for the four months ended 30 April 2019, respectively. The exchange gains and losses were classified as other gains and losses. For details, please refer to paragraph headed "Financial Information — Discussion of selected items in consolidated statements of profit or loss and other comprehensive income — Other gains and losses" in this prospectus.

DIVIDENDS

During the Track Record Period, we declared cash dividends in the aggregate amount of RMB12.8 million, RMB17.0 million, RMB201.9 million and nil for the relevant periods, respectively. We expect to pay a dividend of no less than 30% of the profit after tax upon Listing each year. The payment and amounts of dividends, if any, depend on our results of operations, cash flows, financial position, statutory and regulatory restrictions on the dividends paid by us, future prospects and other factors which we consider relevant. Please refer to the section headed "Financial Information — Dividends" in this prospectus.

OFFERING STATISTICS

Number of Offer Shares:	125,000,000 Shares (subject to the Over-Allotment Option)
Over-Allotment Option:	Up to an aggregate of 18,750,000 additional Offer Shares, representing 15% of the initial number of Offer Shares
Hong Kong Public Offering:	12,500,000 Shares, representing 10% of the Offer Shares (subject to reallocation)
International Offering:	112,500,000 Shares, representing 90% of the Offer Shares (subject to reallocation)
Offer Price Range:	HK$1.05 to HK$1.58 per Offer Share
Board lot:	2,000 Shares

	Based on minimum indicative Offer Price of HK$1.05	**Based on maximum indicative Offer Price of HK$1.58**
Market capitalization: (assuming no exercise of the Over-Allotment Option)	HK$525 million	HK$790 million
Unaudited pro forma adjusted net tangible assets per Share[(1)]: . .	HK$0.94	HK$1.06

Note:

1. For the assumptions and calculation method, please refer to the unaudited pro forma financial information set out in Appendix II to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

We estimate that we will receive net proceeds from the Share Offer of approximately HK$121.4 million after deducting underwriting commissions and other estimated expenses paid and payable by us in the Share Offer, assuming an Offer Price of HK$1.315 per Offer Share, being the mid-point of the Offer Price Range of HK$1.05 to HK$1.58 per Offer Share. We intend to use the net proceeds we expect to receive from the Share Offer for the purposes and in the amounts set out below:

- HK$95.6 million, or 78.7% of the total net proceeds from the Share Offer, will be used for investing in a project for manufacturing rotary kilns possessing the latest roasting and pyrolysis technology
- HK$8.4 million, or 7.0% of the total net proceeds from the Share Offer, will be used for increasing the productivity and efficiency in manufacturing our products for rotary kiln and grinding equipment systems
- HK$8.2 million, or 6.8% of the total net proceeds from the Share Offer, will be used for research and development of our rotary kilns that possess the latest roasting and pyrolysis technology
- HK$4.3 million, or 3.5% of the total net proceeds from the Share Offer, will be used for marketing activities
- HK$4.9 million, or 4.0% of the total net proceeds from the Share Offer, will be used for working capital purposes

RISK FACTORS

Our business and the Share Offer involve certain risks as set out in the section headed "Risk Factors". You should read that section in its entirety carefully before you decide to invest in our Shares. Some of the major risks we face include:

- Our business and future growth are subject to macroeconomic conditions in the PRC and overseas countries, and we mainly relied on customers from the building materials industry for generating revenue during the Track Record Period
- We had net operating cash outflow from our operating activities for the year ended 31 December 2018. If we experience an increase in inventories and an increase in trade, bills and other receivables, our business, financial condition and results of operations may be materially and adversely affected
- We produce our products in the rotary kiln and grinding equipment systems that have a relatively long useful life which may result in a long average replacement cycle
- Our research and development efforts may not yield the anticipated benefits for our Group. If we fail to develop or adopt new technologies and offer products and/or services that meet the changing market demands in a timely manner, we may lose business opportunities to our competitors
- We rely on third party contractors to provide design, civil construction and installation services, all of which are essential for our business operations under both our manufacturing of equipment and construction of production line businesses
- Our failure to estimate the overall risks or costs on fixed-price contracts may lead to cost overruns

- Our failure to retain our senior management team and experienced technical personnel may materially and adversely affect our business operation, financial condition and growth prospects
- Our results of operations may be affected by backlog which is subject to unexpected adjustment and cancellation, and credit risks
- We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities
- We are exposed to risks of obsolete inventory which may adversely impact our cash flow and liquidity

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Share Offer (including the Shares that may be issued pursuant to the exercise of the Over-allotment Option) on the basis that, among other things, we satisfy the profit test under Rule 8.05(1) of the Listing Rules.

THE SHARE OFFER

This document is published in connection with the Hong Kong Public Offering as part of Share Offer. The Share Offer comprises (subject to the Over-allotment Option): (i) the Hong Kong Public Offering of 12,500,000 Offer Shares (subject to reallocation), and (ii) the International Offering of 112,500,000 Offer Shares (subject to reallocation and the Over-allotment Option).

The Offer Shares will represent approximately 25% of the issued share capital of our Company immediately following the completion of the Share Offer (assuming the Over-allotment Option is not exercised). If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.7% of the issued share capital of our Company immediately following the completion of the Share Offer.

RECENT DEVELOPMENT

Our business, revenue model and cost structure remained largely unchanged subsequent to the Track Record Period and up to the Latest Practicable Date.

Subsequent to the Track Record Period and as at the Latest Practicable Date, we entered into 207 additional manufacturing of equipment contracts with an aggregate new contract value of approximately RMB597.9 million and we did not enter into any additional construction of production line contract. Out of the 207 manufacturing of equipment contracts, 16 of them were sizable contracts with contract value over RMB10.0 million which involve primarily sales of our products in the rotary kiln systems and grinding equipment systems. As at the Latest Practicable Date, we had five construction of production line projects which were still under construction and a revenue of approximately RMB109.6 million had been recognised for the four months ended 30 April 2019. For further details, please refer to section headed “Business — Construction of production line business” in this prospectus.

We received government subsidies of approximately RMB23.8 million during the year ended 31 December 2018. Given the non-recurring nature of the government subsidies, we do not expect that we will receive such significant amount of government subsidies during the year ending 31 December 2019. Moreover, the percentage increase in our selling and distribution expenses for the year ending 31 December 2019 is expected to exceed the growth of our revenue for the same year. In light of the above and among others, the prospective investors should note that the financial performance of our Group for the year ending 31 December 2019 is expected to remain stable as compared to the year ended 31 December 2018.

LISTING EXPENSES

We expect to incur a total of approximately RMB36.8 million (equivalent to approximately HK$43.0 million) of listing expenses (based on the mid-point of our indicative Offer Price Range and assuming that the Over-allotment Option is not exercised) in relation to the Share Offer. Approximately RMB12.9 million of our total listing expenses is expected to be accounted for as a deduction from equity upon the Listing, whereas the remaining RMB23.9 million is expected to be charged to our combined statements of profit or loss and other comprehensive income. Up to 30 April 2019, approximately RMB15.1 million has been recognised and charged to our consolidated statements of profit or loss and other comprehensive income. We expect that the remaining amount of RMB8.8 million will be recognised and charged to our combined statements of profit or loss and other comprehensive income in the second half of the year ending 31 December 2019. We do not expect these listing expenses to have a material impact on our results of operations in 2019.

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

"Accountants' Report"	the accountants' report on our Group for the Track Record Period set out in Appendix I to this prospectus
"Ambon"	Ambon Holding Limited, a company incorporated in the BVI with limited liability on 27 July 2017, which is wholly-owned by Wang Jiaan (王家安) and a Controlling Shareholder
"Application Form(s)"	the **WHITE** application form(s), **YELLOW** application form(s) and **GREEN** application form(s) or, where the context so requires, any of them
"Articles" or "Articles of Association"	the amended and restated articles of association of the Company conditionally adopted on 25 October 2019 and effective on the Listing Date, as amended or supplemented from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Audit Committee"	the audit committee of the Board established on 25 October 2019
"Board" or "Board of Directors"	the board of directors of the Company
"business day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"Capitalisation Issue"	the issue of 323,614,100 Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to in the paragraph headed "Statutory and General Information — A. Further Information about Our Company — 4. Resolutions in Writing passed by our Shareholders on 25 October 2019" in Appendix V to this prospectus
"Cayman Companies Law" or "Companies Law"	the Companies Law, (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"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 HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements 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
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
"Company" or "our Company"	China PengFei Group Limited 中国鹏飞集团有限公司, a company incorporated in the Cayman Islands under the laws of Cayman Islands as an exempted company with limited liability on 31 July 2017
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"connected transaction(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholders"	has the meaning ascribed to it under the Listing Rules, and unless the context requires otherwise, refers to Wang Jiaan (王家安) and Ambon collectively
"Countries subject to International Sanctions"	countries regarding which governments such as the United States or Australia, or governmental organizations, such as the European Union or the United Nations, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organizations within such countries

"Deed of Indemnity"	the conditional deed of indemnity dated 28 October 2019 entered into by our Controlling Shareholders in favour of our Group, further information on which is set forth in the paragraphs under "D. Other Information — 1. Tax and other indemnities" in Appendix V to this prospectus
"Deed of Non-Competition"	the conditional deed of non-competition dated 28 October 2019 entered into by our Controlling Shareholders in favour of our Group, further information on which is set forth in the section headed "Relationship with Controlling Shareholders — Non-Competition Undertaking" in this prospectus
"Director(s)" or "our Director(s)"	the director(s) of our Company
"electronic application instruction(s)"	instruction given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for our Offer Shares
"EURO"	the lawful currency of the European Union
"Extreme Conditions"	extreme conditions including but not limited to serious disruption of public transport services, extensive flooding, major landslides or large-scale power outage after super typhoons as announced by the government of Hong Kong
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market, research and consulting company and our industry consultant
"F&S Report"	the industry report prepared by Frost & Sullivan, our Industry Consultant
"financial year"	financial year of our Company ended or ending 31 December
"Gaofei Venture Capital"	Nantong Gaofei Venture Capital Co., Ltd.* (南通高飛創業投資有限公司), a limited liability company established under the laws of the PRC on 22 September 2016, which was deregistered on 29 November 2017
"General Mandate"	the general unconditional mandate granted to our Directors by our Shareholders in relation to the allotment, issue and dealing with new Shares, further information on which is set forth in the section headed "Share Capital — General Mandate" in this prospectus
"**GREEN** Application Form(s)"	the application form(s) to be completed by the **HK eIPO White Form** Service Provider

"Group", "our Group", "our", "us" or "we"	our Company and its subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
"Heavy Equipment HK"	China Heavy Equipment Engineering Limited (中國重器工程有限公司), a company incorporated in Hong Kong with limited liability on 11 August 2017, a wholly-owned subsidiary of our Company
"Heavy Equipment PRC"	Jiangsu Pengfei Group Nantong Heavy Equipment Company Limited* (江蘇鵬飛集團南通重型設備有限公司), a company established in the PRC with limited liability on 8 April 2004, a wholly-owned subsidiary of our Company
"HK$" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"**HK eIPO White Form**"	the application for Hong Kong Offer Shares to be registered in the applicant's own name by submitting applications online through the designated website of **HK eIPO White Form** at **www.hkeipo.hk** or the IPO App
"**HK eIPO White Form** Service Provider"	the **HK eIPO White Form** service provider designated by our Company, as specified on the designated website at **www.hkeipo.hk** or in the IPO App
"HKFRS"	Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards and their interpretations) issued by the Hong Kong Institute of Certified Public Accountants
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Branch Share Registrar"	Tricor Investor Services Limited

"Hong Kong Offer Shares"	the 12,500,000 Offer Shares initially being offered by us for subscription at the Offer Price under the Hong Kong Public Offering, subject to adjustment as set forth in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"Hong Kong Public Offering"	the conditional offering of our Hong Kong Offer Shares by our Company for subscription by members of the public in Hong Kong (subject to adjustments set forth in the section headed "Structure and Conditions of the Share Offer" in this prospectus) and upon the terms and conditions stated herein and in the Application Forms
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering as listed in the section headed "Underwriting — Hong Kong Underwriters" in this prospectus
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 30 October 2019 relating to the Hong Kong Public Offering entered into among, inter alia, our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, and the Hong Kong Underwriters, as further described in the section headed "Underwriting — The Hong Kong Public Offering" in this prospectus
"IFRS"	International Financial Reporting Standards
"Independent Non-executive Director(s)"	independent non-executive director(s) or, in the context of our Company, our independent non-executive Director(s)
"International Offer Shares"	the 112,500,000 Shares being initially offered by us for subscription under the International Offering together with any additional Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option, subject to reallocation as set forth in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"International Offering"	the conditional offering of our International Offer Shares for and on behalf of our Company outside the United States, to professional, institutional, and other investors in Hong Kong, as set forth in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"Independent Third Party(ies)"	a person who, as far as our Directors are aware after having made all reasonable enquiries, is not a connected person of our Company

"International Heavy Industry"	Jiangsu Pengfei International Heavy Industry Co., Ltd.* (江蘇鵬飛國際重工有限公司), a limited liability company established in the PRC on 30 December 2011 and a former subsidiary of Jiangsu Pengfei which ceased to be a member of our Group since 21 April 2016
"International Sanctions"	all applicable laws and regulations related to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted, administered and enforced by the U.S. Government, the European Union and its member states, United Nations or the Government of Australia
"International Sanctions Legal Advisers"	Hogan Lovells, our legal advisers as to International Sanctions laws in connection with the Listing
"International Underwriters"	the underwriters of the International Offering
"International Underwriting Agreement"	the international underwriting agreement relating to the International Offering and expected to be entered into by, among others, our Company, our Controlling Shareholders, our executive Directors, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, and the International Underwriters on or about the Price Determination Date, as further described in the section headed "Underwriting — The International Offering" in this prospectus
"Investment Committee"	the investment committee of the Board established on 25 October 2019
"IPO App"	the mobile application for **HK eIPO White Form** service which can be downloaded by searching "**Tricor IPO App**" in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp
"Jiangsu Pengfei"	Jiangsu Pengfei Group Limited* (江蘇鵬飛集團股份有限公司), formerly known as Jiangsu Pengfei Industrial Group Limited* (江蘇鵬飛實業股份有限公司), a company established in the PRC with limited liability on 8 July 2002, converted from a collective enterprise, and is owned as to 99.9997% by Heavy Equipment PRC and 0.0003% by Nantong Golden, and the principal operating subsidiary of the Group

"Jiangsu Pengfei Grinding Equipment"	Jiangsu Pengfei Grinding Equipment Co., Ltd.* (江蘇鵬飛粉磨設備有限公司), a limited liability company established under the laws of the PRC on 25 June 2010, which was deregistered on 29 November 2013
"Joint Bookrunners"	Essence International Securities (Hong Kong) Limited and Solomon JFZ (Asia) Holdings Limited, being the joint bookrunners of the Share Offer
"Joint Lead Managers"	Essence International Securities (Hong Kong) Limited, Solomon JFZ (Asia) Holdings Limited, Global Group Securities Limited and Nobleseed Securities Limited, being the joint lead managers of the Share Offer
"JLL"	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, our independent property valuer
"KZT"	Kazakhstani Tenge, the lawful currency of the Republic of Kazakhstan
"Large Parts Equipment"	Jiangsu Pengfei Nantong Large Parts Equipment Manufacturing Co., Ltd.* (江蘇鵬飛南通大件裝備製造有限公司), a limited liability company established in the PRC on 23 December 2010 and a former subsidiary of Jiangsu Pengfei which ceased to be a member of our Group since 21 June 2017
"Latest Practicable Date"	22 October 2019, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
"Listing"	the listing of the Shares on the Main Board
"Listing Committee"	the listing sub-committee of the Stock Exchange
"Listing Date"	the date expected to be on or around 15 November 2019, on which the Shares are first listed and from which dealings in the Shares are permitted to take place on the Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Main Board"	the Main Board operated by the Stock Exchange
"Memorandum" or "Memorandum of Association"	the amended and restated memorandum of association of the Company conditionally adopted on 25 October 2019 and effective on the Listing Date, as amended or supplemented from time to time

"MIIT" Ministry of Industry and Information Technology of the PRC (中國工業和信息化部)

"MOFCOM" Ministry of Commerce of the PRC (中華人民共和國商務部)

"Nantong Golden" Nantong Golden Environmental Protection Technology Company Limited* (南通金度環保科技有限公司), a company established in the PRC with limited liability on 24 July 2018, a wholly-owned subsidiary of our Company

"Nantong Pengfei" Nantong Pengfei Casting Co., Ltd* (南通鵬飛鑄造有限公司), a limited liability company established under the laws of the PRC on 16 October 2001 and was an associate of our Group until 10 October 2015 when our Group disposed of its equity interest in Nantong Pengfei

"Nantong Tianpeng" Nantong Tianpeng New Building Materials Co., Ltd.* (南通天鵬新型建材有限公司), a limited liability company established under the laws of the PRC on 1 November 2000, which was deregistered on 28 March 2017

"NDRC" National Development and Reform Commission of the PRC (中國國家發展和改革委員會)

"NIPA" National Intellectual Property Administration of the PRC (中國國家知識產權局)

"Nomination Committee" the nomination committee of the Board established on 25 October 2019

"OFAC" U.S. Department of Treasury's Office of Foreign Assets Control

"Offer Price" the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK$1.58 and expected to be not less than HK$1.05, such price to be determined by agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date

"Offer Price Range" HK$1.05 to HK$1.58 per Offer Share

"Offer Shares" the 125,000,000 Offer Shares initially being offered by us for subscription at the Offer Price under the Share Offer, subject to the Over-allotment Option as set forth in the section headed "Structure and Conditions of the Share Offer" in this prospectus

"Other Pengfei Construction Shareholders"	Zhou Jianjun (周建軍), Cui Xiaohua (崔曉華), Wu Yiwen (吳義文) and Wu Yi (吳義)
"Other Pengfei Equipment Shareholders"	Zhou Jun (周軍), Lu Lixin (盧立新), Chen Qin (陳琴), Chen Xiaofeng (陳曉峰), Xu Xiaonian (徐曉年), Pei Long (裴龍), Zhou Jiankai (周建凱), Wang Zhen (王震), Cao Zhiying (曹智英), Zhou Weidong (周衛東), Zhou Lie (周烈), Wang Yaoming (王耀明), Dai Wanping (戴萬平), Guo Wenwu (郭文武), Cui Yongqing (崔永清), Dai Wansheng (戴萬生), Liu Longchi (劉龍池), Wang Liming (王禮明), Zhou Feng (周峰), Wang Huacheng (王華成), Tang Tianmao (唐田茂) and Cao Ping (曹萍)
"Over-allotment Option"	the option expected to be granted by our Company under the International Underwriting Agreement to the International Underwriters, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters), pursuant to which our Company may be required to allot and issue up to an aggregate of 18,750,000 additional Shares at the Offer Price, representing 15% of the initial number of Offer Shares offered under the Share Offer, at the Offer Price to cover the over-allocations (if any) in the International Offering, as described in the section headed "Structure and Conditions of the Share Offer"
"Peak Holding"	Peak Holding Limited, a company incorporated in the BVI with limited liability on 21 November 2017, an Independent Third Party to the Group, beneficially owned as to 27.27% by Wu Qianying (吳倩穎), 21.44% by Gu Guomin (顧國民), 18.18% by Xi Xiaoming (席曉鳴), 13.64% by Wang Bin (王彬), 12.86% by Ma Jianbo (馬劍波), 4.55% by Cao Lei (曹磊) and 2.06% by Dong Hao (董浩), all being Independent Third Parties
"Pengfei BVI"	PengFei Holdings Limited, a company incorporated in the BVI with limited liability on 2 August 2017, a wholly-owned subsidiary of our Company
"Pengfei Construction"	Nantong Pengfei Construction and Installation Engineering Co., Ltd.* (南通鵬飛建築安裝工程有限公司), a limited liability company established in the PRC on 14 January 2002 and a former associated company of Jiangsu Pengfei which ceased to be an associated company of our Group since 16 October 2017

"Pengfei Equipment"	Jiangsu Pengfei Group Haian Construction Equipment Company Limited* (江蘇鵬飛集團海安建材設備有限公司), a company established in the PRC with limited liability on 13 November 2001, and is owned as to 66.13% by Jiangsu Pengfei and 33.87% by Other Pengfei Equipment Shareholders
"Pengfei Logistics"	Jiangsu Pengfei Logistics Co., Ltd.* (江蘇鵬飛物流有限公司), a limited liability company established under the laws of the PRC on 25 February 2008, which was deregistered on 18 May 2016
"Pengfei Machinery Equipment Research Institute"	Haian Pengfei Machinery Equipment Research Institute Co., Ltd.* (海安鵬飛機械裝備研究院有限公司), a limited liability company established under the laws of the PRC on 28 December 2012, and deregistered on 20 May 2016
"Pengfei Special Steel"	Jiangsu Pengfei Special Steel Co., Ltd.* (江蘇鵬飛特鋼有限公司), a limited liability company established in the PRC on 29 October 2009 and a former associated company of Jiangsu Pengfei which ceased to be an associated company of our Group since 4 August 2016
"Pengfei Technology Venture"	Jiangsu Pengfei Technology Venture Co., Ltd.* (江蘇鵬飛科技創業有限公司), a limited liability company established in the PRC on 11 September 2009 and a former subsidiary of Jiangsu Pengfei which ceased to be a member of our Group since 21 April 2016
"Pengfei Trade"	Jiangsu Pengfei Trade Development Co., Ltd.* (江蘇鵬飛貿易發展有限公司), a limited liability company established in the PRC on 21 November 2012 and a former subsidiary of Jiangsu Pengfei which ceased to be a member of our Group since 21 April 2016
"PF Global"	PF Global Limited, a company incorporated in the BVI with limited liability on 27 November 2017 and is wholly owned by PF Global Shareholders

"PF Global Shareholders"	Ben Xudong (賁旭東), Chen Yulou (陳玉樓), Cai Tongfu (蔡同富), Liu Chengguan (劉成官), Qian Jiayin (錢加銀), Zhang Doufa (張門發), Ding Jialin (丁佳林), Wang Shiqin (王世芹), Ding Qinghai (丁慶海), Cui Hengfu (崔恒富), Jiao Yuanjin (焦遠進), Wang Xiaobo (王小波), Yu Zhongwen (于中文), Lin Xianyue (林先月), Yuan Xiaofei (袁小飛), Zhou Bugao (周步高), Shen Jixiang (沈吉祥), Zhou Yue (周悦), Zhou Kewen (周克穩), Zhou Jin (周錦), Wang Huajun (王華俊), Zhang Gui (張貴), Liu Yaqin (劉亞芹), Ben Zhonglin (賁忠林), Wang Jin (王進), Jiang Xiaoming (蔣曉明), Wu Yijun (吳義軍), Pei Haiqing (裘海青), Cui Xinxin (崔欣欣), Zhou Jianyi (周建益), Pei Qirong (裘其榮)
"PF International"	PF International Group Limited, a company incorporated in the BVI with limited liability on 27 November 2017 and is wholly owned by PF International Shareholders
"PF International Shareholders"	Zhou Yinbiao (周銀標), Yu Yangui (于延桂), Dai Xianru (戴賢如), Wang Yun (王雲), Ben Daolin (賁道林), Chen Lidong (陳黎東) and Ben Daochun (賁道春)
"PRC" or "China"	the People's Republic of China, excluding for the purposes of this prospectus only, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"PRC Legal Advisers"	Beijing Merits & Tree Law Offices (Shanghai), the legal advisers to our Company as to the laws of the PRC
"Price Determination Date"	the date expected to be on or around 8 November 2019, but no later than 14 November 2019, on which our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) determine the Offer Price for the purpose of the Share Offer
"Remuneration Committee"	the remuneration committee of the Board established on 25 October 2019
"Reorganisation"	the reorganisation of our Group in preparation for the Listing, details of which are set out in "History, Reorganisation and Group Structure — Reorganisation" in this prospectus
"Repurchase Mandate"	the general unconditional mandate granted to our Directors by our Shareholders to repurchase our Shares, further information of which is set forth in the section headed "Share Capital — Repurchase Mandate" in this prospectus
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC

"SAFE"	State Administration of Foreign Exchange of the PRC (國家外匯管理局)
"SAMR"	State Administration for Market Regulation (國家市場監督管理總局), formerly known as State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"Sanctioned Person(s)"	certain person(s) and identity(ies) listed on OFAC's Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the U.S., European Union, United Nations or Australia
"SAT"	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"SCNPC"	Standing Committee of the National People's Congress (全國人民代表大會常務委員會)
"SDN List"	the list of Specially Designated Nationals and Blocked Persons maintained by OFAC, which sets forth individuals and entities that are subject to its sanctions and restricted from dealing with U.S. persons
"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 or supplemented from time to time
"SGD" or "S$"	Singapore dollar, the lawful currency of the Republic of Singapore
"Share(s)"	share(s) with a par value of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"Share Offer"	the Hong Kong Public Offering and the International Offering
"Sole Global Coordinator"	Essence International Securities (Hong Kong) Limited, a licensed corporation to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO, being the Sole Global Coordinator of the Share Offer

"Sole Sponsor"	Essence Corporate Finance (Hong Kong) Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity (as defined in the SFO), being the sole sponsor to the Listing
"Stabilizing Manager"	Essence International Securities (Hong Kong) Limited
"Stock Borrowing Agreement"	the stock borrowing agreement to be entered into between the Sole Global Coordinator, as the stabilizing manager and borrower, and Ambon, as lender, on or around the Price Determination Date
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strength Machinery"	Haian County Strength Machinery Co., Ltd.* (海安縣實力機械有限公司), a limited liability company established under the laws of the PRC on 29 May 2008, which was deregistered on 20 May 2016
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules, unless the context requires otherwise
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and details of which are set out in the section "Substantial Shareholders"
"Takeovers Code"	Hong Kong Code on Takeovers and Mergers issued by the SFC, as amended or supplemented from time to time
"Track Record Period"	three years ended 31 December 2018 and four months ended 30 April 2019
"TRY"	Turkey Lira, the lawful currency of the Republic of Turkey
"United States" or "U.S."	The United States of America, its territories and possessions, and all areas subject to its jurisdiction
"US$" or "USD"	United States dollars, the lawful currency of the United States
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"**WHITE** 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 applicant's/applicants' own name(s)

"**YELLOW** 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
"Xinye Electronics"	Nantong Xinye Electronics Co., Ltd.* (南通新業電子有限公司), a limited liability company established in the PRC on 16 October 2001 and a former associated company of Jiangsu Pengfei which ceased to be an associated company of our Group since 8 August 2016
"Zhongpeng Energy"	Jiangsu Zhongpeng Energy Technology Development Co., Ltd.* (江蘇中鵬能源技術開發有限公司), a limited liability company established under the laws of the PRC on 19 September 2008, which was deregistered on 20 May 2016
"%"	per cent

In this prospectus, the English names of the PRC laws, rules, regulations, nationals, entities, governmental authorities, institutions, facilities, awards, certificates and titles etc. marked "" are translations from their Chinese names and are for identification purposes only. If there is any inconsistency between the Chinese names and their English translations, the Chinese names shall prevail.*

This glossary contains explanations of certain terms used in this listing document in connection with our Company and our business. The terms and theirs meanings may not correspond to standard industry meaning or usage of these terms.

““Belt and Road” countries”	includes Afghanistan, Albania, Armenia, Azerbaijan, Bahrain, Bangladesh, Belarus, Bhutan, Bosnia and Herzegovina, Brunei, Bulgaria, Cambodia, Croatia, Czech Republic, Egypt, Estonia, Ethiopia, Georgia, Hungary, India, Indonesia, Iran, Iraq, Israel, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Laos, Latvia, Lebanon, Lithuania, Macedonia, Malaysia, Maldives, Moldova, Mongolia, Montenegro, Myanmar, Nepal, New Zealand, Oman, Pakistan, Palestine, Philippines, Poland, Qatar, Republic of Korea, Romania, Russia, Saudi Arabia, Serbia, Singapore, Slovakia, Slovenia, South Africa, Sri Lanka, Syria, Tajikistan, Thailand, Timor-Leste, Turkey, Turkmenistan, Ukraine, United Arab Emirates, Uzbekistan, Vietnam, Yemen
“building materials”	collectively refers to materials used in civil works, which are also known as structural materials including wood, bamboo, stone, cement, concrete, brick and tile, ceramics, glass, composite materials, etc.
“building materials industry”	companies that engage in the production of construction raw materials such as cement, lime, ceramics, bricks, concrete, etc. and related business areas
“CAGR”	compound annual growth rate
“calcination”	the process of heating a substance to a high temperature but below the melting or fusing point, causing loss of moisture, reduction or oxidation, and dissociation into simpler substances
“EPC”	a common form of contracting arrangement whereby the contractor is commissioned by the project owner to carry out such project work as design, procurement and construction, or any combination of the above, either through the contractor’s own labor or by sub-contracting part or all of the project work
“grinding equipment system”	a system mainly consists of vertical mills, roller presses, tube mills, separators, ancillary machines and related parts and components
“2016 Guiding Opinions”	Guiding Opinions on Promoting Steady Growth, Structural Adjustments and Efficiency Increases of the Building Material Industry (Guo Ban Fa [2016] No. 34) (《關於促進建材工業穩增長調結構增效益的指導意見》（國辦法[2016] 34號）) issued by the State Council of the PRC

"ISO"	an acronym for a series of quality management and quality assurance standards published by International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
"ISO 9001"	ISO 9001 is an internationally recognised standard for a quality management system. It aims at the effectiveness of the quality management system in meeting customer requirements. It prescribes requirements for ongoing improvement of quality assurance in design, development, production, installation and servicing. ISO 9001:2015 is the current version of ISO 9001
"non-building materials"	includes all such building materials which do not fall within the definition of building materials
"non-building materials industry"	industries other than production of building materials
"One Belt and One Road Initiative"	the "One Belt One Road" policy of the PRC that focuses on the promotion of economic cooperation with countries along the "Silk Road" through Central Asia, West Asia, the Middle East and Europe, as well as a maritime road that links China's port facilities with the African coast, by linking transportation infrastructures, sharing of port resources and facilitating increased economic cooperation and trade
"pyrolysis"	is thermochemical decomposition of organic material at elevated temperatures in the absence of oxygen (or any halogen) which involves the simultaneous change of chemical composition and physical phase and is irreversible
"roasting"	the process whereby ore is heated and is dehydrated, purified or oxidized before smelting
"rotary kiln system"	a system mainly includes rotary kilns, preheaters, coolers, dryers, ancillary machines and related parts and components
"TPA"	tons per annum
"TPD"	tons per day
"TPH"	tons per hour
"WHR System"	waste heat recovery system which recovers the thermal energy from the exhaust gas and convert it into electrical energy, while the residual heat can be further utilized

This prospectus contains forward-looking statements. When used in this prospectus, the words "aim", "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "might", "plan", "propose", "seek", "should", "target", "will", "would" and the negative of these words and other similar expressions, as they relate to the us or our management, are intended to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and our operating and expansion plans;
- our objectives and expectations regarding our future operations, profitability, liquidity and capital resources;
- future events and developments, trends and conditions in the industry and markets in which we operate or plan to operate;
- our ability to control costs;
- our ability to identify and successfully take advantage of new business development opportunities; and
- our dividend policy.

Such statements reflect the current views of our management with respect to future events, operations, profitability, liquidity and capital resources, some of which may not materialize or may change. Actual results may differ materially from information, implied or expressed, in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set out in "Risk Factors" and the following:

- changes in the laws, rules and regulations applicable to us;
- general economic, market and business conditions in the PRC, including the sustainability of the economic growth in the PRC;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- business opportunities and expansion that we may pursue;
- our ability to identify, measure, monitor and control risks in our business, including our ability to improve our overall risk profile and risk management practices; and
- other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risk factors set out in "Risk Factors".

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

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the following risks associated with an investment in our Company before making any investment decision in relation to our Company. You should pay particular attention to the fact that our Company was incorporated in the Cayman Islands and our Group's operations are conducted outside Hong Kong and are governed by a legal and regulatory environment which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties described below may have a material adverse effect on our business, results of operations, financial condition or on the trading price of our Shares, and may cause you to lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Our business and future growth are subject to macroeconomic conditions in the PRC and overseas countries, and we mainly relied on customers from the building materials industry for generating revenue during the Track Record Period

Our business and future growth prospects depend on general economic conditions and levels of construction and infrastructure development in the PRC and overseas countries where our customers are based. For example, in the PRC, the increasing urbanization rate, the rapid development of construction industry and widening application of rotary kiln and grinding equipment in broader fields such as metallurgy, chemical and environmental protection industries have enormously prompted the demand for building materials production and processing equipment, especially rotary kilns, grinding equipment and their related equipment over the past few years. According to the F&S Report, the market size by sales value and sales volume of rotary kiln industry in the PRC grew from RMB1,284.7 million in 2013 to RMB2,179.2 million in 2018, representing CAGRs of 11.1%. Meanwhile, from 2013 to 2018, the market size by sales value and sales volume of grinding equipment increased from RMB1,390.4 million to RMB2,124.7 million, representing CAGRs of 8.8%.

With the promulgation of the "One Belt and One Road" Initiative, the rapid development of overseas infrastructure construction projects has generated significant demand for construction materials such as cement and lime as well as construction materials producing equipment such as rotary kilns, grinding equipment and their related equipment. According to the F&S Report, the export value and volume of rotary kilns and their related equipment in China increased from RMB761.6 million in 2013 to RMB1,390.5 million in 2018, representing CAGRs of 12.8%. Meanwhile, the export value and volume of grinding equipment and their related equipment in the PRC increased from RMB779.0 million in 2013 to RMB1,123.4 million in 2018, representing CAGRs of 9.4%. Both the rotary kiln industry and the grinding equipment industry are expected to grow, which usher a promising outlook. However, our revenue may be adversely affected if the PRC and the global economy experiences slower growth or enters into recession, or if construction spending is reduced, including any reduction in government infrastructure spending.

In addition, we mainly relied on customers from the building materials industry for generation of revenue during the Track Record Period. Our Group historically manufactured equipment such as rotary kilns, grinding equipment and their related equipment pre-dominantly for customers in the building materials industry. During the Track Record Period, revenue generated from customers in the building materials industry from our manufacturing of equipment business represented approximately

45.8%, 55.5%, 37.6% and 23.7% of our revenue generated from the manufacturing of equipment business for the relevant periods, respectively. For further details, please see the section "Business — Customers, sales and marketing — manufacturing of equipment business" in this prospectus. Given that a significant proportion of our Group's total revenue during the Track Record Period was generated by customers in the building materials industry, any economic factor or event affecting the building materials industry will inevitably directly affect our Group's business, results of operation and profitability. We are therefore unable to ensure that we will be able to generate similar levels of revenue from customers in the building materials industry in the future.

We had net operating cash outflow from our operating activities for the year ended 31 December 2018. If we experience an increase in inventories and an increase in trade, bills and other receivables, our business, financial condition and results of operations may be materially and adversely affected

For the year ended 31 December 2018, we had net cash outflow from operating activities of approximately RMB8.0 million, which was primarily contributed by an increase in inventories and an increase in trade, bills and other receivables. However, for the period ended 30 April 2018, we had net cash outflow from operating activities of approximately RMB60.1 million which was primarily contributed by a decrease in trade, bills and other payables and an increase in prepayment to suppliers. For further information, please refer to the paragraph headed "Financial Information — Liquidity and capital resources — Cash flows" in this prospectus.

We cannot assure you that we will not experience net cash outflow in the future. Net operating cash outflow could impair our ability to make necessary capital expenditures and constrain our operational flexibility as well as adversely affect our ability to meet our liquidity requirements. For example, if we do not have sufficient net cash flow to fund our future capital requirements or pay our trade and bills payables, we may need to secure other external financing. If adequate funds are not available from external financing, whether on satisfactory terms or at all, we may be forced to delay or curtail our development and expansion plans. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We produce our products in the rotary kiln and grinding equipment systems that have a relatively long useful life which may result in a long average replacement cycle

The average useful life of our products in the rotary kiln and grinding equipment systems, ranges from approximately 10 to 20 years, assuming that regular inspections and maintenance work are performed by customers who have purchased such products from us. While we may from time to time generate revenue by providing after-sales services to our existing customers for products previously purchased from us and/or from other sources, we cannot assure you that we can generate a sufficient level of revenue in future from such existing customers, given the relatively long useful life of such products and hence lesser need for regular replacements. If we are unable to constantly acquire new customers for our products and/or services, our business, financial condition, results of operation may be materially and adversely affected, which will ultimately damage the profitability and growth prospects of our Group in the long run.

We may encounter difficulties expanding our business into the "Belt and Road" countries, which may be subject to terrorist attacks, economic and/or political instability. We may also be subject to risks associated with international sales

One of our business strategies is to extend our international footprint to more "Belt and Road" countries in Central and East Europe and Central Asia regions. Please refer to "Business — Business strategies — We intend to expand our customer base" for further details. Expansion into "Belt and Road" countries may give rise to various associated risks, including legal and political risks. Foreign companies venturing into "Belt and Road" countries may not have access to adequate legal protection, especially where legal regimes are underdeveloped and have low credibility, and where social and judicial corruption is rife. In addition, certain "Belt and Road" countries suffer from political instability, civil unrest or even armed conflict, which will require foreign companies entering into such "Belt and Road" countries to maintain a robust business continuity plan and good security intelligence, all of which will necessitate a certain amount of expenditure. During the Track Record Period, we undertook several projects under our construction of production line business in "Belt and Road" countries that were subject to terrorist attacks, economic and/or political instability, including Bangladesh and Turkey. During the Track Record Period, our revenue generated from Bangladesh was approximately RMB26.8 million, RMB50.3 million, RMB27.0 million and nil, respectively; while our revenue generated from Turkey was approximately RMB26.5 million, RMB263.0 million, RMB70.2 million and RMB1.6 million, respectively. As a result of such high risk jurisdictions and given the fact that our employees are required to provide technical support and/or training in such places from time to time, we may be required to put in place certain security measures to ensure the safety of our employees and/or other assets, if any. There is no guarantee that such security measures will be entirely foolproof and the purchase and maintenance of such additional security measures may also result in substantial expenses for our Group, depending on the seriousness of the situation in the relevant jurisdiction, which may in turn affect our financial condition and outweigh the benefits of undertaking projects in such "Belt and Road" countries. Expansion may therefore place undue pressure on our financial, personnel and management resources that would be otherwise available for our current business operations.

In addition, a substantial portion of our total revenue is generated from the sale of our products and/or provisions of our services to customers outside the PRC. During the Track Record Period, revenue generated from our customers outside mainland China amount to approximately RMB 252.9 million, RMB 504.1 million, RMB 302.8 million and RMB119.6 million, representing approximately 32.6%, 53.3%, 29.8% and 29.9% of our total revenue for the relevant periods, respectively. Our plan to expand our customer base by venturing into newly emerged markets including the "Belt and Road" countries, may be subject to a variety of risks and uncertainties associated with such expansion, including: (a) political and economic instabilities; (b) foreign exchange rate exposure and the risk of foreign exchange control; (c) exposure to increased litigation risks in overseas markets; (d) unfamiliarity with local laws, regulatory requirements, operating and market conditions; (e) cultural and language difficulties; (f) competition from local companies;(g) foreign taxes; and (h) potential disputes and difficulty in managing relationships with foreign customers.

Given the above, we cannot assure that our future expansion plans and international sales into these markets will be smooth or successful. If our future expansion plans into such "Belt and Road" countries encounter difficulties or do not reap the anticipated benefits, the additional costs incurred may adversely affect our business, financial condition and results of operation.

Our research and development efforts may not yield the anticipated benefits for our Group. If we fail to develop or adopt new technologies and offer products and/or services that meet the changing market demands in a timely manner, we may lose business opportunities to our competitors

The industries of our customers, including metallurgy, chemical and environmental protection are constantly evolving and the technology required for our products in the rotary kiln and grinding equipment systems utilised in such industries as well as production lines are ever-changing. To cater for such changes in the industries of our customers, it is important that we keep ourselves up-to-date with market trends and adapt accordingly by developing or implementing the latest technologies into our products and/or services on a timely basis. During the Track Record Period, we incurred approximately RMB32.6 million, RMB31.5 million, RMB32.4 million and RMB11.7 million in research and development, and all these amounts were charged to our consolidated profit or loss account.

On the other hand, responding and adapting to technological developments and changing customer needs may require us to invest substantial resources, time and capital. If we are unable to keep up with new technological advancements in the industries of our customers, or offer products and/or services that can satisfy our customers' requirements, our ability to expand our customer base and business may be adversely affected and we may lose projects and other business opportunities to our competitors. All of the above may ultimately affect our business, financial condition, results of operations and prospects adversely.

Although we believe that our Group's success to date depended on, to a large extent, our continuous commitment to research and development efforts, we cannot assure that current ongoing and/or future research and development activities undertaken by us will be successful or will yield the anticipated benefits. Even if such research and development activities have successful outcomes, we may not be able to integrate the results of our research to our business operations in a timely manner to take advantage of the market opportunities available. Market demand anticipated at the initial stages of our research and development cycle may not materialise by the end of the cycle and the benefits that may be reaped from such newly developed technologies and/or products may be affected by replication of such technological and/or products by our competitors. Technologies and/or products developed may also be rendered obsolete by new products, newer models of existing products, or new technologies developed by our competitors.

We rely on third party contractors to provide design, civil construction and installation services, all of which are essential for our business operations under both our manufacturing of equipment and construction of production line businesses

During the Track Record Period, we engaged third party contractors to perform various services required as part of our production process for products including design, civil construction and installation services. Our Group intends to continue engaging such third party contractors for the provision of design, civil construction and installation services. Sub-standard performance by any of our third party contractors leading to their failure to meet, among others, our and the industry required quality, safety and environmental protection standards may result in us being liable to our customers, which could adversely affect our reputation, business, financial condition and results of operations.

Being able to engage suitable third party contractors to perform the relevant services is also crucial to our business operations. Any failure: (i) to retain suitable third party contractors at reasonable costs or obtain replacements on reasonable terms, or at all, in a timely manner; and (ii) of our contractors to perform their obligations or comply with relevant laws, rules and regulations may adversely impact our business, financial condition and results of operations. Please refer to "Business — Suppliers, Procurement and Inventory Management" for further details.

Our failure to estimate the overall risks or costs on fixed-price contracts may lead to cost overruns

Part of our Group's revenue during the Track Record Period was derived from fixed-price contracts. Under these contracts, we sell our products under the manufacturing of equipment business or engage in construction of production line business at fixed prices and therefore if there are any cost overruns, we may be unable to recover in full or in part the additional costs incurred from our customers. In determining the contract value of contracts entered into with our customers, our Group generally estimates the costs involved in producing a product under our manufacturing of equipment business or executing a production line project under our construction of production line business, such as raw material costs and labour costs. As all sales contracts entered into with our customers during the Track Record Period and up to the Latest Practicable Date were fixed-price in nature and procurement arrangements with our suppliers of raw materials were entered into after signing of the relevant sales contracts, our Group is unlikely able to pass on any increase in the cost of raw materials to our customers if our Group experiences an unexpected price hike in the cost of raw materials. During the Track Record Period, we experienced cost overrun in our manufacturing of equipment business which was on fixed-price contract resulting in the gross loss of RMB3.7 million, RMB2.4 million, RMB2.0 million and RMB0.01 million for the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, respectively. This was due to prolonged execution time of certain projects and increase in raw material prices. The actual costs for production of a product under our manufacturing of equipment business or for execution of a production line project under our construction of production line business may also differ from our Group's initial estimation due to unanticipated technical problems or unforeseeable reasons encountered during the course of production of the relevant product or construction of the relevant production line. In the event that the costs of our sales contracts increase unexpectedly to the extent that our Group has to incur substantial extra costs without sufficient compensation, the financial performance and profitability of our Group may be adversely affected.

Our failure to retain our senior management team and experienced technical personnel may materially and adversely affect our business operation, financial condition and growth prospects

We believe that our continued success and growth is dependent, to a large extent, on our ability to attract and retain the services of our senior management team as well as experienced and qualified technical personnel, including our research and development personnel, who possess the technical knowledge and are familiar with the industries that our products and/or services serve.

Although we have entered into a service agreement with each member of our senior management and key technical personnel and that key technical personnel have signed a confidential agreement, competition for professional employees is intense and we cannot assure that we would be able to retain the services of our senior management and/or key technical personnel, or attract and retain high-quality personnel, in the future. If any member of our senior management and/or key technical personnel leaves our Group, we may not be able to recruit a suitable replacement with comparable experience and qualifications on a timely basis. We also cannot assure that our departed technical personnel will not disclose our patented technology to our competitors. We may lose competitiveness as a result. Our sales volume and ultimately our business, financial condition and results of operation may be materially and adversely affected.

Our results of operations may be affected by backlog which is subject to unexpected adjustment and cancellations, and credit risks

Backlog in our business represents our estimate of the contract value of work that remains to be completed as of a certain date. The contract value of a project represents the amount that we expect to receive under the terms of the contract, assuming the contract is performed in accordance with its terms. Backlog is not a measure defined by generally accepted accounting principles and may not be indicative of future results of operations. For further details, see "Business — Backlog and New Contract Value — Backlog." As of 31 December 2018, our aggregate backlog of our manufacturing of equipment and installation service business was approximately RMB1,402 million, and our aggregate backlog of our construction of production line business was approximately RMB1,103 million. For the four months ended 30 April 2019, our aggregate backlog of our manufacturing of equipment and installation service business was approximately RMB1,785 million, and our aggregate backlog of our construction of production line business was approximately RMB1,380 million. As at the Latest Practicable Date, our aggregate backlog of our manufacturing of equipment and installation service business was approximately RMB1,828 million, and our aggregate backlog of our construction of production line business was approximately RMB1,115 million. However, this figure is based on the assumption that our relevant contracts will be performed in full in accordance with their terms. The termination or modification of any one or more major contracts may have a substantial and immediate effect on our backlog. Hence, we cannot guarantee that the amount estimated in our backlog will be realized in full, in a timely manner, or even if it is realized, such backlog will result in profits as expected.

On the other hand, as at 31 December 2016, 2017, 2018 and 30 April 2019 respectively, we had trade receivables (net of loss allowance) of approximately RMB176.1 million, RMB147.1 million, RMB173.7 million and RMB206.7 million, representing approximately 17.7%, 11.0%, 12.2% and 11.8% of our total current assets, respectively. Furthermore, our long aged trade receivables, net of loss allowance, (i.e. those receivables which had been past due over two years based on the date when our Group first obtained the unconditional rights for payment) amounted to approximately RMB58.2 million, RMB47.6 million, RMB35.7 million and RMB37.1 million, representing approximately 33.0%, 32.3%, 20.6% and 17.9% of our total trade receivables (net of loss allowance) past due, respectively as at 31 December 2016, 2017, 2018 and 30 April 2019. For further details, please refer to "Trade, bills and other receivables" in Financial Information section in this prospectus. During the Track Record Period, we recorded average trade receivables turnover days of approximately 83 days, 62 days, 58 days and 57 days, respectively. The average trade receivable turnover days are derived by dividing the average of the opening and closing balances of our trade receivables by our revenue and multiplied by 365 days or 120 days as the case may be. Our financial position, cash flow and profitability are directly affected by our customers' ability to pay us in a timely manner. As our customer base grows both in the PRC and overseas, we may be exposed to greater credit risks from new customers. As a result of unexpected adjustments and cancellations associated with backlog and credit risks from customers, we cannot assure you that our results of operations will not be subject to negative impact.

If our customers delay in making payments, it may result in potential mismatches in time between receipt of payments from our customers and payment obligations incurred by us, and may adversely affect our cash flow position and our financial condition and our ability to meet our working capital requirements in the future

The cycle of our construction of production line business is an average of 12 to 40 months from the effective date of the contract to the completion of the contract process, depending on the complexity and scale of the individual production line project. During the Track Record Period, our suppliers generally allowed us credit periods ranging from 0 to 365 days and certain suppliers allow longer credit period on a case-by-case basis. If our customers delay in making payments, it may result in potential mismatches in time between receipt of payments from our customers and payment obligations incurred by us, and may adversely affect our cash flow position and our financial condition and our ability to meet our working capital requirements in the future.

Our customers who engaged us for manufacturing of equipment and installation services business are generally required to make a pre-payment of 30% of the total contract value before we commence our work. Normally we will start to procure the raw materials, parts and components required in stages for production of our products pursuant to the contracts signed with our customers upon receipt of the pre-payment from our customers. In our construction of production line business, we also generally require a pre-payment from our customers of up to 30% of the total contract value either upon signing of the contract or within a specific time period stipulate in the contract, and we normally engage sub-contractors for the construction and/or installation works after we have received the pre-payment. Our procurement will generally be implemented in stages depending on the amount of installments paid by our customers pursuant to the terms of the contract depending on the type of raw materials, parts and components and equipment to be procured by us. We will also engage subcontractors for construction and/or installation works pursuant to the terms of the contract normally after we receive the advance payment from our customers. Normally about 90% of the total contract sum would have been received by us before the delivery of the completed works or products to our customers.

Although we normally will only start our production process, procure raw materials, parts and equipment and engage sub-contractors after we receive advance payments from our customers, from time to time in order to reduce our exposure to price volatility of major raw materials such as steel plates, we may procure the raw materials from time to time in anticipation of price increase and the progress of our production line projects and manufacturing of equipment. In the event that our customers delay in making the payments as stipulated in the contracts, it could result in mismatch in time between receipt of payments from customers and payment obligations incurred by us in which event our cash flow position and financial condition may be materially and adversely affected and our ability to meet our working capital requirements in the future may also be materially and adversely affected.

We invested with our available cash-in-hand in certain unlisted money market funds and financial products issued by independent financial institutions or banks in the PRC. If we fail to adopt or effectively implement our investment risk management and policies, our business, financial condition and results of operations may be materially and adversely affected

During the Track Record Period, we invested with our Group's available cash-in-hand which were idle funds as a result of timing mismatch between the receipt of advance payment and performance of procurement and production obligations occurring from time to time in certain money market funds and financial products issued by independent financial institutions or banks in the PRC before the relevant contractual obligations for procurement and production are due to be performed by us as part of our treasury measure for better short-term cash flows management purposes. The fair value of our investment in unlisted money market funds as at 31 December 2016, 31 December 2017 and 31 December 2018 and 30 April 2019 were nil, nil, RMB 3.4 million and RMB 4.2 million, respectively. The fair value of our investment in unlisted financial products as at 31 December 2016, 31 December 2017 and 31 December 2018 and 30 April 2019 were nil, RMB 304.6 million, nil and RMB 211.3 million, respectively. Our investment gain on financial assets at FVTPL which represented our investment gain in non-principal guaranteed investments with no guaranteed return issued by independent financial institutions or banks in the PRC for the three years ended 31 December 2018 and the four months ended 30 April 2019 were approximately RMB0.2 million, RMB2.8 million, RMB3.4 million and RMB2.8 million, respectively. For further details, please refer to the sections headed "Financial Information — Discussion of selected items in consolidated statements of financial position — Financial assets at fair value through profit or loss ("FVTPL")" and "Financial Information — Discussion of selected items in consolidated statements of profit or loss and other comprehensive income — Other gains and losses" in this prospectus. We are subject to interests risk, default risk and market risk associated with the investment in securities and wealth management products.

We adopted a set of policies and measures for maintaining our internal control and investment risk management systems. These policies and measures are designed to help us manage our investment risk exposures. Please see the section headed "Business — Risk Management and Internal Control" and the section headed "Financial Information — Discussion of selected items in consolidated statements of financial position — Financial assets at fair value through profit or loss ("FVTPL")" in this prospectus for further details. We have also established an investment committee with initial members consisting of our executive Directors and our Group's finance director to control, review and approve any subscription of or investment in financial products initiated by our finance department. However, there can be no assurance that our investment risk management and internal control policies are always effective and can adequately protect us against investment risks. Furthermore, there is no guaranteed return in our investment in the unlisted money market funds and financial products as this is subject to economic and market conditions and other unforeseen factors. Hence, any material deficiencies in our internal control policies or fluctuations in the financial market may expose us to risks which may be unexpected and may in turn materially and adversely affect our business, financial condition and results of operations.

Our employees could engage in corrupt practices or other improper conduct that could harm our reputation and business. If we fail to adopt or effectively implement our risk management and internal control policies and procedures, our business, financial condition and results of operations may be materially and adversely affected

Our employees could engage in corrupt practices or other improper conduct in relation to our products or business operations. Possible corruption or bribery practices in the PRC and overseas may include providing bribes or other illegal gains or benefits to customers or suppliers in return for favourable terms in business transactions. If our employees engage in such corrupt practices or improper conduct, this may harm our reputation or expose us to regulatory investigations. In such instance, this could materially and adversely affect our business and operations. In addition, it may also expose us to additional costs and liabilities (including fines from regulatory authorities).

In this regard, we have adopted a set of policies and measures for maintaining our internal control and risk management systems, covering areas such as corporate governance, operations, management, connected transactions, anti-corruption and anti-bribery. These policies and measures are designed to help us manage our risk exposures, primarily our operational risk, legal risk and liquidity risk. Please see the section headed "Business —Risk Management and Internal Control" in this prospectus for further details. However, there can be no assurance that our risk management and internal control policies and procedures are always effective and can adequately protect us against all risks. Any material deficiencies in our internal control deficiencies may affect our ability to detect and prevent risks in our operations which in turn could materially and adversely affect our business, financial condition and results of operations.

Since our risk management and internal control systems depend on their effective implementation by our employees, we cannot assure you that all of our employees will adhere to such policies and procedures, and the implementation of such policies and procedures may involve human error. We are unable to guarantee that our internal control system will be effective in preventing the occurrence of fraud or other illegal activities. Moreover, our growth and expansion may affect our ability to implement stringent risk management and internal control policies and procedures as our business evolves. If we fail to timely adopt, implement and modify, as applicable, our risk management and internal control policies and procedures, our business, financial condition and results of operations could be materially and adversely affected.

We are exposed to risks of obsolete inventory which may adversely impact our cash flow and liquidity

Our inventory comprises: (i) raw materials; (ii) work-in-progress; and (iii) finished products. Raw materials mainly comprise steel materials, such as steel, castings, and forgings. Work-in-progress mainly comprises cylinders, driving device and supporting device. Finished products mainly comprise our final products that are ready to be delivered to our customers and/or installed in the relevant production line. As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, our inventory balance amounted to approximately RMB160.9 million, RMB248.7 million, RMB419.1

million and RMB495.4 million, respectively, representing approximately 11.9%, 15.4%, 24.8% and 24.7% of our total assets as at the respective year/period end dates. During the Track Record Period, our average inventory turnover days was approximately 112 days, 99 days, 152 days and 175 days for the relevant periods, respectively.

Our Group has in place an inventory management system that tracks all incoming and outgoing inventory relating to each purchase/service order and/or the common-usage raw materials so as to ensure that an optimal inventory level is maintained at all times to satisfy the needs of our customers without over-stocking. For further details, please refer to the section headed “Business — Inventory management” in this prospectus.

However, we cannot assure you that our inventory management measures will be implemented effectively so that we will not have significant levels of obsolete or excessive inventories. In the event that we cannot effectively implement our inventory management in the future we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and significant inventory write-offs. High inventory levels may also divert substantial capital resources, preventing us from using that capital for other purposes. Any of the above may materially and adversely affect our financial position and results of operations.

Our government subsidies and gain on disposal of subsidiaries are non-recurring in nature

Government subsidies mainly represents unconditional government subsidies received from local governments in connection with the enterprise development support and innovation capability incentives and/or the expenses related to the Listing incurred by our Group during the Track Record Period. During the Track Record Period, we had received government subsidies of RMB2.0 million, RMB3.7 million, RMB23.8 million and RMB0.02 million, respectively. For the year ended 31 December 2017, our other income increased by RMB1.1 million or 15.1% to RMB8.6 million which was mainly due to the increase of approximately RMB1.7 million in government subsidies from RMB2.0 million for the year ended 31 December 2016 to approximately RMB3.7 million for the year ended 31 December 2017. Please refer to the section headed “Financial Information — Other income” in this prospectus for further details.

During the Track Record Period, we also had gain on disposal of subsidiaries which amounted to RMB0.8 million, RMB10.9 million, nil and nil, respectively.

Given the non-recurring nature of both government subsidies and gain on disposal of subsidiaries, we cannot assure that our other income and other gains and losses will not be affected as government subsidies and gain on disposal of subsidiaries are significant to the increase or decrease of our other income and other gains and losses, respectively. As a result, our financial performance may be materially affected in the absence of such government subsidies and/or gain on disposal of subsidiaries.

We are subject to the risks of foreign currency fluctuations

Given that our business operations are mainly based in the PRC, most of our revenue is denominated in RMB which is our functional and reporting currency. We source all of our raw materials locally and settle payments with our suppliers in RMB. However, for products sold and/or services provided by us outside of the PRC, our customers usually settle the payment in USD. For the years ended 31 December 2016 and 2018, we had net foreign exchange gains of approximately RMB14.3 million and RMB4.7 million, respectively. For the year ended 31 December 2017 and the four months ended 30 April 2019, we had net foreign exchange losses of approximately RMB12.5 million and RMB3.9 million, respectively.

As we use both RMB and USD for our business operations, we are inevitably exposed to the risk of foreign currency fluctuations especially, at present, RMB is not fully convertible. We cannot assure that the exchange rate of RMB will remain stable against USD (or against any other foreign currencies) in the future. Any significant movement of exchange rates of foreign currencies against RMB may significantly affect our financial condition and results of operation. For example, if the exchange rate of RMB fluctuates, this may result in foreign exchange losses and hence may adversely impact our business, financial condition and results of operation.

We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities

The United States and other jurisdictions or organisations, including the European Union, the United Nations and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries.

During the Track Record Period, we made sales of our equipment, installation services and construction of production line to customers located in Egypt, Lebanon, Myanmar (Burma), Russia, Sudan, Syria and Yemen, generating revenues of approximately RMB0.2 million, RMB12.5 million, RMB10.1 million and nil, representing approximately 0.03%, 1.3%, 1.0% and 0% of our total revenue for the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019. Syria is subject to very comprehensive economic sanctions and Sudan was subject to OFAC's comprehensive sanctions program under the Sudanese Sanctions Regulations until 12 October 2017. Our completed business transactions in Sudan and Syria amounted to approximately RMB1.54 million and RMB1.83 million, respectively, which attributed to an insignificant amount of our total revenue during the Track Record Period. Besides, our Company has established internal control system regarding Countries subject to International Sanctions. Hence, the cessation of all business activities in Syria and Sudan do not have any impact on our financial position and business operations. While we had business transactions with Sudan and Syria, our International Sanctions Legal Advisors have advised us that these transaction did not violate any International Sanctions laws or Regulations. Egypt, Lebanon, Myanmar (Burma), Russia and Yemen were subject to targeted sanctions during the Track Record Period and as of the date of this prospectus. Please refer to "Business — Business activities in Countries subject to International Sanctions" of this prospectus for further details.

We have undertaken to the Stock Exchange that we will not use the proceeds from the Share Offer, as well as any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Countries subject to International Sanctions or any other government, individual or entity sanctioned by the United States, the European Union, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions. In addition, we have undertaken not to enter into any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders and investors to violate or become a target of sanctions laws by the U.S., the European Union, the United Nations or Australia. We will also disclose on the respective websites of the Stock Exchange and our Company if we believe that the transactions our Group entered into in Countries subject to International Sanctions or with Sanctioned Persons would expose our Group or our Shareholders and investors to risks of being sanctioned, and in our annual reports or interim reports our efforts on monitoring our business exposure to sanctions risk, the status of future business, if any, in Countries subject to International Sanctions and with Sanctioned Persons and our business intention relating to Countries subject to International Sanctions and with Sanctioned Persons. If we were in breach of such undertakings to the Stock Exchange, we would be subject to the risk of possible delisting of our Shares on the Stock Exchange.

While we have implemented internal control measures to minimize our risk exposure to International Sanctions, sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of Sanctioned Persons. Further, new requirements or restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions. Our business and reputation could be adversely affected if the authorities of the United States, the European Union, the United Nations, Australia or any other jurisdictions were to determine that any of our future activities constitutes a violation of the sanctions they impose or provide a basis for a sanctions designation of our Group. For details of our business operations in the Countries subject to International Sanctions and our undertakings to the Stock Exchange and its related group companies, please refer to the paragraph headed "Business — Business activities in Countries subject to International Sanctions" in this prospectus.

Any infringement on our intellectual property rights or by us on the intellectual property rights of others may adversely affect our business and reputation

Our products and services are highly technical in nature and as such, core technologies and critical production processes are crucial for our Group's continued success and development. In order to protect our intellectual property rights such as trademarks, technologies, etc. developed by us, as at the Latest Practicable Date, we have registered for an aggregate of 6 trademarks, in 16 jurisdictions, including the PRC, Algeria, Armenia, Azerbaijan, Egypt, Kazakhstan, Tajikistan, Turkey, Romania, and other countries, 55 authorised patents, and 49 domain names, which, in the opinion of our Directors are material to our business. However, we cannot assure that efforts invested by us to protect our intellectual property rights are sufficient or that our intellectual property rights will not be misappropriated or otherwise infringed by third parties in the future, whether in the PRC or in other jurisdictions in which we operate our business. Any incident of counterfeiting or imitation could result in an adverse impact on our reputation and the "PENGFEI" brand — , which could in turn lead to reduced market share and ultimately a decline in our sales and profitability.

Conversely, there is also a risk that we may infringe the intellectual property rights of others, thereby incurring costs either in defending or settling any intellectual property disputes alleging infringement. In the event that we are subject to any infringement claims, we may be required to spend a significant amount of money to develop non-infringing alternatives and/or obtain the relevant licences for the infringing items. We cannot assure that we will be able to successfully develop such other alternatives or in obtaining such licences on reasonable terms, or at all, and any failure to do so may disrupt our Group's business operations and adversely affect our reputation and growth prospects.

We have previous incidents of non-compliance with the laws and regulations and any enforcement action against us may adversely affect our reputation

We did not fully comply with certain legal and statutory requirements in the PRC with respect to our business operations during the Track Record Period. Such non-compliances include our failure to fully make contributions in respect of social insurance and housing provident fund for some of our employees and our failure to maintain our fire safety measures up to the required standard. Please refer to the section headed "Business — Licences and regulatory compliance — Legal compliance" in this prospectus for further details of these incidents, possible legal consequences, maximum operational and financial impacts and the rectification measures taken by us.

For the three years ended 31 December 2018 and the four months ended 30 April 2019, the amount of social insurance fund which remained outstanding and payable by our Group was around RMB19,000, RMB21,000, RMB50,000 and nil, respectively. While for the three years ended 31 December 2018 and four months ended 30 April 2019, the total outstanding amount of the housing provident fund contributions payable by our Group was RMB725,000, RMB514,000, RMB113,000 and nil, respectively. Although as at the Latest Practicable Date, we had not received any notification from the relevant PRC authorities demanding us for the outstanding amount or imposing fines on us, if any of the government agencies in the PRC later strengthens the enforcement action on the relevant social insurance and housing provident fund laws and regulations against us and considers it necessary for us to make retrospective contributions to the social insurance and housing provident fund and imposes fines and/or other penalties against us, this may incur additional costs and we may be exposed to negative media coverage, which could adversely affect our business, results of operations and reputation.

Our insurance coverage may not be sufficient to cover the risks associated with our business operations and we are subject to financial and reputational risks due to product quality and liability issues

Our business operations involve inherent risks and occupational hazards which cannot be completely eradicated through implementation of preventive measures. For instance, even with workplace accidents, which may result in property damage, physical injuries or even fatalities, may still occur at our production facilities or at our customers' production site for production line projects under our construction of production line business despite preventive measures being taken. Furthermore, given the wide international customer base of our business and hence the various different working environments, we may be subject to the occurrence of certain unforeseeable incidents such as earthquakes, fire, severe weather, war and floods. We cannot assure that our current insurance policies are sufficient to cover all the risks associated with our business operations. Any uninsured losses or damages to, among others, our property and/or reputation, may cause our Group to incur substantial costs which could materially and adversely affect our business, financial condition and results of operation.

Our business is inherent to the risk of product liability claims. We cannot guarantee that all products produced by us are defect-free. We are not required to maintain any insurance policies in respect of product liability in the PRC. If our products failed to perform their specifications or caused or alleged to have caused property damage and bodily injury, we would be subject to product liability claims. Any product liability claim against us would adversely affect our business, financial condition, results of operations, as well as our reputation. Even if we could defend the claims against us successfully, we could not assure you that our customers will not lose confidence in our products as a result of the claims, which may in turn adversely affect our future business.

We may not be able to successfully develop and launch rotary kilns that possess the latest roasting and pyrolysis technology and achieve our future expansion plans in time, within our budget, or at all

We have and will continue to invest in the research and development of rotary kilns that possess the latest roasting and pyrolysis technology in particular, (i) efficient rotary kiln pyrolysis for the treatment of co-processing solid waste, (ii) efficient low-rank coal cleaning pyrolysis technology, and (iii) high-efficient energy-saving rotary kiln system applicable to roasting non-ferrous metals in metallurgy industry. For further details, please see the section headed "Future plans and use of proceeds" in this prospectus. We anticipate that we may face the following risks during the research and development of rotary kiln pyrolysis:

(i) *Technical risk*

During the research and development of rotary kilns pyrolysis technology, solid waste will be calcinating using the pre-decomposition furnace outside the rotary kiln. The calorific value and composition of solid waste for calcination may be unstable, which in turn will affect the stability of the heating and the calcined ingredients and may cause danger.

(ii) *Market risk*

Our rotary kilns that possess the latest roasting and pyrolysis system may be affected by other new technology discovered, enhancement of performance of other rotary kiln much possess the roasting and pyrolysis technology, and market and national energy conservation and consumption reduction policies. In addition, since rotary kiln roasting and pyrolysis technology in general has a superior performance and can reduce operating costs, our research and development in such technology is in line with the national industrial policy of the PRC, which may drive the competitors to follow suit and make the market competition more intense.

(iii) *Talent risk*

Experienced technical personnel is crucial to the successful research and development of our rotary kilns that possess the latest roasting and pyrolysis technology and excessive mobility can affect the progress and benefits of our research and development. On the other hand, we may lose our talents who possess knowledge of our patented technologies to our competitors.

Therefore, we cannot assure that we will be able to successfully develop and launch rotary kilns that possess the latest roasting and pyrolysis technology. In which case, our ability to maintain or expand our position in the rotary kiln market could be adversely affected. Furthermore, our rotary kilns that possess the latest roasting and pyrolysis technology may not achieve technical feasibility, meet prescribed national and industrial standards or gain market acceptance. Failure to successfully commercialise such rotary kilns may adversely affect our business operations and financial performance which in turn could prevent us from achieving our future expansion plans in time, within our budget, or at all.

Our ability to meet customer demands is dependent on our ability to effectively maintain our inventories

Our inventory comprises: (i) raw materials; (ii) work-in-progress; and (iii) finished products. Raw materials mainly comprise steel materials, such as steel, castings, and forgings. Work-in-progress mainly comprises cylinders, driving device and supporting device. Finished products mainly comprise our final products that are ready to be delivered to our customers. As at 31 December 2016, 31 December 2017 and 31 December 2018 and 30 April 2019, our inventory balance amounted to approximately RMB160.9 million, RMB248.7 million, RMB419.1 million and RMB495.4 million, respectively, representing approximately 11.9%, 15.4%, 24.8% and 24.7% of our total assets as at the respective year/period end dates. During the Track Record Period, the average inventory turnover days was approximately 112 days, 99 days, 152 days and 175 days for the relevant periods, respectively. For further details, please refer to the paragraph headed "Business — Inventory management" in this prospectus.

Our customers may place orders within a short notice period and as such, if we understock our inventory, our ability to meet such demands may be affected. On the other hand, if we overstock our inventory, we will incur additional storage costs for such inventory. While we have not experienced instances where we were not able to maintain sufficient levels of inventory, there can be no assurance that we will not face under-stocking and/or overstocking issues in the future. Instances of under-stocking or overstocking of our inventory may adversely affect our reputation, results of operations and financial condition.

Any disruption to our current production facility could reduce or restrict sales and may materially and adversely affect our business

As at the Latest Practicable Date, our production site covered three plant areas, namely, North Plant, South Plant and West Plant and was used by our Group for our production activities and office purposes. We intend to construct a new production plant with three production units located at the vicinity of our North Plant area, details of which are set out in the section headed "Future plans and use of proceeds" in this prospectus.

Natural disasters or other unanticipated catastrophic events, including storms, fire, explosions, terrorist attacks and wars, as well as changes in governmental planning for the land underlying our facility, could significantly impact our ability to manufacture our products and business operation. The occurrence of unanticipated catastrophic events could result in temporary closure of our production facility which may materially and adversely affect our business.

Any delay in obtaining the relevant visas for our staff to work overseas for our projects or revocation of such visas may cause delay in our projects which could materially and adversely affect our business

We have a wide international footprint and we sold our products and provided our one-stop solution services to more than 50 customers based in “Belt and Road” countries during the Track Record Period, including Bangladesh, Kazakhstan, Turkey and Uzbekistan. Revenue generated from customers based in “Belt and Road” countries accounted for approximately RMB153.2 million, RMB372.0 million, RMB266.3 million and RMB111.5 million, representing approximately 19.7%, 39.3%, 26.2% and 27.9%, respectively, of our total revenue for the Track Record Period.

During the Track Record Period, we also completed nine production line projects and six of which were production line projects located in overseas markets and four out of the six production line projects were located in Belt and Road countries. As at the Latest Practicable Date, we had five on-going production line projects. Except for one project which is located in the PRC, other on-going production line projects are located in Belt and Road countries.

We would send our staff, mainly consist of project managers and engineers, overseas to monitor the progress of our projects as well as to assist and train our customers on how to use our rotary kilns, grinding equipment and their related equipment. Our staff would need the relevant visas, such as work visa, depending on the laws and regulations in the designated countries, to work and stay legally in the designated countries. If we fail to obtain the relevant visas or if there is any delay in obtaining them or even revocation of the relevant visas, we would not be able to send our staff overseas to monitor the progress of our projects as well as assist and train our customers on how to use our rotary kilns, grinding equipment and their related equipment. As a result, there may be delay in our projects which could materially and adversely affect our business.

We may experience fluctuations in costs of raw materials

Our principal raw materials are steel materials including steel plates, castings and forgings, and our principal parts and components include motors, reducers and bearings. Our raw materials balances increased steadily during the Track Record Period amounting to approximately RMB85.9 million, RMB98.6 million, RMB159.8 million and RMB140.4 million as at 31 December 2016, 2017 and 2018 and 30 April 2019, respectively. During the Track Record Period, the cost of raw materials was a major component of our cost of sales and services, representing approximately 72.7%, 73.7%, 68.0% and 77.1% of our total cost of sales and services, respectively. Any material fluctuation in the cost of raw materials may affect the results of our operations. The relative high balance of our raw materials as at 31 December 2018 was mainly due to procurement of an increased amount of raw materials by our Group in anticipation of the progress of our production line projects and manufacturing of equipment which was in line with the increased ending value of backlog as at 31 December 2018.

According to F&S Report, the average price of middle-thick plates increased rapidly between 2015 and 2018, which could have substantially impacted on raw material costs in rotary kiln, grinding equipment and their related equipment market. For further details, please refer to the section headed “Industry overview — Key cost components — Raw materials” in this prospectus. Given that middle-thick plates (being one type of steel materials) are our major raw materials for the production of rotary kiln, grinding equipment and their related equipment, our purchase of middle-thick plate attributed to a substantial amount of our total purchase. Hence, the rapid increase of average price of middle-thick plates will have substantial impact on our costs of raw materials.

The following table indicates the hypothetical fluctuations in cost of raw materials during the Track Record Period:

Hypothetical fluctuations in costs of raw materials	-10%	-5%	+5%	+10%
	RMB'000	RMB'000	RMB'000	RMB'000
Increase/(decrease) in profit before tax				
Year ended 31 December 2016	46,129	23,064	(23,064)	(46,129)
Year ended 31 December 2017	55,335	27,667	(27,667)	(55,335)
Year ended 31 December 2018	54,344	27,172	(27,172)	(54,344)
Four months ended 30 April 2019	24,193	12,096	(12,096)	(24,193)
Increase/(decrease) in profit after tax				
Year ended 31 December 2016	39,209	19,605	(19,605)	(39,209)
Year ended 31 December 2017	47,035	23,517	(23,517)	(47,035)
Year ended 31 December 2018	46,193	23,096	(23,096)	(46,193)
Four months ended 30 April 2019	20,564	10,282	(10,282)	(20,564)

Costs of raw materials may fluctuate subject to factors beyond our control including availability and supply of the raw materials, inflation of labour costs, economic and market conditions and changes in suppliers' business plans and marketing strategies. We cannot assure you that our costs of raw materials will not fluctuate in the future. If such costs increase, it will directly affect our revenue and profit margin which will in turn materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

We may incur significant compliance costs due to introduction of new and/or amended laws and regulations of the PRC

Our business operations in the rotary kiln and grinding equipment industry are subject to the laws and regulations of the PRC. For further details, please refer to the section headed "Regulatory Overview" in this prospectus.

In addition, if such laws and regulations are amended or government policies are introduced, resulting in new or more stringent requirements being imposed on us, we may incur significantly additional costs and expenses and may have to allocate additional resources to comply with such requirements. Any resultant changes to our business practices or increased costs of compliance may materially and adversely affect our business, financial condition, results of operations and/or prospects.

We are subject to environmental liability

Our business in the PRC is subject to environmental laws and regulations of the PRC as set out in the section headed "Regulatory Overview — Laws and Regulations relating to Environmental Protection" in this prospectus. Such laws and regulations may be revised from time to time by the government of the PRC to reflect the latest environmental needs. Any changes to such laws and regulations may increase our cost and burden in complying with them, and adversely affect our profitability and financial position.

Our business may be adversely impacted by overcapacity in downstream market

In May 2016, the State Council issued the 2016 Guiding Opinions which aims to eliminate a batch of cement and clinker production capacities by 2020 such that the market share of the top 10 enterprises by cement and clinker production capacities will reach approximately 60%, and the profit margin of the cement industry will be close to the average level of industries. In addition, filing and construction of cement and clinker projects for new and expanded production capacities shall be strictly prohibited until the end of 2020. Enterprises which fail to meet the standards for energy consumption, product quality and safety production shall be required to remedy or even close down. Furthermore, leading players in the industry will proactively promote merger and acquisition, and restructuring, so as to achieve higher industry concentration and promote healthy market competition, which will facilitate increase in the cement price.

Since the cement production enterprises in the downstream market are required to utilise cement rotary kiln, grinding equipment and their related equipment with advanced production capacity that could achieve environmentally friendly purpose, those rotary kiln, grinding equipment and their related equipment suppliers who are unable to manufacture cement producing equipment with advanced production capacity will be difficult to survive in the market. As a result of this, we cannot assure you that the demand for our rotary kiln, grinding equipment and related equipment will not be affected, which in turn may adversely affect our business.

RISKS RELATING TO DOING BUSINESS IN THE PRC

PRC economic, political and social conditions as well as government policies could affect our business

A major portion of our business and operations are located in the PRC. As a result, our business, financial condition, results of operations and prospects may be affected by the economic, political and social conditions as well as government policies in the PRC.

While the PRC government has been pursuing economic reforms to transform its economy from a planned economy to a market economy for more than three decades, a substantial part of the PRC economy is still being operated under various controls by the government. By imposing industrial policies and other economic measures, such as control of foreign exchange, taxation and foreign investment, the PRC government exerts considerable direct and indirect influence on the development of the PRC economy. Many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may materially and adversely impact our business, financial condition, results of operations and prospects.

The PRC legal system is in the process of continuous development and has inherent uncertainties that could limit the legal protections available to us in respect of our operations and to our Shareholders

The PRC legal system is based on written statutes and prior court decisions can only be cited as reference. Since the late 1970s, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade with a view to developing a comprehensive system of commercial law. However, as these laws and regulations are continually evolving in response to changing economic and other conditions, and because of the limited volume of published cases and their non-binding nature, any particular interpretation of PRC laws and regulations may not be definitive. The PRC laws and regulations may not accord equivalent rights (or protection for such rights) to those rights investors might expect in countries with more sophisticated laws and regulations.

In addition, the PRC is geographically large and divided into various provinces and municipalities and as such, different laws, rules, regulations and policies apply in different provinces and may have different and varying applications and interpretations in different parts of the PRC. Legislation or regulations, particularly for local applications, may be enacted without sufficient prior notice or announcement to the public. Accordingly, we may not be aware of the existence of new legislation or regulations. There is at present also no integrated system in the PRC from which information can be obtained in respect of legal actions, arbitrations or administrative actions. Even if an individual court-by-court search were performed, each court may refuse to make the documentation which it holds for on-going cases available for inspection. Accordingly, there is a risk that entities in the PRC acquired by us may be subject to proceedings which have not been disclosed.

The PRC legal system is based in part on government policies (some of which are not published on a timely basis). As a result, we may not be aware of any violation of these policies until sometime after the violation. Failure to comply with applicable regulations may result in fines, restrictions on our activities or, in extreme cases, suspension or revocation of our business licences. There may be uncertainties regarding the interpretation and application of new laws and regulations.

The interpretation and enforcement of certain PRC laws which govern a portion of our operations involve uncertainties, which could limit the legal protections available to us. In particular, agreements which are governed under PRC laws may be more difficult to enforce by legal or arbitral proceedings in the PRC than in countries with more mature legal systems. Even if the agreements generally provide for arbitral proceedings for disputes arising out of the agreements to be in another jurisdiction, it may be difficult for us to obtain effective enforcement in the PRC of an arbitral award obtained in that jurisdiction.

Our Company is a holding company that relies on dividend payments from our subsidiaries for funding and payment of dividends from our PRC subsidiaries are subject to restrictions under PRC laws and PRC withholding tax

PRC laws require dividends to be paid out of net profit calculated according to PRC accounting principles, which, in many aspects, differ from the generally accepted accounting principles in other jurisdictions. Foreign-invested enterprises, such as our PRC subsidiaries, are also required to set aside part of their net profits as statutory reserves, which are not available for distribution as cash dividends. In addition, such dividends are also subject to PRC withholding tax.

Our Company is a holding company incorporated in the Cayman Islands and all of our business and operations are conducted through our PRC subsidiaries. The availability of funds to pay distributions to Shareholders depends on dividends received from these subsidiaries. If our PRC subsidiaries incur any debts or losses or otherwise there are insufficient retained after-tax profits after deducting statutory reserves, the amount of dividends that our PRC subsidiaries can declare will be limited and as a result, our ability to pay dividends and other distributions to Shareholders will be restricted.

The PRC government's control over the conversion of foreign exchange and fluctuations in the value of RMB may affect our results of operations, financial condition and ability to pay dividends

An major portion of our operations are conducted in the PRC and a substantial portion of our revenue is denominated in RMB. The value of RMB against the U.S. dollar and other currencies fluctuates from time to time and is affected by a number of factors, such as changes in the political and economic conditions in the PRC as well as internationally and the fiscal and foreign exchange policies prescribed by the PRC government. There is no assurance that the value of RMB will remain at the current level against the U.S. dollar or any other foreign currency. Should RMB appreciate or depreciate against the U.S. dollar or any other foreign currency, it will have mixed effects on our business and there is no assurance that the overall effect will be positive.

RMB is not currently a freely convertible currency. Conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Pursuant to the existing foreign exchange regulations in the PRC, we are allowed to carry out current account foreign exchange transactions (including dividend payment) without submitting the relevant documentary evidence of such transactions to the SAFE for approval in advance as long as they are processed by banks designated for foreign exchange trading. However, foreign exchange transactions for capital account purposes may require the prior approval or registration with the SAFE. If we fail to obtain the SAFE's approval to convert RMB into foreign currencies for foreign exchange transactions or there are changes in the foreign exchange regulations or policies, our capital expenditure plans, business operations, results of operations, financial condition and our ability to pay dividends could be materially and adversely affected.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Share Offer to make loans or additional capital contributions to our PRC subsidiaries

In utilising the proceeds from the Share Offer or any further offering, as an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations and approvals. For example, loans by us to our wholly owned PRC subsidiaries in the PRC to finance their activities cannot exceed statutory limits and must be registered with the SAFE or its local counterpart. We may also decide to finance our PRC subsidiaries through capital contributions. These capital contributions must be filed with the MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain these government registrations, filings or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our subsidiaries or any of their respective subsidiaries. If we fail to receive such registrations, filings or approvals, our ability to use the proceeds of the Share Offer and to capitalise our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We may be treated as a resident enterprise for PRC tax purposes and be subject to PRC taxation on our worldwide income, which could result in unfavourable tax consequences to us and our non-PRC Shareholders

Our Company is incorporated under the laws of the Cayman Islands but a substantial portion of our operations are in the PRC. Under the EIT Law, an enterprise incorporated in a foreign country or region may be classified as either a “non-resident enterprise” or a “resident enterprise”. If an enterprise incorporated in a foreign country or region has its “de facto management bodies” located within the PRC, such enterprise will be considered a PRC tax resident enterprise and will normally be subject to the enterprise income tax of 25% on its worldwide income. Please refer to “Regulatory Overview — Laws and Regulations relating to Taxation” in this prospectus.

It is unclear how the PRC tax authorities will determine whether an offshore entity is a non-PRC resident enterprise. We cannot assure you that PRC tax authorities will not consider us to be a “resident enterprise”. If the PRC tax authorities subsequently determine that we or our offshore holding companies are deemed to be or should be classified as “resident enterprises”, such entity or entities may be subject to enterprise income tax at a rate of 25% on their worldwide income, which could have an impact on our effective tax rate and materially and adversely affect our financial condition and results of operations.

In addition, under the EIT Law, to the extent dividends from earnings derived since 1 January 2008 are sourced within the PRC and if we were considered a “resident enterprise” in the PRC, PRC income tax at the rate of 10% (or a lower rate pursuant to an applicable tax treaty) may be required to be withheld from dividends on our Shares payable by us to investors that are “non-resident enterprises” so long as such “non-resident enterprise” investors do not have an establishment or place of business in the PRC or if, despite the existence of such establishment or place of business in the PRC, the relevant income is not effectively connected with such establishment or place of business in the PRC. Furthermore, any gains realised on the transfer of our Shares by such “non-resident enterprise" investors would be subject to PRC income tax at a rate of 10% if such gains were deemed income derived from sources within the PRC and if we were considered a "resident enterprise" in the PRC. It is unclear whether, if we are considered a PRC "resident enterprise", holders of our Shares may be able to claim the benefit of income tax treaties or agreements entered into between the PRC and other countries or areas. If we are required under the EIT Law or other related regulations to withhold PRC income tax on our dividends payable to foreign holders of our Shares which are "non-resident enterprises", or if our Shareholders are required to pay PRC income tax on the transfer of our Shares under PRC tax laws, the value of an investment in our Shares may be materially and adversely affected.

There are uncertainties with respect to indirect transfers of assets (including equity interests) of our PRC subsidiaries

In February 2015, the SAT issued the Announcement on Certain Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises Enterprises* (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (as amended on 17 October 2017 and 29 December 2017) or Circular 7. Circular 7 provides comprehensive guidelines relating to, and also heightens the PRC tax authorities' scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise ("**PRC Taxable Assets**").

Circular 7 specifies that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC Taxable Assets if such transfer is deemed to have been conducted for the purposes of avoiding PRC enterprise income taxes and without any other reasonable commercial purpose. Although Circular 7 contains certain exemptions, it remains unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares in a public market by our non-resident enterprise Shareholders or to any future acquisition by us outside of the PRC involving PRC Taxable Assets. Please refer to "Regulatory Overview — Laws and Regulations relating to Taxation" in this prospectus for further details. As a result, the PRC tax authorities may deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisition by us outside of the PRC involving PRC Taxable Assets to be subject to the foregoing regulations, which may subject our Shareholders or us to additional PRC tax reporting obligations or tax liabilities.

It may be difficult to effect service of process, enforce foreign judgments and arbitral awards or bring original actions in the PRC against us or our Directors and senior management

Our Company is incorporated under the laws of the Cayman Islands, but a substantial portion of our operations and assets and most of our Directors and senior management are located in the PRC. It may be difficult or impossible for investors to effect service of process on us or those persons in the PRC. Moreover, the PRC does not have treaties with most of the other jurisdictions that provide for the reciprocal recognition and enforcement of judicial rulings and awards. As a result, recognition and enforcement in the PRC of the judgment of a non-PRC court in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Final judgments for civil and commercial cases and arbitral awards obtained in a recognised Hong Kong court or Hong Kong arbitral tribunal may be enforced in the PRC, provided that certain conditions are satisfied. However, there are uncertainties as to the outcome of any applications to recognise and enforce such judgments and arbitral awards in the PRC.

Furthermore, an original action may be brought in the PRC against us or our Directors and senior management only if the actions are not required to be arbitrated by PRC law and upon satisfaction of the conditions for commencing a cause of action pursuant to the PRC civil procedure law. As a result of the conditions set forth in the PRC civil procedure law and the discretion of the PRC courts to determine whether the conditions are satisfied and whether to accept the action for adjudication, it is uncertain whether investors will be able to bring an original action in the PRC in this manner.

Failure by our Shareholders or beneficial owners who are PRC residents to make any required applications and filings pursuant to regulations relating to offshore investment activities by PRC residents may prevent us from being able to distribute dividends and could expose us and our PRC resident Shareholders to liability under the PRC laws

The Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) ("**SAFE Circular No. 37**"), which was promulgated by SAFE and became effective on July 4, 2014, requires a PRC individual resident ("**PRC Resident"**) to register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle ("**Offshore SPV**") that is directly established or indirectly controlled by the PRC Resident for the purpose of conducting investment or financing. Pursuant to the Circular on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》) ("**SAFE Circular No. 13**"), which was promulgated by SAFE on 13 February 2015, the aforesaid registration shall be reviewed and handled by the banks and the SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks. Following the initial registration, the PRC Resident is also required to make registration for any major change in respect of the Offshore SPV, including, among other things, any major change of a PRC Resident shareholder, name or term of operation of the Offshore SPV, or any increase or reduction of the Offshore SPV's registered capital, share transfer or swap, merger or division. Failure to comply with the registration procedures of SAFE Circular No. 37 may result in penalties and sanctions, including the imposition of restrictions on the ability of the Offshore SPV's Chinese subsidiary to distribute dividends to its overseas parent.

Changes in tax incentives may materially and adversely affect our business, financial position and results of operations

Taxation on PRC income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC in which we operate and the statutory income tax rate is 25%. During the Track Record Period, our principal PRC operating subsidiary, Jiangsu Pengfei, an indirect wholly-owned subsidiary of our Company, obtained the "High Technology Enterprise" certificate* (高新技術企業證書) in 2015 and, thus entitling it to a preferential tax rate of 15% for a period from 1 January 2015 to 31 December 2017 under the relevant PRC tax laws and regulations.

Jiangsu Pengfei applied for and obtained a new “High Technology Enterprise” certificate in 2019 therefore continued to enjoy the preferential tax rate of 15% for a futher term of three years from 1 January 2018 to 31 December 2020. We cannot assure you that Jiangsu Pengfei will continue to qualify for such preferential tax treatment in the future. If Jiangsu Pengfei fails to maintain the preferential tax treatment when the relevant term expires, or if the PRC government eliminates any of our preferential tax treatments before the scheduled expiration, the applicable income tax rates would increase to 25%, which could have a material adverse effect on our financial position and results of operations.

In addition, the PRC government adjusts or changes its policies on value-added tax, business tax and other taxes from time to time. Such adjustments or changes, together with any consequential uncertainty, could have a material adverse effect on our business, financial position and results of operations.

RISKS RELATING TO THE SHARE OFFER

There is no existing public market for our Shares and their liquidity and market price may fluctuate

Prior to the Share Offer, there has not been a public market for our Shares. We have applied for the listing of and dealing in our Shares on the Stock Exchange. However, even if approved, we cannot assure you that an active and liquid public trading market for our Shares will develop following the Share Offer, or, if it does develop, it will be sustained. The financial market in Hong Kong and other countries have in the past experienced significant price and volume fluctuations. Volatility in the price of our Shares may be caused by factors outside our control and may be unrelated or disproportionate to our operating results. Accordingly, we cannot assure you that the liquidity and market price of our Shares will not fluctuate.

The Offer Price Range for our Shares was the result of, and the Offer Price will be the result of, negotiations among us and the Sole Global Coordinator (for itself and on behalf of the Underwriters) and may not be indicative of prices that will prevail in the trading market after the Share Offer. Therefore, our Shareholders may not be able to sell their Shares at prices equal to or greater than the price paid for their Shares purchased in the Share Offer.

As the Offer Price is higher than the net tangible book value per Share, our Shareholders will experience an immediate dilution in the book value of their Shares purchased in the Share Offer and may experience further dilution if we issue additional Shares in the future

The Offer Price of our Shares is higher than the net tangible assets value per Share immediately prior to the Share Offer. Therefore, our Shareholders will experience an immediate dilution in pro forma net tangible assets value of HK$1.06 per Share, based on the maximum Offer Price of HK$1.58.

In order to expand our business, we may consider offering and issuing additional Shares in the future. Our Shareholders may experience further dilution in the net tangible assets book value per Share if we issue additional Shares at a price lower than the net tangible assets book value per Share at the time of their issue.

Since there will be a gap of several days between pricing and trading of the Offer Shares, holders of the Offer Shares are subject to the risk that the price of the Offer Shares could fall during the period before trading of the Offer Shares begins

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be a few business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in Shares during that period. Accordingly, holders of Shares are subject to the risk that the price of their Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

Our Controlling Shareholders, may exert substantial influence over our operation and may not act in the best interests of our public Shareholders

Immediately following the Share Offer, Wang Jiaan (王家安) and Ambon, our Controlling Shareholders will own approximately 41.49% of our issued share capital, without taking into account of the Shares which may be issued upon the exercise of the Over-allotment Option. Therefore, they will be able to exercise significant influence over all matters requiring Shareholders' approval, including the election of directors and the approval of significant corporate transactions. They will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by relevant rules to abstain from voting. Such concentration of ownership also may have the effect of delaying, preventing or deterring a change in control of the Group that would otherwise benefit our Shareholders. The interests of our Controlling Shareholders may not always align with our Company or your best interests. If the interests of our Controlling Shareholders conflict with the interests of our Company or our other Shareholders, or if our Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of our Company or other Shareholders, our Company or those other Shareholders, including you, may be disadvantaged as a result.

Future sales or perceived sales or conversion of substantial amounts of our securities in the public market could adversely affect the market price of our Offer Shares and our ability to raise capital in the future, or may result in dilution of your shareholding

The market price of our Offer Shares could decline as a result of future sales of substantial amounts of our Offer Shares or other securities relating to our Offer Shares in the public market, or the issuance of new Offer Shares or other securities relating to our Offer Shares or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our securities, including any future offerings, could materially and adversely affect the prevailing market price of our Offer Shares and our ability to raise capital in the future at a time and at a price which we deem appropriate. In addition, our Shareholders would experience a dilution in their holdings upon the issuance of additional securities for any purpose. If additional funds were raised through our issuance of new equity or equity-linked securities other than on a pro-rata basis to existing Shareholders, the percentage ownership of such Shareholders could be reduced and such new securities might confer rights and privileges that take priority over those conferred by the Offer Shares.

A certain number of our Offer Shares held by existing shareholders are or will be subject to contractual and/or legal restrictions on disposal for a period of time after completion of the Share Offer. Please refer to "Underwriting — Undertakings by our Controlling Shareholders" in this prospectus for further details. After the lapse of the abovementioned restrictions, future sales or perceived sales of substantial amounts of our Offer Shares, or the possibility of such sales by us, could negatively impact the market price of our Offer Shares and our ability to raise equity capital in the future.

There can be no assurance if and when we will pay dividends in the future

Distribution of dividends shall be formulated by our Board and will be subject to shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under IFRS, our Articles of Association, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, relevant laws and regulations and any other factors determined by our Board from time to time to be relevant to the declaration or suspension of dividend payments. As a result, there can be no assurance whether, when and in what form we will pay dividends in the future or that we will pay dividends in accordance with our dividend policy. Please refer to "Financial Information — Dividends" in this prospectus for further details of our dividend policy.

You should read the entire prospectus and we strongly caution you not to place any reliance on any information contained in the press articles, other media and/or research analyst reports regarding us, our business, our industry and the Share Offer

There has been, prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Share Offer, press, media, and/or research analyst coverage regarding us, our business, our industry and the Share Offer. You should rely solely upon the information contained in this prospectus in making your investment decisions regarding our Shares and we do not accept any responsibility for the accuracy or completeness of the information contained in such press articles, other media and/or research analyst reports nor the fairness or the appropriateness of any forecasts, views or opinions expressed by the press, other media and/or research analyst regarding the Shares, the Share Offer, our business, our industry or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed or any such publications. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information contained in this prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of information contained in this prospectus only and should not rely on any other information.

We cannot guarantee the accuracy of certain facts and statistics contained in this prospectus

Certain facts and statistics in this prospectus have been derived from various official government and other publications generally believed to be reliable. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Such information has not been independently verified by us or any of the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters or any of our or their respective directors, officers or representatives or any other person involved in the Share Offer and no representation is given as to its accuracy. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts and statistics in this prospectus may be inaccurate or may not be comparable to facts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy (as the case may be) in other jurisdictions. As a result, you should not unduly rely upon such facts and statistics contained in this prospectus.

In preparation for the Listing, our Company has sought the following waiver(s) from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

The principal business operation of our Group is outside Hong Kong and primarily located in the PRC and it will continue to be based in the PRC. At present, all of our four executive Directors, Mr. Wang Jiaan (王家安), Mr. Zhou Yinbiao (周銀標), Mr. Dai Xianru (戴賢如) and Mr. Ben Daolin (賁道林) are not ordinarily resident in Hong Kong and will continue to be based in the PRC. We have applied to the Stock Exchange for, and obtained, a waiver from strict compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

(i) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal channel of communication with the Stock Exchange. The two authorised representatives are Mr. Ben Daolin (賁道林), our executive Director, and Ms. Chau Hing Ling (周慶齡), our company secretary. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by home, office, mobile and other telephone numbers, email address and correspondence address (if the authorised representative is not based at the registered office), facsimile numbers if available, and any other contact details prescribed by the Stock Exchange from time to time. Each of the authorised representatives has been duly authorised to communicate on our behalf with the Stock Exchange. Each of the authorised representatives has confirmed that he/she possesses valid travel documents to Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required;

(ii) we will promptly inform the Stock Exchange if there are any changes to the authorised representatives of our Company;

(iii) our authorised representatives have means to contact all Directors (including the independent non-executive Directors) and the senior management team promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. To enhance the communication between the Stock Exchange, (a) each executive Director and independent non-executive Directors has provided his/her mobile phone number, office phone number, facsimile number (if available) and email addresses (if available) to the authorised representatives; (b) in the event that an executive Director or independent non-executive Director expects to travel and be out of office, he/she will provide the phone number of the place of his/her accommodation to the authorised representatives; and (c) all Directors and authorised representatives will provide their respective mobile phone number, office phone number, facsimile number (if available) and email address (if available) to the Stock Exchange;

(iv) each Director who is not ordinarily resident in Hong Kong has confirmed that he/she either possesses or will 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; and

(v) we have also, in accordance with Rule 3A.19 of the Listing Rules, appointed Essence Corporate Finance (Hong Kong) Limited, as its compliance adviser, who will act as an additional channel of communication with the Stock Exchange. The compliance adviser will advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong for a period commencing on the Listing Date at least until the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our Company's financial results for the first full financial year after the Listing Date. The compliance adviser will have access at all times to our authorised representatives, Directors and the other senior management of the Company to ensure that it is in a position to provide prompt response to the enquiries or requirements raised by the Stock Exchange in respect of our Company.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) 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 to the public with regard to us. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this prospectus or any statement herein misleading.

THIS HONG KONG PUBLIC OFFERING AND THE PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Share Offer. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering. See "How to apply for the Hong Kong Offer Shares" and the Application Forms for further details of the procedures for applying for the Hong Kong Offer Shares.

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

STRUCTURE OF THE SHARE OFFER AND UNDERWRITING

See "Structure and Conditions of the Share Offer" for further details of the structure of the Share Offer, including its conditions and the arrangements relating to the Over-allotment Option and stabilisation.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the International Underwriters pursuant to the International Underwriting Agreement. The Share Offer is managed by the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers. If, for any reason, the Offer Price is not agreed, the Share Offer will not proceed and will lapse. See "Underwriting" for further details of the Underwriters and the underwriting arrangements.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, and is deemed by his acquisition of Hong Kong Offer Shares to have confirmed, that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

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. Accordingly, without limitation to the following, 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 offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered and sold, and will not be offered or sold, directly or indirectly in the PRC or the United States.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the granting of the listing of and permission to deal in the Shares in issue and to be issued pursuant to the Share Offer (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option). Dealings in the Shares on the Stock Exchange are expected to commence on 15 November 2019.

Save as disclosed in this prospectus, no part of our share capital or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the Stock Exchange granting the listing of, and permission to deal in, our Shares on the Stock Exchange and we complying with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All necessary arrangements have been made for the Shares to be admitted into CCASS. All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

HONG KONG BRANCH SHARE REGISTER AND STAMP DUTY

All Shares issued by us pursuant to applications made in the Hong Kong Public Offering will be registered on our register of members to be maintained by our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, in Hong Kong. Our principal register of members will be maintained by our principal registrar, Estera Trust (Cayman) Limited, in the Cayman Islands.

No stamp duty is payable by applicants in the Share Offer.

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

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in or exercising any rights in relation to, the Shares. None of us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding, disposition of, dealing in, or exercising any rights in relation to, the Shares.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain amounts denominated in RMB and Hong Kong dollars. Unless we indicate otherwise, the translations of RMB into Hong Kong dollars and vice versa have been made at the rate of RMB1.00 to HK$1.17 in this prospectus. These translations are provided for reference only. No representation is made that any amount in RMB or Hong Kong dollars can be or could actually be, or have been, converted at the above rate or any other rate or at all.

Potential investors should note that the translations of RMB into Hong Kong dollars as at the Latest Practicable Date was at the rate of RMB1.00 to HK$1.11 instead of RMB1.00 to HK$1.17, therefore the equivalent Hong Kong dollars denominated amount translated from/to RMB and disclosed in this prospectus will vary should the exchange rate of RMB to Hong Kong dollars as the Latest Practicable Date was adopted.

LANGUAGE

If there is any inconsistency between this prospectus and its Chinese translation, this prospectus shall prevail. For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.

ROUNDING

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

DIRECTORS

Name	Address	Nationality
Executive Directors		
Wang Jiaan (王家安)	No. 29 Renmin Xi Road, Dagong Town, Haian City, Jiangsu Province, PRC	Chinese
Zhou Yinbiao (周銀標)	No. 5 Renmin Zhong Road, Dagong Town, Haian City, Jiangsu Province, PRC	Chinese
Dai Xianru (戴賢如)	No. 6 Group 32, Wangyuan Village, Dagong Town, Haian City, Jiangsu Province, PRC	Chinese
Ben Daolin (賁道林)	Room 501, Unit 2, Block 4, No. 88 Zhongba Nanlu, Haian Town, Haian City, Jiangsu Province, PRC	Chinese
Independent non-executive Directors		
Zhang Lanrong (張嵐嶸)	Room 102, Building 3, Yue'an Garden, Nanjing, PRC	Chinese
Ding Zaiguo (丁再國)	Room 504, Block 10, No. 59 Renmin East Road, Haian City, PRC	Chinese
Mak Hing Keung, Thomas (麥興強)	Room D2, 11/F, Block D, Kingsford Gardens, 202 Tin Hau Temple Road, North Point, Hong Kong	Canadian

See "Directors, Senior Management and Employees" in this prospectus for more information on our Directors and members of senior management.

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor	**Essence Corporate Finance (Hong Kong) Limited** *Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity (as defined in the SFO)* 39th Floor One Exchange Square Central Hong Kong
Sole Global Coordinator	**Essence International Securities (Hong Kong) Limited** *Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities (as defined in the SFO)* 39th Floor One Exchange Square Central Hong Kong
Joint Bookrunners	**Essence International Securities (Hong Kong) Limited** *Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities (as defined in the SFO)* 39th Floor One Exchange Square Central Hong Kong
	Solomon JFZ (Asia) Holdings Limited *Licensed corporation under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 9 (Asset Management) regulated activities (as defined in the SFO)* 19A, 19/F, Eton Building 288 Des Voeux Road Central Central Hong Kong
Joint Lead Managers	**Essence International Securities (Hong Kong) Limited** *Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities (as defined in the SFO)* 39th Floor One Exchange Square Central Hong Kong

Solomon JFZ (Asia) Holdings Limited
Licensed corporation under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 9 (Asset Management) regulated activities (as defined in the SFO)
19A, 19/F, Eton Building
288 Des Voeux Road Central
Central
Hong Kong

Global Group Securities Limited
Licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities (as defined in the SFO)
17th Floor
33 Des Voeux Road Central
Central
Hong Kong

Nobleseed Securities Limited
Licensed corporation under the SFO to carry on type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities (as defined in the SFO)
Unit 802-7, 8th Floor, Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

Legal Advisers to the Company

As to Hong Kong Law
K&L Gates
Solicitors, Hong Kong
44th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC Law
Beijing Merits & Tree Law Offices (Shanghai)
PRC, attorney-at-laws
Unit 1801, Raffles City Changning Office Tower 1
No. 1133, Changning Road
Changning District
Shanghai
PRC

As to Cayman Islands Law
Appleby
Cayman Islands, attorney-at-laws
2206-19 Jardine House
1 Connaught Place
Central
Hong Kong

	As to International Sanctions law **Hogan Lovells** *Solicitors, Hong Kong* 11th Floor One Pacific Place 88 Queensway Hong Kong
Legal Advisers to the Sole Sponsor and the Underwriters	*As to Hong Kong law* **Reynolds Porter Chamberlain** *Solicitors, Hong Kong* 3802-06, 38/F, One Taikoo Place 979 King's Road Quarry Bay Hong Kong
	As to PRC law **Tian Yuan Law Firm** *PRC, attorney-at-laws* 10th Floor, China Pacific Insurance Plaza B 28 Fengsheng Lane, Xicheng District Beijing PRC
Auditors and Reporting Accountants	**Deloitte Touche Tohmatsu** *Certified Public Accountants* 35/F, One Pacific Place 88 Queensway Hong Kong
Industry Consultant	**Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.** 1018, Tower B, 500 Yunjin Road, Shanghai, 200232 PRC
Property Valuer	**Jones Lang LaSalle Corporate Appraisal and Advisory Limited** 7th Floor, One Taikoo Place 979 King's Road Hong Kong
Receiving bank	**Bank of China (Hong Kong) Limited** 1 Garden Road Hong Kong

Registered office	Suite #4-210, Governors Square 23 Lime Tree Bay Avenue PO Box 32311 Grand Cayman KY1-1209 Cayman Islands
Headquarters and principal place of business in the PRC	Benjiaji, Northern Suburb Haian City Jiangsu Province PRC
Principal place of business in Hong Kong	Room 1901, 19/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Company's website	http://pengfei.com.cn/ *(content on the website does not form part of this document)*
Company secretary	Ms. Chau Hing Ling (周慶齡) *(LLM, FCIS, FCS)* 19/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Authorized representatives	Mr. Ben Daolin (賁道林) Room 501, Unit 2, Block 4 No. 88 Zhongba Nanlu, Haian Town Haian Country, Jiangsu Province, PRC Ms. Chau Hing Ling (周慶齡) 19/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Audit committee	Mr. Mak Hing Keung, Thomas (麥興強) (Chairman) Mr. Ding Zaiguo (丁再國) Ms. Zhang Lanrong (張嵐嶸)
Remuneration committee	Mr. Ding Zaiguo (丁再國) (Chairman) Mr. Dai Xianru (戴賢如) Ms. Zhang Lanrong (張嵐嶸)

Nomination committee	Mr. Wang Jiaan (王家安) (Chairman) Mr. Ding Zaiguo (丁再國) Mr. Mak Hing Keung, Thomas (麥興強) Ms. Zhang Lanrong (張嵐嶸)
Compliance adviser	Essence Corporate Finance (Hong Kong) Limited 39th Floor One Exchange Square Central Hong Kong
Principal bankers	Jiangsu Bank, Haian Branch No. 1, Changjiang Zhonglu Haian City, Jiangsu Province PRC Bank of China, Haian Branch No. 18, Changjiang Zhonglu Haian City, Jiangsu Province PRC
Principal Share Registrar and Transfer Office	Estera Trust (Cayman) Limited P.O. Box 1350 Clifton House 75 Fort Street Grand Cayman KYI-1108 Cayman Islands
Hong Kong Branch Share Registrar and Transfer Office	Tricor Investor Services Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong

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 Frost & Sullivan, 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 Sponsor or any of our or their respective directors, officers or representatives or any other person involved in the Share Offer nor is any representation given as to its accuracy or completeness. The information and statistics contained in this section may not be consistent with other information and statistics compiled within or outside of China.

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on global and the PRC's rotary kiln, grinding equipment and their related equipment market. A total fee of RMB400,000 was paid to Frost & Sullivan for the preparation of the report, which we believe that it would not affect the fairness of the views and conclusions presented in the F&S Report and would reflect market rates for reports of this type.

Frost & Sullivan is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists.

RESEARCH METHODOLOGY

The F&S Report was undertaken through both primary and secondary research obtained from various sources using intelligence collection methodologies. Primary research involved discussing the status of the industry with certain leading industry participants across the industry value chain and conducting interviews with relevant parties to obtain objective and factual data and prospective predictions. Secondary research involved reviewing information integration of data and publication from publicly available sources, including official data and announcements from government agencies, and company reports, independent research reports and data based on Frost & Sullivan's own data base.

Basis and assumptions

In compiling and preparing the F&S Report, Frost & Sullivan has adopted the following assumptions (i) the social, economic and political environment in the world and the PRC is likely to remain stable in the forecast period; and (ii) industry key drivers are likely to drive the rotary kiln, grinding equipment and their related equipment market in the global and the PRC's market in the forecast period.

THE MACROECONOMIC ENVIRONMENT AFFECTING THE GLOBAL AND CHINA'S ROTARY KILN, GRINDING EQUIPMENT AND THEIR RELATED EQUIPMENT MARKET

Driven by a series of economic stimulus policies adopted by the Chinese government, including the Four-Trillion-Yuan Economic Stimulus Package and the Revitalization Plans of Ten Key Industries, the PRC's GDP grew rapidly from RMB59.3 trillion in 2013 to RMB90.0 trillion in 2018, representing a CAGR of approximately 8.7%. Moving forward, with the continuous and restricted control on maintaining high-quality added value of economic development by Chinese government, the PRC's nominal GDP is expected to sustain a long-term and healthy growth from RMB98.2 trillion in 2019 to RMB131.5 trillion in 2023, illustrating a CAGR of approximately 7.6%, according to the F&S Report.

In 2013, the "Belt and Road" Initiative is a development strategy proposed by the Chinese government that consists of two major parts which are silk road economic belt and 21st century maritime silk road. The initiative not only helps Chinese enterprises to explore broader overseas market, but also aims to achieve the integration and cooperation of international production capacity and support the common prosperity with other developing countries in the world. With the development of "Belt and Road" programme, Chinese enterprises have conducted more than 7,000 foreign contracted projects along the silk road economic belt, especially from Africa, the Middle East, Southeast Asia and Central Asia. Most emerging markets along the route have huge demands for infrastructure construction such as railways and urbanisation construction, which requires great needs for the construction raw materials such as cement and lime and thus brings broader overseas markets to the PRC's industrial raw material production enterprises and industrial raw material production equipment manufacturers.

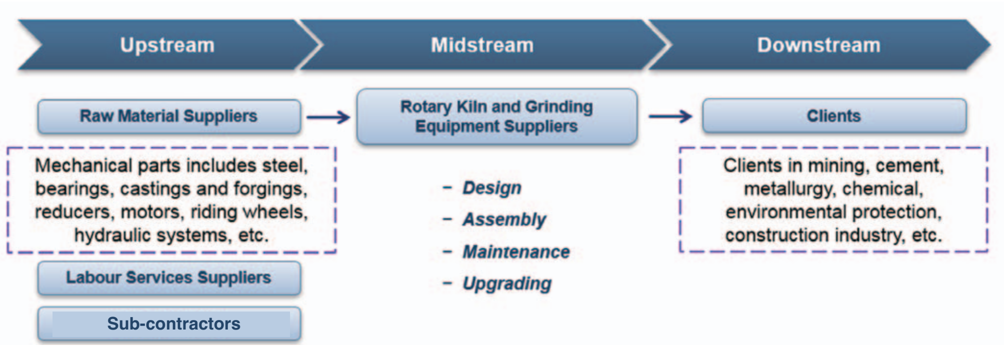
OVERVIEW OF THE GLOBAL AND CHINA'S ROTARY KILN, GRINDING EQUIPMENT AND THEIR RELATED EQUIPMENTS MARKET

Definition and classification

Rotary kiln is a heavy-duty pyroprocessing machine mainly designed for executing construction tasks, which is one of the core components in production line for manufacturing industrial raw materials. Rotary kiln is a pyroprocessing machine that has been widely used in different industries to calcine, sinter or roast materials, such as cement and ore, in a continuous process. The equipment of rotary kiln system for pyroprocessing includes rotary kilns, dryers, preheaters, coolers, ancillary machinery and related parts and components. Rotary kilns and their related equipment are one of the core components in the production line for manufacturing industrial raw materials, which has been widely used in various industries, such as construction industry, metallurgy industry, chemical industry and environmental protection industry. Rotary kilns and their related equipment market is classified by four major types of rotary kiln, they are cement rotary kiln, metallurgical rotary kiln, chemical rotary kiln and environmental protection rotary kiln. Cement rotary kiln is mainly utilised in construction industry to sinter cement clinker while lime rotary kiln is used to roast active lime and dolomite in steel plant and ferroalloy factory. Metallurgical rotary kiln is mainly used in metallurgy industry to magnetize and roast iron ore in iron and steel factories of metallurgy industry. Chemical rotary kiln is used in chemical industry to roast minerals such as aluminium hydroxide and chrome ore, as well as coal-to-oil, coal dry distillation, shale oil extraction and so on. Environmental protection rotary kiln is used as a pyrolysis furnace in environmental protection industry to deal with solid wastes and hazardous wastes for the coordinated disposal of sludge and garbage.

Grinding equipment and their related equipment are used for grinding small particle materials into necessary fineness of powder materials with high accuracy of shape and dimension by frictional and impact force, which includes roller presses, vertical mills, tube mills, separators and related parts and components. Grinding equipment and their related equipment is one of the core components in the production line for manufacturing industrial raw materials, which has been widely used in various industries, such as mining industry and chemical industry. Grinding equipment is classified by three major types of grinding equipment, namely roller presses, tube mills and vertical mills. Roller presses are designed according to the principle of grinding material beds, which is constituted by two pressing rolls that rotate in opposite direction for grinding diverse materials. Tube mills are equipped with a certain number of different grades of steel balls as grinding medium in its cylinder, which is used for grinding various ores and other grindable materials. Vertical mills are one of the key grinding equipment that integrates drying, grinding and powder selection, which is characterised by low power consumption, high availability and flexibility to grind diverse materials.

Value chain analysis of the rotary kiln, grinding equipment and their related equipment market



Source: F&S Report

There are mainly three types of upstream suppliers in the rotary kiln, grinding equipment and their related equipment market which are raw material suppliers, sub-contractors and labour service suppliers. Raw material suppliers provide mechanical parts such as steel, castings and forgings, reducers, motors, hydraulic systems that are important core components in the production of rotary kiln, grinding equipment and their related equipment. Sub-contractors perform specific tasks as part of the overall project. Labour service suppliers can provide technical staff that help midstream enterprises to better design, assembly, maintenance and upgrading the rotary kiln, grinding equipment and their related equipment. The downstream clients are in different industries that include construction and building materials, metallurgy, chemical, environmental protection and others.

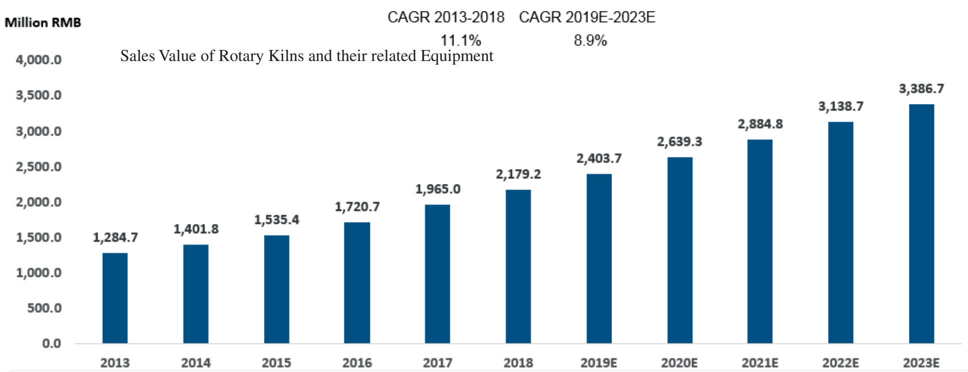
Over the past few years, caused by the factors such as the overcapacity in the downstream market, the building materials industry in the PRC suffered from low growth and demand domestically. For example, the turnover of building material markets in the PRC only increased slightly from RMB195.8 billion in 2014 to RMB196.2 billion in 2017. Also, cement as one of the typical building materials, the production volume of cement in the PRC decreased slightly from 2.49 billion tonnes in 2014 to 2.21 billion tonnes in 2018. Looking forward, with the steady growth of the PRC's economy, increasing urbanisation rate and the further development of the construction industry, the demand for building materials industry is expected to increase gradually in the next few years. By contrast, many non-building materials industries such as chemical and environmental protection industry in the PRC developed fast over the past few years. Specifically, with regards to the chemical industry, the turnover of chemical materials and products markets in the PRC increased from RMB309.7 billion in 2014 to RMB384.6 billion in 2017, representing a CAGR of 7.5%. In terms of environmental protection industry, the volume of wastes disposed by incineration in the PRC increased rapidly from 53.3 million tonnes in 2014 to 84.6 million tonnes in 2017 with a CAGR of 16.6%, while the treatment capacity for wastes treatment by incineration grew significantly from 186.0 thousand tonnes per day in 2014 to 298.1 thousand tonnes per day in 2017 with a CAGR of 17.0%. Moving forward, the advanced manufacturing technologies such as pyrolysis technology will allow rotary kilns, grinding equipment and their related equipment to be widely and effectively used in many non-building materials industries for fulfilling the increasing demands. Along with the continuous government support for some non-building materials industries such as environmental protection industry, the market demand for non-building materials industries in general will be fuelled further in the next few years.

Market size by value of rotary kilns and their related equipment market in the PRC

With the widening application of rotary kiln and their related equipment in various industries and the increased demand from infrastructure and building constructions in overseas equipment markets, the rotary kilns and their related equipment market grew over the past few years. The market size by sales value of rotary kilns and their related equipment market in the PRC grew from RMB1,284.7 million in 2013 to RMB2,179.2 million in 2018, representing a CAGR of 11.1%. Moving forward, driven by the higher standard for environmental protection and energy conversation, the demand on updating rotary kilns and their related equipment is expected to increase and the more advanced and environmentally-friendly technologies applied in rotary kilns and their related equipment is most likely to increase average selling price. Combined with the rising overseas demand under the "Belt and Road" Initiative, the rotary kilns and their related equipment market is likely to develop further. The market size by sales value of rotary kilns and their related equipment market in the PRC will expand further. The market is expected to achieve RMB2,403.7 million in 2019 and increase to RMB3,386.7 million in 2023, representing a CAGR of 8.9%. In which, the market size by sales value of the rotary kilns and their related equipment from the non-building materials industries in the PRC was RMB1,634.4 million in 2018 and expected to reach RMB2,651.8 million in 2023, representing a CAGR of 10.2%; and the market size by sales value of the rotary kilns and their related equipment from the non-building materials industries in overseas market was RMB1,069.4 million in 2018 and expected to reach RMB1,823.4 million in 2023, representing a CAGR of 11.3%. Furthermore, the market size by sales value of the rotary kilns and their related equipment from the building materials industries in the PRC and overseas market increased from RMB377.7 million and RMB193.3 million respectively in 2013 to RMB544.8 million and RMB356.5 million respectively in 2018, representing

CAGRs of 7.6% and 12.1% respectively; and the market size by sales value for the PRC and overseas market are expected to reach RMB734.9 million and RMB611.0 million respectively in 2023, representing CAGRs of 6.1% and 11.1% respectively from 2019 to 2023, according to the F&S Report. The chart below sets forth the market size by sales value of rotary kilns and their related equipment market in the PRC from 2013 to 2023, in which the figures do not include the sales value of rotary kilns and their related equipment from production lines, as production lines involve different categories of equipment, the sales value of which is difficult to obtain:

Market Size by Sales Volume and Value of Rotary Kilns and Their Related Equipment Market in the PRC, 2013-2023E

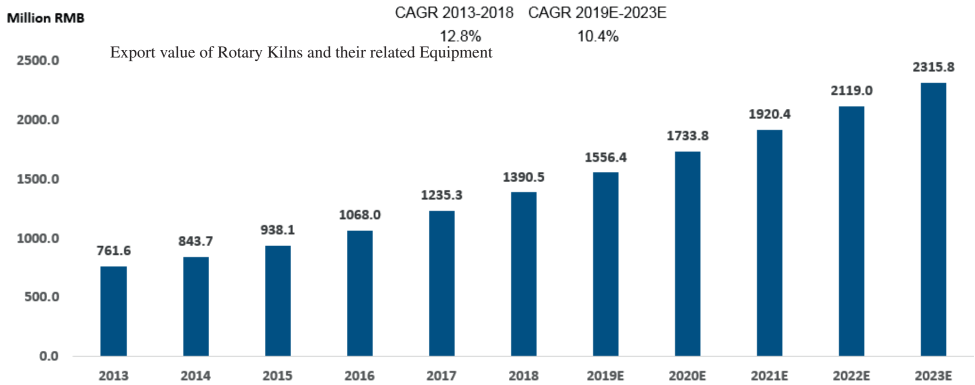


Source: F&S Report

Note: The sales value of rotary kilns and their related equipment in the PRC refers to the sum of export value and domestic sales value of rotary kilns and their related equipment.

With the initiative of "Belt and Road" over the past few years, the demand for rotary kilns and their related equipment as the necessary equipment in the infrastructure and construction projects which grew rapidly in overseas markets. The export value of rotary kilns and their related equipment in the PRC increased from RMB761.6 million in 2013 to RMB1,390.5 million in 2018, representing a CAGR of 12.8%. Moving forward, with the rising overseas demand under the "Belt and Road" Initiative, the export value of rotary kilns and their related equipment is expected to achieve RMB1,556.4 million in 2019 and increase to RMB2,315.8 million in 2023, representing a CAGR of 10.4%, according to the F&S Report. The chart below sets forth the export value of rotary kilns and their related equipment market in the PRC from 2013 to 2023, in which the figures do not include the sales value of rotary kilns and their related equipment from production lines, as production lines involve different categories of equipment, the sales value of which is difficult to obtain:

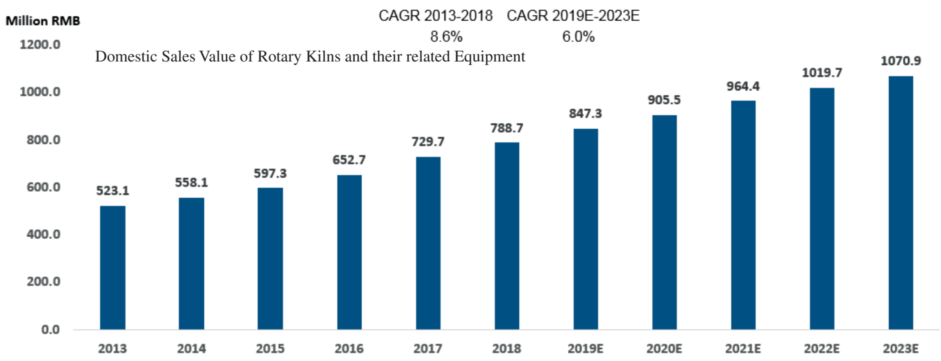
Export Value of Rotary Kilns and Their Related Equipment in the PRC, 2013-2023E



Source: F&S Report

Even though rotary kilns and their related equipment market suffered from the low growth and demand in the building materials industry domestically, the domestic sales were driven further by higher average selling price of more advanced rotary kiln products. The domestic sales value of rotary kilns and their related equipment in the PRC increased from RMB523.1 million in 2013 to RMB788.7 million in 2018, representing a CAGR of 8.6%. Moving forward, driven by the higher standard for environmental protection and energy conversation, the demand on upgrading rotary kilns and their related equipment is expected to increase and the more advanced and environmentally-friendly technologies applied in rotary kilns and their related equipment is most likely to increase average selling price. Therefore, the domestic sales value of rotary kilns and their related equipment is expected to achieve RMB847.3 million in 2019 and increase to RMB1,070.9 million in 2023, representing a CAGR of 6.0%, according to the F&S Report. The chart below sets forth the domestic sales value of rotary kiln industry and their related equipment in the PRC from 2013 to 2023, in which the figures do not include the sales value of rotary kilns and their related equipment from production lines, as production lines involve different categories of equipment, the sales value of which is difficult to obtain:

Domestic Sales Value of Rotary Kilns and Their Related Equipment in the PRC, 2013-2023E

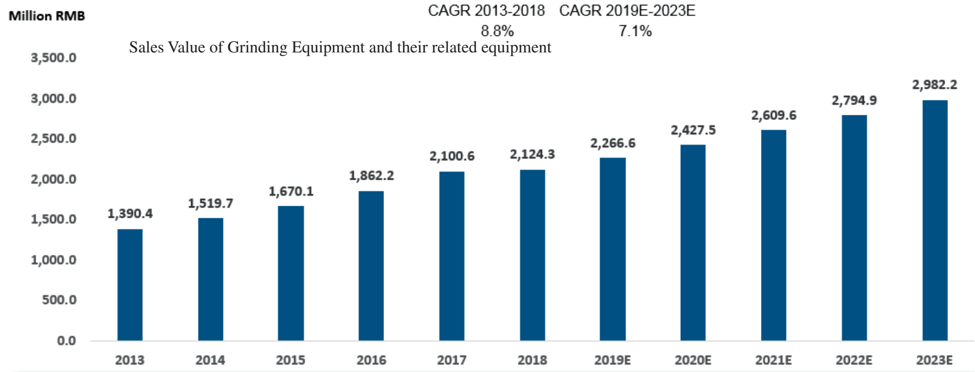


Source: F&S Report

Market size by sales value of grinding equipment and their related equipment market industry in the PRC

With the continued development of infrastructure and building construction in the PRC and overseas equipment markets, the demand for construction materials as well as the construction material producing equipment have been on a rise in recent years. The grinding equipment and their related equipment market has experienced a continued growth as well. From 2013 to 2018, the market size by sales value of grinding equipment and their related equipment increased from RMB1,390.4 million to RMB2,124.3 million, representing CAGR of 8.8%. In the coming years, the manufacturing technologies in the grinding equipment and their related equipment market is expected to be upgraded and to be applied in wider scenarios with higher average selling price, which will drive the market further. The market size by sales value of grinding equipment and their related equipment is expected to reach RMB2,982.2 million by 2023, representing a CAGR of 7.1% since 2019. In which, the market size by sales value of the grinding equipment and their related equipment from the non-building materials industries in the PRC was RMB675.5 million in 2018 and forecasted to reach RMB1,058.7 million in 2023, representing a CAGR of 9.2%. Besides, the market size by sales value of the grinding equipment and their related equipment from the non-building materials industries in overseas market was RMB445.4 million in 2018 and forecasted to reach RMB751.9 million in 2023, representing a CAGR of 11.0%. The market size by sales value of the grinding equipment and their related equipment from the building materials industries in the PRC and overseas market increased from RMB1,001.1 million and RMB618.6 million respectively in 2013 to RMB1,448.8 million and RMB955.3 million respectively in 2018, representing CAGRs of 7.7% and 9.1% respectively; and the market size by sales value for the PRC and overseas market are expected to reach RMB1,923.5 million and RMB1,576.0 million respectively in 2023, representing CAGRs of 6.0% and 9.9% respectively from 2019 to 2023, according to the F&S Report. The chart below sets forth the market size by sales value of grinding equipment and their related equipment market in the PRC from 2013 to 2023, in which the figures do not include the sales value of grinding equipment and their related equipment from production lines, as production lines involve different categories of equipment, the sales value of which is difficult to obtain:

Market Size by Sales Value of Grinding Equipment and Their Related Equipment Market in the PRC, 2013-2023E

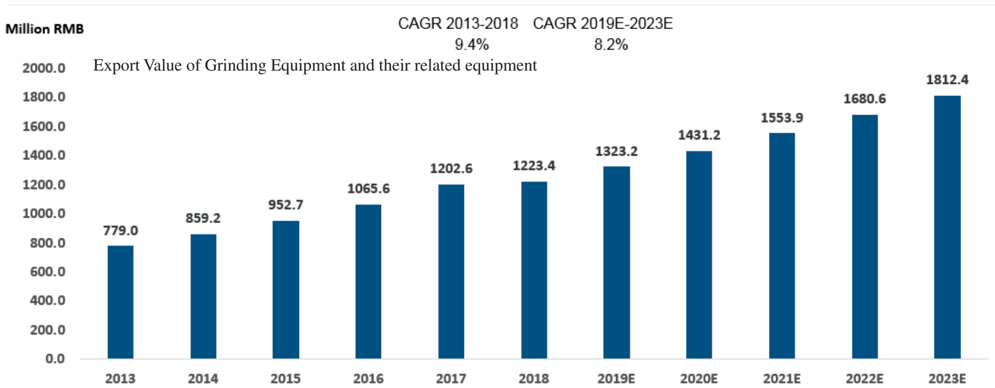


Source: F&S Report

Note: The sales value of grinding equipment and related equipment in the PRC refers to the sum of export value and domestic sales value of grinding equipment and related equipment.

Over the past few years, the initiative of "Belt and Road" has driven the demand for grinding equipment and their related equipment as the necessary equipment in the infrastructure and construction projects in overseas markets. The export value of grinding equipment and their related equipment in the PRC increased from RMB779.0 million in 2013 to RMB1,223.4 million in 2018, representing a CAGR of 9.4%. Moving forward, with the increasing overseas demand under the "Belt and Road" Initiative, the export value of grinding equipment and their related equipment is expected to reach RMB1,323.2 million in 2019 and increase to RMB1,812.4 million in 2023, representing a CAGR of 8.2%, according to the F&S Report. The chart below sets forth the export value of grinding equipment and their related equipment market in the PRC from 2013 to 2023, in which the figures do not include the sales value of grinding equipment and their related equipment from production lines, as production lines involve different categories of equipment, the sales value of which is difficult to obtain:

Export Value of Grinding Equipment and Their Related Equipment in the PRC, 2013-2023E

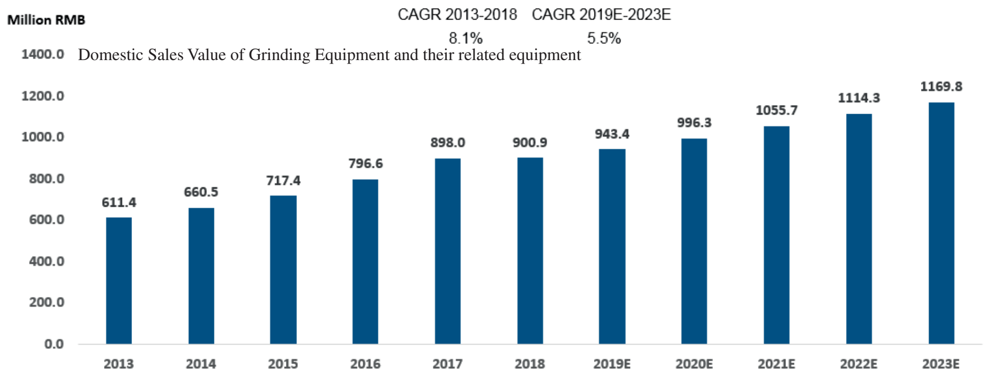


Source: F&S Report

Although the low growth and demand in the building material industry has slowed down the demand for grinding equipment and their related equipment domestically, the domestic sales were driven further by higher average selling price of more advanced grinding equipment products. The domestic sales value of grinding equipment and their related equipment in the PRC increased from RMB611.4 million in 2013 to RMB900.9 million in 2018, representing a CAGR of 8.1%. Moving forward, driven by the higher standard for environmental protection and energy conversation, the demand on updating grinding equipment and their related equipment is expected to increase and the more advanced and environmentally-friendly technologies applied in grinding equipment and their related equipment is most likely to increase average selling price. Therefore, the domestic sales value of grinding equipment and their related equipment is expected to achieve RMB943.4 million in 2019 and increase to RMB1,169.8 million in 2023, representing CAGRs of 5.5%, according to the F&S

Report. The chart below sets forth the domestic sales value of grinding equipment and their related equipment market in the PRC from 2013 to 2023, in which the figures do not include the sales value of grinding equipment and their related equipment from production lines, as production lines involve different categories of equipment, the sales value of which is difficult to obtain:

Domestic Sales Value of Grinding Equipment and Their Related Equipment in the PRC, 2013-2023E



Source: F&S Report

Market drivers and opportunities of the rotary kiln, grinding equipment and their related equipment market in the PRC

i) ***Increasing downstream demand from infrastructure and building construction***

The increasing urbanisation rate and the rapid development of construction industry in the PRC have enormously prompted the demand for building materials production and processing equipment, especially rotary kiln, grinding equipment and their related equipment over the past few years. Specifically, the rapid growth of the PRC's economy has driven the increase of urbanisation rate, which grew from 53.7% in 2013 to 59.6% in 2018, deriving amounts of demand for urban infrastructure construction. Meanwhile, completed investments in infrastructure and real estate fixed assets have experienced steady growth at CAGRs of approximately 14.5% and 6.9% from 2013 to 2018, respectively. Also, the added value of construction industry expanded from RMB4,098.7 billion in 2013 to RMB6,180.8 billion in 2018, representing a CAGR of approximately 8.6%. The rapid development of infrastructure and building construction continuously generates a growing consumption demand for a variety of building materials, especially cement, whose production volume maintained a high level at 2,216.0 million tonnes by 2018, according to the F&S Report. Rotary kiln, grinding equipment and their related equipment as the major manufacturing equipment in the cement production line that play indispensable roles in the process, and the capability and performance of rotary kiln, grinding equipment and their related equipment have been enormously improved in recent years. Moving forward, with the steady growth of the PRC's economy, increasing urbanisation rate and the further development of the construction industry, the demand for building and infrastructure construction raw materials will be expanded, and therefore the rotary kiln and their related equipment and, grinding equipment and their related equipment market will usher a promising outlook.

ii) ***Expanding application scenarios***

With the improvement and upgrade of the manufacturing technology, rotary kiln, grinding equipment and their related equipment are not only applied in the construction industry as the cement producing equipment, but also applied in broader fields, such as metallurgy, chemical, environmental protection and other industries, etc. For instance, in the course of mineral separation, rotary kiln equipment and their related equipment can be utilized to magnetize and roast lean iron ores in order to enhance the magnetism of the mineral ore and facilitate the magnetic separation procedure. Moreover, in the aspect of environmental protection and energy-saving, rotary kiln has been used to burn hazardous wastes and garbage for better dispose and recycle wastes. Meanwhile, in order to promote the application of cement kiln in waste treatment, the Ministry of Ecology and Environment of the People's Republic of China has promulgated the "Technical Policy for Prevention and Control of Waste Pollution in Cement Kiln Co-processing" (《水泥窰協同處置廢物污染防治技術政策》) in 2016 to encourage the adoption of the technology for co-processing of solid wastes in cement kiln which has been widely used in some developed countries. Furthermore, in the chemical industry, rotary kiln, grinding equipment and their related equipment have been used to produce chemical materials such as soda, calcined phosphatic fertilizer and barium sulfide with lower energy consumption and higher output. In the coming years, rotary kiln, grinding equipment and their related equipment will be more widely applied in metallurgy, chemical, environmental protection and other industries and will eventually promote the expansion of the market for rotary kiln, grinding equipment and their related equipment.

iii) ***Growing overseas demand under the "Belt and Road" Initiative***

In 2013, the PRC launched the "Belt and Road" initiative to promote the establishment of regional and even global "community of interests" and encourage domestic enterprises to participate in overseas infrastructure and construction projects. From 2015 to 2018, through strengthening the integration and cooperation of international production capacity and co-constructing international cooperative zones, the number of the project contracts awarded by Chinese enterprises in the foreign countries alongside the "Belt and Road" increased from 3,987 to 7,721; the value of new contracts increased from USD92.6 billion to approximately USD156.4 billion. The rapid development of infrastructure construction projects, such as railway and highway projects and hydropower projects, that have generated significant demand for construction materials such as cement and lime as well as construction materials producing equipment such as rotary kiln, grinding equipment and their related equipment. In the next few years, with the continuous development of construction engineering projects under the "Belt and Road" Initiative and the extensive and deep cooperation with foreign countries, it will bring broader overseas markets to the PRC's industrial raw material production enterprises and industrial raw material production equipment manufacturers.

iv) ***One-stop production line solutions***

With the businesses of the customers from various industries (especially building materials, metallurgy, chemical and environmental protection) becoming increasingly diversified and extensive, the demand for engineering, procurement and construction (EPC) service is growing in recent years. The one-stop production line solutions in the building materials, metallurgy, chemical and environmental protection industries are full packages (entirely served by one contractor or served by one contractor and its appointed subcontractors) which contain consultancy services of plant and production designs tailored to the clients' business, the supply of necessary equipment or machineries for the production process (such as rotary kiln, grinding equipment, cooling equipment and other supporting and ancillary equipment), installation and debugging services of the equipment, constant repairs and maintenance services, etc. EPC contacting model not only enables higher flexibility and efficacy for the customers as they just need to deal with one main contractor who could offer best planning based on their specific demands, reduce their costs but also help the EPC providers to better understand and adhere to the clients' businesses, which might generate potential opportunities from the clients' future business expansion. The one-stop production line solution business model would receive more demand and awareness not only in the PRC together with the urbanisation trend, but also in more overseas markets (especially the "Belt and Road" related countries and regions) which concern significant amounts of infrastructure projects. However, the provision of EPC service in production lines requires enterprises to have strong industrial integration capabilities, technical capabilities, industrial chain resources and capital capabilities, which indicates that it is difficult for most of new market entrants.

Entry barriers for the rotary kiln, grinding equipment and their related equipment market in the PRC

i) ***Technical barrier***

While the country is vigorously promoting the upgrading and transformation of the construction and building materials industry, the rotary kiln, grinding equipment and their related equipment market is also facing the same technical transformation. Performance features for environmental protection, energy saving and large-scale production all require advanced technologies. Due to the lack of development experience, new entrants will have difficulties to grasp the market trend and upgrade their technologies accordingly. Therefore, the PRC's rotary kiln, grinding equipment and their related equipment market has a high technical barrier.

ii) ***Regulatory barrier***

Currently, the PRC has issued higher standards and entry requirements for new entrants entering the cement production industry. In 2016, the General Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) and the Standardization Administration of the People's Republic of China (國家標準化管理委員會) announced "Rotary kiln for cement industry" (《水泥工業用回轉窰》), which illustrated stricter requirements including required models, basic parameters, test methods, inspection rules, packaging, transportation and storage for rotary kiln used by cement enterprises. Also, the General Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) and the Ministry of Ecology and Environment of People's Republic of China (中華人民共和國生態環境部) issued "Emission standard of air pollutants for cement industry" (《水泥工業大氣污染物排放標準》) in 2014. This standard stipulates the ceiling value for the emission of air pollutants and requirements on monitoring and supervision of cement manufacturing enterprises (including independent grinding station), mines of raw material for cement, bulk cement transfer station as well as cement product manufacturing enterprises and their production facilities. Therefore, the stricter requirements and standards constitute a higher regulatory barrier for new entrants to enter the market.

iii) ***Capital barrier***

The rotary kiln, grinding equipment and their related equipment market is capital-intensive industries. It often requires enterprises to have capital strengths for fixed asset investment and construction in the initial stage of the operation. For the production of large-scale rotary kiln, grinding equipment and their related equipment, enterprises are expected to invest more in plants, manpower and other resources. It is difficult for those new entrants who do not have sufficient capital to support the maintenance of the equipment production line. Therefore, the rotary kiln, grinding equipment and their related equipment market has certain capital barriers.

Market challenges of the rotary kiln, grinding equipment and their related equipment market in the PRC

i) ***Overcapacity in the downstream market***

Over the past few years, the overcapacity of some buildings and infrastructure construction raw materials has been an issue that need to be dealt with in the PRC. The implementation of the document "2016 Guiding Opinions" (《關於促進建材工業穩增長調結構增效益的指導意見》) has strictly forbidden any entity to file and start any new construction projects that will expand production capacity of cement by the end of 2020. The implementation of this policy enormously promoted joint restructuring of cement production enterprises as well as the merger and reorganisation between advantageous enterprises for the sustainable development of this industry, while it caused a number of cement production enterprises with backward production capacity to close down. Consequently, although the production volume of cement in the PRC decreased from 2,331 million tonnes in 2017 to 2,210 million tonnes in 2018 at a rate of approximately -5.2%, the average price of cement in the PRC grew from RMB348 per tonne to RMB431 per tonne in 2018. Therefore, since the cement production enterprises in the downstream market are required to utilise cement rotary kiln, grinding equipment and their related equipment with advanced production capacity, those rotary kiln, grinding equipment and their related equipment suppliers who are unable to manufacture cement producing equipment with advanced production capacity will be difficult to survive in the market.

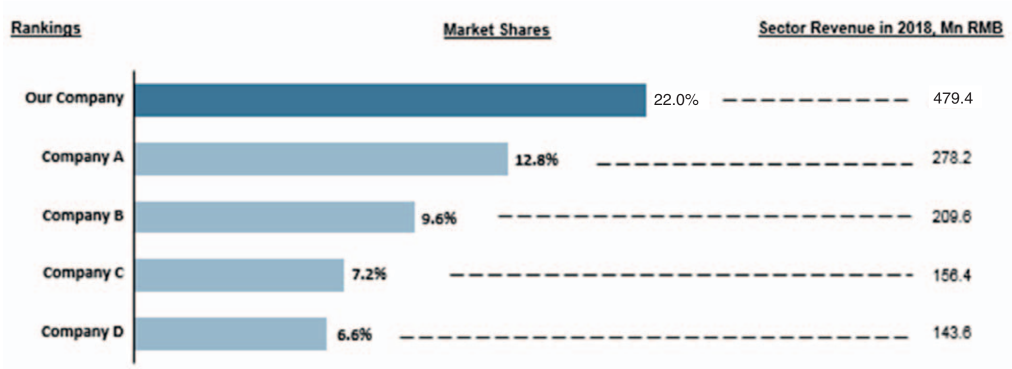
ii) ***Stringent regulatory environment***

The rotary kiln, grinding equipment and their related equipment market has been developing towards the direction of environment-protecting and energy-saving with increasingly stricter requirements from the government. Issued in 2014, "Standard for Pollution Control on Co-Processing of Solid Wastes in Cement Kiln" (《水泥窰協同處置固體廢物污染控制標準》) and "Emission Standard of Air Pollutants for Cement Industry" (《水泥工業大氣污染物排放標準》) have made stricter regulations on the discharge of pollutants in the cement industry in the PRC, which aims to encourage more cement production enterprises to raise the standards for the rotary kiln and their related equipment and, grinding equipment and their related equipment. The stricter environmental standards also force such suppliers to eliminate the backward production capacity, which requires large amounts of investment on upgrading equipment with higher costs. In other words, those suppliers which fail to have sufficient capital or technical capabilities will be difficult to survive in the market.

COMPETITIVE LANDSCAPE ANALYSIS

According to the F&S Report, the rotary kilns and their related equipment market in the PRC was concentrated with the top five players accounting for 58.1% of the market share in 2018 and there were over 500 players in the rotary kiln and their related equipment market in the PRC. The market was led by our Company which occupied 22.0% of the total market share, followed by Company A and Company B which constituted 12.8% and 9.6%, respectively. Company C and Company D ranked as the fourth and fifth largest players in the rotary kiln and their related equipment market in the PRC with a market share of 7.2% and 6.6%, respectively in terms of revenue in 2018. The chart below sets forth the top 5 manufacturers by revenue in the PRC's rotary kiln and their related equipment market in 2018:

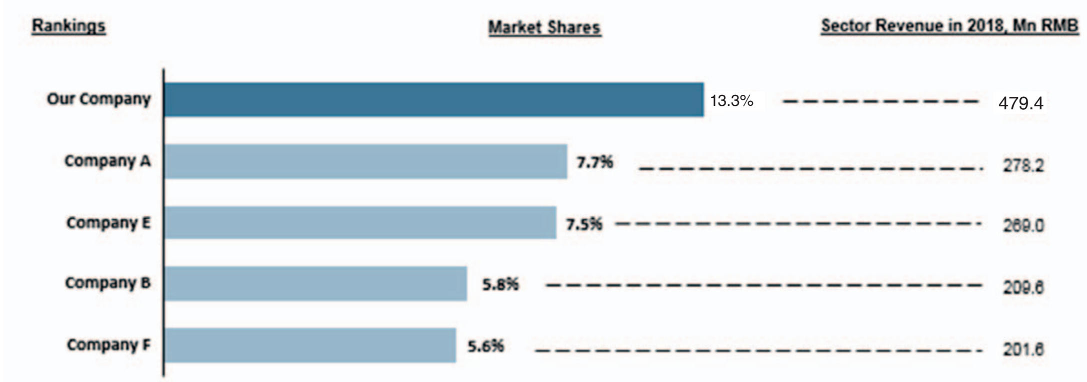
TOP 5 Manufacturers by Revenue in the PRC's Rotary Kiln and Their Related Equipment Market, 2018



Source: F&S Report

In 2018, the market size by revenue of rotary kiln and their related equipment market in the world was RMB3,605.0 million, with the top five players taking up approximately 39.9% of the overall market and there were over 1000 players in the rotary kiln and their related equipment market in the world. Our Company ranked the first and accounted for approximately 13.3% of the global market, followed by Company A with 7.7%. Company E constituted 7.5% and ranked the 3rd. Company B and Company F made up 5.8% and 5.6%, ranking the 4th and 5th, respectively. The chart below sets forth the top 5 manufacturers by revenue in the global rotary kiln and their related equipment market in 2018:

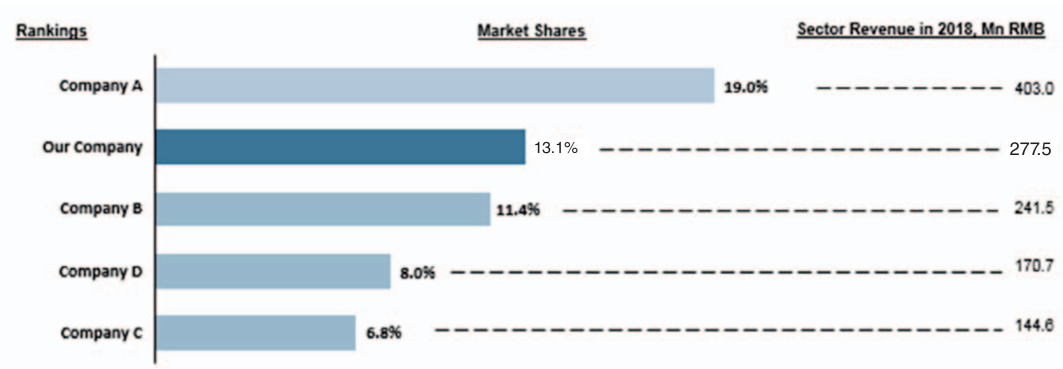
TOP 5 Manufacturers by Revenue in Global Rotary Kiln and Their Related Equipment Market, 2018



Source: F&S Report

Also, our Company ranked as the second largest company by revenue in the PRC's grinding equipment and their related equipment market in 2018, with a market share of 13.1% in terms of revenue in 2018. According to the F&S Report, the grinding equipment and their related equipment market in the PRC was concentrated with the top 5 players accounting for approximately 58.3% of the market share and there were over 500 players in the PRC's grinding equipment and their related equipment market in 2018. The chart below sets forth the top 5 manufacturers by revenue in the PRC's grinding equipment and their related equipment market in 2018:

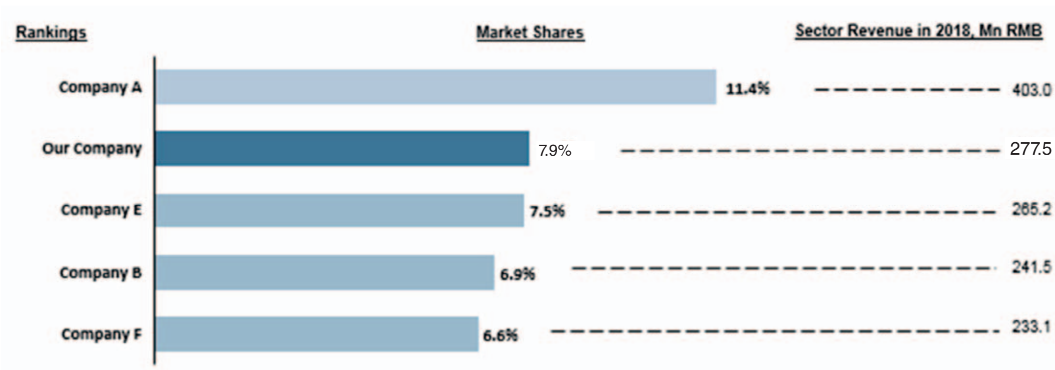
TOP 5 Manufacturers by Revenue in the PRC's Grinding Equipment and Their Related Equipment Market, 2018



Source: F&S Report

In 2018, the market size by revenue of grinding equipment and their related equipment market in the world was RMB3,525.0 million, with the top five players taking up approximately 40.3% of the overall market and there were over 1200 players in the grinding equipment and their related equipment market in the world. Company A ranked the first and accounted for approximately 11.4% of the global market, followed by our Company which ranked the second representing 7.9% of the global market. Company E constituted 7.5% and ranked the 3rd. Company B and Company F made up 6.9% and 6.6%, ranked the 4th and 5th, respectively. The chart below sets forth the top 5 manufacturers by revenue in global grinding equipment and their related equipment market in 2018:

TOP 5 Manufacturers by Revenue in Global Grinding Equipment and Their Related Equipment Market, 2018



Source: F&S Report

Company Profile

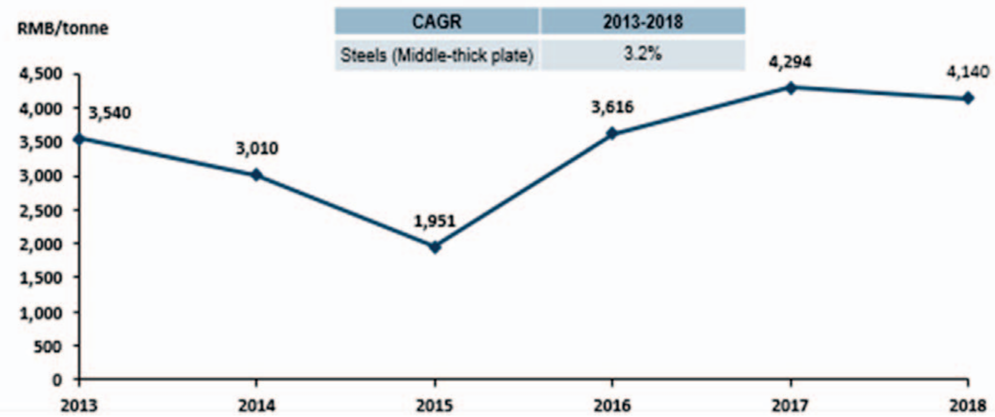
Company A	This company is the largest mining machinery manufacturer and one of the largest heavy machinery manufacturers in China that engages in the development, research and sales of large-scale equipment, large-scale complete sets of technical equipment and large-scale castings and forgings in the fields of building materials, mining, metallurgy, electric power and energy conservation, and provide related supporting services and overall solutions.
Company B	This company is a China-based company principally engaged in the equipment manufacturing business. The company's principal business includes the manufacture and installation of mechanical equipment and spare parts, electrical equipment and spare parts, as well as the civil installation and maintenance engineering business. The Company's main products include vertical mills, rotary kilns, ball mills, grate coolers and other cement machinery equipment and spare parts.
Company C	This company is based in China that mainly provides complete equipment of new type dry process rotary kiln for cement plants, and hosting products for power industry, metallurgy industry, waste incineration industry, etc. as well as overall contract projects.
Company D	This company is based in China that mainly manufactures cement equipment. The company produces tube mill, rotary kiln, vertical mill, stacker and reclaimer, grate cooler, dust collector, cement cooler, roller press, and preheater.
Company E	This company is a Denmark-based leading supplier of equipment and services to the global cement and minerals industries. The company supplies everything from single machinery to complete cement plants and minerals processing facilities including services before, during and after the construction.
Company F	This company is a world-leading industrial company offering equipment and services for the sustainable processing and flow of natural resources in the mining, aggregates, recycling and process industries based in Finland.

KEY COST COMPONENTS

Raw Materials

Market price of Steels (Middle-thick plate) in the PRC from 2013 to 2018

Major raw materials	Unit	Average annual price (RMB)					
		2013	2014	2015	2016	2017	2018
Steels (Middle-thick plate)	tonne	3,540	3,010	1,951	3,616	4,294	4,140



Source: F&S Report

The major raw materials to rotary kiln and their related equipment and, grinding equipment and their related equipment manufacturers include Middle-thick plates (one type of steel materials), the market price of Middle-thick plates in the PRC has experienced a fluctuation over the past six years. From 2013 to 2015, the average annual price of middle-thick plates continued to decline in the context of a weak global economic recovery and a slowdown in the PRC's economic growth, which dropped from RMB3,540 per tonne in 2013 to RMB1,951 per tonne in 2015. However, the rebound in global economy and the PRC's economic growth in 2016 drove huge demands for middle-thick as one of the main raw materials in construction industry, the average price of middle-thick plates increased rapidly by RMB1,665 per tonne from 2015 to 2016 and reached RMB4,140 per tonne in 2017, representing a CAGR of 3.2% from 2013 to 2018. In the near future, the average price of middle-thick plates is expected to remain stable along with a steady growth of the global economy. Meanwhile, other principal raw materials include casting and forgings and principal parts and components include motors, reducers and bearings in rotary kiln and their related equipment and, grinding equipment and their related equipment market, which are also mainly or partially made of steel materials, particularly Middle-thick plates. Therefore, a change in steel prices has significantly impacted on raw material costs in rotary kiln and their related equipment and grinding equipment and their related equipment market.

PRC REGULATIONS

Our business operations are primarily in the PRC and primarily subject to PRC laws and regulations. The following is a summary of the most material PRC laws and regulations relevant to our business and operations.

LAWS AND REGULATIONS RELATING TO FOREIGN DIRECT INVESTMENT IN PRC

Company Law

The Company Law of PRC* (中華人民共和國公司法) (the "**Company Law**") was promulgated by the Standing Committee of National People's Congress (the "**SCNPC**") on 29 December 1993, which became effective on 1 July 1994, and was subsequently revised on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and on 26 October 2018. Limited liability companies and stock limited companies established in China shall be subject to the Company Law. Foreign-invested companies are also subject to the Company Law, except as otherwise provided in the foreign investment laws including the law of the PRC on the Wholly Foreign-owned Enterprise* (中華人民共和國外資企業法) (the "**WFOE Law**").

Foreign Investment Enterprise Law

On 12 April 1986, the 4th Session of the Sixth National People's Congress (the "**NPC**") adopted the WFOE Law, which was amended on 31 October 2000 and 3 September 2016. In addition, the Implementation Details for the Wholly Foreign-owned Enterprise Law of PRC* (中華人民共和國外資企業法實施細則) (the "**Implementation Details for the WFOE Law**") was promulgated and implemented on 12 December 1990 and subsequently revised on 12 April 2001 and 19 February 2014.

According to the WFOE Law and the Implementation Details for the WFOE Law, Wholly Foreign-owned Enterprises (i) are legal entities and capable of undertaking civil responsibilities, and have civil rights and the right to independently own, use and sell the property; and (ii) shall conform to stipulations concerning the registered capital (including that the registered capital shall be paid by the foreign investors, with the amount agreed by foreign investor to pay as the upper limit), foreign exchange management, accounting, taxation, employment and other matters.

On 3 September 2016, the Decisions of the SCNPC on Revising Four Laws Including the Law of the PRC on Wholly Foreign-owned Enterprises* (全國人民代表大會常務委員會關於修改<中華人民共和國外資企業法>等四部法律的決定) (the "**Decisions on Revision of Four Laws**") was promulgated and took effect on 1 October 2016. The Decisions on Revision of Four Laws revised relevant administrative approval provisions of the WFOE Law, the Law of the PRC on Chinese-Foreign Equity Joint Ventures* (中華人民共和國中外合資經營企業法), the Law of the PRC on Chinese-Foreign Contractual Joint Ventures* (中華人民共和國中外合作經營企業法) and the Law of the PRC on the Protection of Investments by Taiwan Compatriots* (中華人民共和國臺灣同胞投資保護法), and modifies relevant articles for administrative approval to change "foreign-invested companies beyond the special management measures enacted by the country shall be established upon approval" into "foreign-invested companies beyond the special management measures enacted by the country shall be established upon filing for management".

The Ministry of Commerce of PRC (the "**MOFCOM**") promulgated on 8 October 2016 and revised on 30 July 2017 and 29 June 2018, respectively, the Provisional Methods for Filing Management for Establishment and Changing of Foreign-invested Companies* (外商投資企業設立及變更備案管理暫行辦法) (the "**Provisional Methods for Filing Management**"). According to the Provisional Methods for Filing Management, for changes to foreign-funded investor companies beyond the access to special management measures stipulated by the county, representatives or entrusted agents appointed by the foreign-funded investors companies shall fill in and submit online the Application for Filing of Changes of Foreign-funded Investor Companies and relevant documents through the integrated management system to transact the procedures for change filing within 30 days upon the occurrence of the changes.

The Foreign Investment Law of the PRC* (中華人民共和國外商投資法) (the "**Foreign Investment Law**") was adopted by the NPC on 15 March 2019, which shall come into force as of 1 January 2020, if enacted, will replace the WFOE Law, the Law of the PRC on Chinese-Foreign Equity Joint Ventures and the Law of the PRC on Chinese-Foreign Contractual Joint Ventures to become the legal foundation for foreign investment in the PRC. Under the Foreign Investment Law, the State shall implement the management systems of pre-establishment national treatment and negative list for foreign investment, according to which the treatment given to foreign investors and their investments during the investment access stage shall be not lower than that given to their domestic counterparts, and the State shall give national treatment to foreign investment beyond the negative list where special administrative measures for the access of foreign investment in specific fields is specified. Besides, the State shall protect foreign investors' investment, earnings and other legitimate rights and interests within the territory of the PRC in accordance with the law. The State will take measures to prompt foreign investment such as ensuring fair competition for foreign-invested enterprises to participate in government procurement activities, and protection of intellectual property rights of foreign investors and foreign-invested enterprises. In respect of administration of foreign investment, foreign investment shall go through relevant verification and record-filing formalities if required by relevant state laws and regulations. The organisation form, institutional framework and standard of conduct of a foreign-funded enterprise shall be subject to the provisions of the Company Law or the Partnership Enterprise Law of the PRC* (中華人民共和國合夥企業法), if applicable.

Catalogue for the Guidance of Foreign Investment Industries

Investments in the PRC by foreign investors are regulated by the Catalogue of Industries for Encouraging Foreign Investment (2019 Version)* (鼓勵外商投資產業目錄 (2019年版)) (the "**Encouraging Foreign Investment Catalogue 2019**") and Special Administrative Measures for the Admission of Foreign Investment (Negative List) (2018 Edition)* (外商投資准入特別管理措施(負面清單) (2019年版)) (the "**Negative List 2019**") were both promulgated by the MOFCOM and the National Development and Reform Commission (the "**NDRC**") on 30 June 2019 and became effective on 30 July 2019. According to the Encouraging Foreign Investment Catalogue 2019 and the Negative List 2019, the industry in which our PRC subsidiaries are primarily engaged does not fall into the category of restricted or prohibited industries.

Laws and Regulations relating to Equipment Manufacturing Industry

In accordance with the Circular Economy Promotion Law of the PRC* (中華人民共和國循環經濟促進法), promulgated on 29 August 2008 and recently amended on 26 October 2018, the State Council and the people's governments of provinces, districts and municipalities shall set up funds designated for promoting circular economy to support the scientific and technical research and development regarding circular economy, demonstration and promotion of technologies and products regarding circular economy, the implement of major circular economy projects, development of information service for circular economy. The State shall give tax preferences for industrial activities conductive to promoting circular economy such as reduction, recycling and recovery activities conducted in the process of production, circulation and consumption.

According to the Rules for the Adjustment and Revitalization Plan for the Equipment Manufacturing Industry* (裝備製造業調整和振興規劃), promulgated and implemented on 12 May 2009, the State shall develop new type of mining, hoist and washing equipment. At the same time, the State shall also take advantage of the overseas resources and markets, stabilize and expand the export of equipment, and improve the technological content, added value and package level of export equipment.

In accordance with the Outline of the 13th Five-Year Plan for the National Economic and Social Development of the PRC* (中華人民共和國國民經濟和社會發展第十三個五年規劃綱要), which was promulgated on 16 March 2016 by the NPC, the State shall develop and promote the export of the high-end and energy-saving and environment-friendly equipment.

Pursuant to Guiding Opinions of the State Council on Promotion of International Production Capacity and Equipment Manufacturing Cooperation* (國務院關於推進國際產能和裝備製造合作的指導意見), promulgated by the State Council on 13 May 2015, the promotion of international production capacity and equipment manufacturing cooperation is a major approach to maintain moderate and fast growth of the Chinese economy and its advance toward middle and high levels. Simultaneously, it is also a major content of high-level opening to the outside world and of enhancing international competitive advantage, and a major basis for conducting mutually beneficial cooperation. To vigorously promote international production capacity and equipment manufacturing cooperation, it shall be launched in the building materials industry in keeping with the local market demand, mainly by means of investment and together with the adoption of multiple means including designing, project construction and equipment supply to build the production lines of cement, sheet glass, building and sanitary ceramic, new types of building materials, new types of housing.

Laws and Regulations relating to Production Safety

In accordance with the Work Safety Law of the PRC* (中華人民共和國安全生產法) (the "**Work Safety Law**"), effective from 1 November 2002 and amended on 31 August 2014, entities engaging in production are required to implement production safety measures specified in the Work Safety Law and other relevant laws, administrative regulations, national standards and industry standards. Any entity that does not implement such measures for safe production is prohibited from engaging in production and business operation activities. Entities are required to provide their employees with education and training on production safety. Entities shall also provide their employees with protective gear that meet national and industry standards as well as supervision and proper training to ensure their correct utilization.

Laws and Regulations relating to Intellectual Property Rights

China has adopted legislation governing intellectual property rights, including copyrights, trademarks, patents and domain names. China is a signatory to major international conventions on intellectual property rights and subject to the Agreement on Trade Related Aspects of Intellectual Property Rights because of its accession to the World Trade Organization in December 2001.

Computer Software Copyright

The PRC Copyright Law* (中華人民共和國著作權法), which took effect on 1 June 1991 and was most recently amended in 2010, provides that Chinese citizens, legal persons, or other organizations shall, either published or not, enjoy copyright in their copyrightable works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software.

The Regulations for the Protection of Computer Software* (計算機軟件保護條例), promulgated by the State Council, came into effect in 2002 and most recently amended in 2013. These regulations are formulated for protecting the rights and interests of computer software copyright owners, encouraging the development and application of computer software and promoting the development of software business.

The Computer Software Copyright Registration Measures* (計算機軟件著作權登記辦法), promulgated by the General Administration of Press and Publication on 20 February 2002 and became effective on the same day of promulgation, regulates the registration of software copyright, exclusive licensing contracts for software copyright and assignment agreements.

Patent

Patents in the PRC are principally protected under the PRC Patent Law* (中華人民共和國專利法), which was most recently amended on 27 December 2008 and became effective on 1 October 2009, with its implementation rules most recently amended on 9 January 2010. Pursuant to the PRC Patent Law, patents in China fall into three categories: invention, utility model and design. An invention patent is granted to a new technical solution proposed in respect of a product or a method or an improvement of a product or a method. A utility model is granted to a new technical solution that is practicable for application and proposed in respect of shape, structure or a combination of both shape and structure of a product. A design patent is granted to the modern design of a certain product in shape, pattern or a combination of both shape and pattern and in color, shape and pattern combinations aesthetically suitable for industrial application. In addition, the duration of a patent right is either 10 years for utility models and designs or 20 years for invention from the date of application.

The patent prosecution system in China is different in many ways from that in other countries. The patent system in China adopts the "first to file" principle, which means in the event of more than one person filing the same patent application, the patent will be granted to the person who files the application first. In addition, China requires absolute novelty for an invention to be patentable. Therefore, in general, a patent will be denied if it is publicly known in or outside of China. The Patent Office under the State Intellectual Property Office is responsible for receiving, examining and approving patent applications.

Trademark

The PRC Trademark Law* (中華人民共和國商標法), adopted in 1982 and most recently amended in 2019, with its implementation rules adopted in 2014, protects registered trademarks. The Trademark Office of the State Administration for Industry and Commerce (the "**Trademark Office**"), is responsible for the registration and administration of trademark and grants a protection term of 10 years to registered trademarks, which may be extended for another 10 years upon request. Trademark license agreements shall be filed with the Trademark Office for record. In addition, if a registered trademark is recognized as a well-known trademark, the protection of the proprietary right of the trademark holder may reach beyond the specific class of the relevant products or services.

According to the new Amendment in 2019, where an application for the registration of a trademark is made with malicious intent and not for the purpose of usage, the application shall be rejected and the Trademark Office can punish the applicant by giving warning or impose a fine. Furthermore, if a registered trademark is considered to be a malicious registration and not for the purpose of usage, the Trademark Office may declare that the registered trademark is invalid, and a third party may request the Trademark Review and Adjudication Board to declare that the registered trademark is invalid.

Domain Name

The domain names are protected under the Administrative Measures on the Internet Domain Names* (互聯網域名管理辦法) promulgated by the Ministry of Industry and Information Technology (the "**MIIT**") and effective on 1 November 2017. These Measures are formulated with reference to the international rules for the administration of Internet domain names, for the purpose of regulating services regarding internet domain names, safeguarding users' legitimate rights and interests, guaranteeing the safe and reliable operation of the system of internet domain names, promoting the development and application of Chinese domain names and top-level domains of the state and boosting the healthy development of China Internet network.

According to the Administrative Measures on the Internet Domain Names, the domain names registration follows the first-to-file principle while the MIIT is in charge of the administration of PRC internet domain names.

Laws and Regulations relating to Environmental Protection

Enterprises conducting manufacturing activities in China are subject to provisions under PRC environmental laws and regulations on noise, waste water, air emission and other industrial waste. The major governing environmental laws and regulations consist of the Environmental Protection Law of the PRC* (中華人民共和國環境保護法), which was most recently amended on 24 April 2014 and became effective on 1 January 2015, the Law of the PRC on the Prevention and Control of Water Pollution* (中華人民共和國水污染防治法), which was most recently amended on 27 June 2017 and became effective on 1 January 2018, the Law of the PRC on the Prevention and Control of Air Pollution* (中華人民共和國大氣污染防治法), which was most recently amended and became effective on 26 October 2018, the Law of PRC on the Prevention and Control of Solid Waste Pollution* (中華人民共和國固體廢物污染環境防治法), which was partially amended on 7 November 2016 and became effective on the same day of promulgation, and the Law of the PRC on the Prevention and Control of Noise Pollution* (中華人民共和國環境噪聲污染防治法), which was promulgated on 29 October 1996 and amended on 29 December 2018 (collectively "**the Environmental Laws**"). Pursuant to the Environmental Laws, PRC enterprises shall build requisite environmental treatment facilities affiliating to the manufacturing facilities, where waste air, waste water and waste solids generated can be treated properly in accordance with the relevant provisions.

Pursuant to the Law of the PRC on Evaluation of Environment Effects* (中華人民共和國環境影響評價法), which was promulgated on 28 October 2002 and was amended on 2 July 2016 and on 29 December 2018, Administrative Regulations on Environmental Protection for Construction Projects* (建設項目環境保護管理條例), which was promulgated on 29 November 1998 and amended on 16 July 2017 and became effective on 1 October 2017, and the Interim Measures for the Acceptance Inspections of Environment Protection Facilities of Construction Projects* (建設項目竣工環境保護驗收暫行辦法), which was promulgated by the Ministry of Environmental Protection of the PRC on 20 November 2017, enterprises that are planning construction projects should provide assessment reports, statement or registration form on the environmental impact of such projects. The assessment reports and statements must be approved by the competent environmental protection authorities prior to commencement of any construction work, while the registration forms shall be filed to them. Unless otherwise stipulated by laws and regulations, enterprises which are required to provide assessment reports and statements shall undertake the responsibility of acceptance inspections of the environmental protection facilities by itself upon the completion of the construction project. A construction project may be formally put into production or use only if the corresponding environmental protection facilities have passed the acceptance examination. The competent authorities may carry out spot check and supervision on the implementation of the environmental protection facilities.

Laws and Regulations relating to Import and Export Goods

Pursuant to the Foreign Trade Law of the PRC* (中華人民共和國對外貿易法) which was promulgated by the SCNPC on 12 May 1994 and most recently amended on 7 November 2016 and became effective thereof, and Measures for the Archival Filing and Registration of Foreign Trade Business Operators* (對外貿易經營者備案登記辦法) which was promulgated by the MOFCOM on 25 June 2004 and revised by the Decision of the MOFCOM on Repealing and Revising Certain Regulations and Regulatory Documents* (商務部關於廢止和修改部分規章和規範性文件的決定)

dated on 18 August 2016, the PRC adopted a filing and registration system for foreign trade operators engaged in imports and exports of goods, implemented by the Foreign Trade authority under the State Council or its entrusted agencies. Foreign trade operators that have not filed for registration in accordance with the provisions will be declined by the Customs to carry out the customs clearance and inspection procedures for import and export of goods.

Pursuant to the Customs Law of the PRC* (中華人民共和國海關法) promulgated by SCNPC on 22 January 1987 and most recently amended on 4 November 2017 and effective on 5 November 2017 and related regulations, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted Customs brokers that have registered with the Customs. The consignees and consignors for import or export goods and the Customs brokers engaged in Customs declaration shall register with the Customs in accordance with the law. Principal regulations on the inspection of import and export commodities are set forth in the Law of the PRC on Import and Export Commodity Inspection* (中華人民共和國進出口商品檢驗法) promulgated by SCNPC on 21 February 1989 and most recently amended on 29 December 2018 and became effective thereof and its implementation rules. According to the aforesaid relevant laws and regulations, the import and export commodities that are subject to compulsory inspection listed in the catalogue compiled by the State administration shall be inspected by the commodity inspection authorities, and the import and export commodities that are not subject to statutory inspection shall be subject to random inspection. Consignees and consignors themselves or its entrusted agent may apply for inspection to the commodity inspection authorities.

Laws and Regulations relating to Employment

Labour Laws

Companies in the PRC are subject to the PRC Labour Law* (中華人民共和國勞動法) (the "**PRC Labour Law**") which was promulgated on 5 July 1994, became effective on 1 January 1995 and was further amended on 27 August 2009 and 29 December 2018, the PRC Labour Contract Law* (中華人民共和國勞動合同法) (the "**PRC Labour Contract Law**") which was promulgated on 29 June 2007, became effective on 1 January 2008 and was further amended on 28 December 2012, and the Implementation Regulations of the PRC Labour Contract Law* (中華人民共和國勞動合同法實施條例) which was promulgated by the State Council on 18 September 2008 and became effective on the same date, as well as other related regulations, rules and provisions promulgated by the relevant government authorities from time to time. Compared to previous PRC Laws and regulations, the PRC Labour Contract Law imposes stricter requirements in such respects as signing of labour contracts with employees, stipulation of probation period and violation penalties, termination of labour contracts, payment of remuneration and economic compensation, use of labour dispatches as well as social security premiums.

According to the PRC Labor Law and the PRC Labor Contract Law, a labor contract in writing shall be concluded when a labor relationship is to be established between an employer and an employee. An employer shall pay an employee two times of his salary for each month in the circumstance where he fails to enter a written labor contract with the employee for more than a month but less than a year; where such period exceeds one year, the parities are deemed to have entered an unfixed-term labor contract. Employers shall pay wages that are not lower than the local minimum wage standards to the employees. Employers are also required to establish labor safety and sanitation systems in compliance with PRC rules and standards, and to provide relevant training to the employees.

Dispatched Employees

According to the regulation of the Temporary Provisions on Labor Dispatch* (勞務派遣暫行規定) issued on 24 January 2014 and implemented on 1 March 2014 by the Ministry of Human Resources and Social Security, the employers should strictly control the number of labor dispatch workers, and the number of the dispatched workers shall not exceed 10% of the total amount of its workforce.

Pursuant to the Temporary Provisions on Labor Dispatch, PRC Labour Contract Law and the Implementation Regulations of the PRC Labour Contract Law, the employer who fails to comply with the relevant requirements on labour dispatch shall be ordered by the labour administrative authorities to make correction within a stipulated period; where the correction is not made within the stipulated period, the employers may be subject to a penalty ranging from RMB5,000 to RMB10,000 per dispatched workers exceeding the 10% threshold.

Social Insurance and Housing Provident Funds

The PRC social insurance system is mainly governed by the Social Insurance Law of the PRC* (中華人民共和國社會保險法) (the "**Social Insurance Law**"). The Social Insurance Law was promulgated by the SCNPC on 28 October 2010 and amended on 29 December 2018. According to the Social Insurance Law, the Decision on the Establishment of the Medical Insurance Program for Urban Workers of the State Council* (國務院關於建立城鎮職工基本醫療保險制度的決定) (effective from 14 December 1998), the Regulation of Insurance for Work-Related Injuries* (工傷保險條例) (effective from 1 January 2011), Trial Measures for Maternity Insurance of the Staff and Workers in Enterprises* (企業職工生育保險試行辦法) (effective from 1 January 1995), the Regulations on Unemployment Insurance* (失業保險條例) (effective from 22 January 1999), the Interim Regulations on the Collection and Payment of Social Insurance Premiums* (社會保險費徵繳暫行條例) (effective from 22 January 1999 and most recently amended on 24 March 2019), employers in the PRC shall register social insurance with the competent authorities, and pay five basic types of social insurance premiums for their employees, or rather, basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance.

According to the Social Insurance Law, if an employing entity does not pay the full amount of social insurance premiums as scheduled or required, the social insurance premium collection institution shall order it to make the payment or make up the difference within the stipulated period and impose a daily fine equivalent to 0.05% of the overdue payment from the day on which the payment is overdue. If the payment is not made within the prescribed time, the social insurance authority shall impose a fine ranging from one to three times of the overdue payment amount.

According to the Regulations on Management of Housing Provident Funds* (住房公積金管理條例) which was promulgated by the State Council and came into effect on 3 April 1999 and was amended on 24 March 2002 and 24 March 2019, all business entities (including foreign invested enterprises) are required to register with the local housing provident funds management centre and then maintain housing fund accounts and pay the related funds for their employees. In addition, for both employees and employers, the payment rate for housing provident fund shall not be less than 5% of the average monthly salary of the employees in the previous year. The payment rate may be raised if the employer desires so. Where an entity violates the Regulations by failing to deposit the housing accumulation fund within the time limit or by under-depositing the fund, it shall be ordered by the housing accumulation fund management center to deposit the fund within a time limit; if it fails to deposit the fund within the time limit, it may apply to the People's Court for enforcement.

Laws and Regulations relating to Occupational Diseases

According to the Law of the PRC on the Prevention and Treatment of Occupational Diseases* (中華人民共和國職業病防治法), which was promulgated by the SCNPC on 27 October 2001 and became effective on 1 May 2002 and was most recently amended and became effective on 29 December 2018, an employer shall: (i) establish and improve the responsibility system of occupational disease prevention and treatment, strengthen the administration and improve the level of occupational disease prevention and treatment, and bear responsibility for the harm of occupational diseases engendered there from; (ii) purchase social insurance for industrial injury; (iii) adopt effective protective facilities against occupational diseases, and provide protective articles to the laborers for personal use against occupational diseases; (iv) set up alarm equipment, allocate on-spot emergency treatment articles, washing equipment, emergency safety exits and safety zones for poisonous and harmful work places where acute occupational injuries are likely to take place; and (v) inform the employees, according to the facts, of the potential harm of occupational disease as well as the consequences thereof and the protective measures and treatment against occupational diseases when signing a labor contract with employees. Pursuant to the said law, for construction projects, including projects to be constructed, expanded or reconstructed, and projects for technical renovation and introduction which may incur occupational disease hazards, the unit responsible for the construction project shall: (i) during the period of feasibility study, conduct a preliminary assessment report on such hazards; and (ii) assess the effect of the control on occupational disease hazards before the construction project is completed for inspection and acceptance.

Laws and Regulations relating to Fire Protection

The Fire Protection Law of the PRC* (中華人民共和國消防法) was promulgated by the SCNPC on 29 April 1998 and was most recently amended on 23 April 2019. The Provisions on the Supervision and Administration of Fire Protection of Construction Projects* (建設工程消防監督管理規定) was promulgated on 30 April 2009 and was amended on 17 July 2012 with effect from 1 November 2012. Pursuant to these laws, the fire protection design or construction of a construction project must conform to the national fire protection technical standards for project construction. The employer, as well as the designing, construction, project supervision and other entities, shall be responsible for the quality of fire protection design and construction according to law. Where any construction project which shall be subject to fire protection design review in accordance with the law by the competent authorities fails to undergo fire protection design review and as-built fire protection inspection, and has been put into use without authorization, penalties shall be imposed lively, but executed on a consolidated basis.

Laws and Regulations relating to Taxation

PRC Enterprise Income Tax

PRC enterprise income tax is calculated based on taxable income, which is determined under (i) the PRC Enterprise Income Tax Law* (中華人民共和國企業所得稅法) (the "**EIT Law**"), which was promulgated on 16 March 2007, and was most recently amended and became effective on 29 December 2018, and (ii) the Implementing Regulations of the EIT Law* (中華人民共和國企業所得稅法實施條例) (the "**EIT Regulation**") promulgated by the State Council on 6 December 2007 and implemented on 1 January 2008. The EIT Law imposes a uniform enterprise income tax rate of 25% on all PRC resident enterprises, including foreign-invested enterprises, unless they are qualified for certain exceptions. According to the EIT Law and its implementation rules, the income tax rate of an enterprise that has been granted the certificate of High and New Technology Enterprise may be reduced to 15% with the approval of relevant tax authorities.

The EIT Law also provides that enterprises established under the laws of foreign jurisdictions with "de facto management body" located in PRC are treated as "resident enterprises" for PRC tax purposes, and will be subjected to PRC income tax on their worldwide income. Under the EIT Regulation, a "de facto management body" is defined as a body that has real and overall management control over the business, personnel, accounts and properties of an enterprise.

Administrative Measures for Certification of New and High Technology Enterprises

Pursuant to the Administrative Measures for Certification of New and High Technology Enterprises* (高新技術企業認定管理辦法), which was promulgated on 14 April 2008 and amended on 29 January 2016 with effect from 1 January 2016, the High and New Technology Enterprises, which are recognised in accordance with these Measures, may apply for preferential tax policy in accordance with the EIT Law and the EIT Regulation thereof, the Law of the PRC on the Administration of Tax Collection* (中華人民共和國稅收徵收管理法) and Implementing Rules of the Law of the PRC on the Administration of Tax Levying* (中華人民共和國稅收徵收管理法實施細則).

Income Tax for Share Transfers

On 3 February 2015, the State Administration of Taxation (the "**SAT**") promulgated the Announcement of SAT on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises* (國家稅務總局關於非居民企業間接轉讓企業財產所得稅若干問題的公告) (the "**Circular 7**"). According to the Circular 7, if a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by transfer of the equity interests of an offshore holding company (other than a purchase and sale of shares issued by a PRC resident enterprise in a public securities market) without a reasonable commercial purpose, the PRC tax authorities have the power to reassess the nature of the transaction. In addition, the indirect equity transfer will be treated as a direct transfer.

As a result, the gain derived from such transfer, which means the equity transfer price less the cost of the equity, will be subject to PRC withholding tax at a rate of up to 10%. Under the Circular 7, a transfer which meets the following circumstances shall be deemed as having no reasonable commercial purpose:

- over 75% of the value of the equity interests of the offshore holding company are directly or indirectly derived from PRC taxable properties;
- at any time during the year before the indirect transfer, over 90% of the total properties of the offshore holding company are investments within PRC territory, or in the year before the indirect transfer, over 90% of the offshore holding company's revenue is directly or indirectly derived from PRC territory;
- the function performed and risks assumed by the offshore holding company are insufficient to substantiate its corporate existence; and
- the foreign income tax imposed on the indirect transfer is lower than the PRC tax imposed on the direct transfer of the PRC taxable properties.

The Announcement on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises* (國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告) (the "**SAT Circular 37**"), which was promulgated on 17 October 2017 and was revised on 15 June 2018, clarifies certain issues in the implementation by providing the definition of equity transfer income and tax basis, the foreign exchange rate to be used in the calculation of withholding amount, and the date of occurrence of the withholding obligation. The SAT Circular 37 provides that where the transfer income subject to withholding at source is derived by a non-PRC resident enterprise in instalments, the instalments may first be treated as recovery of costs of previous investments. Upon recovery of all costs, the tax amount to be withheld must then be computed and withheld.

There is uncertainty as to the application of the Circular 7 and the SAT Circular 37. PRC tax authorities may determine that the Circular 7 and the SAT Circular 37 are applicable to our share transfer transactions that involved non-resident investors, if the tax authorities determine that such transactions lack reasonable commercial purpose. As a result, we and our non-resident investors in such transactions may become at risk of being taxed under the Circular 7 and the Circular 37. We may expend valuable resources to comply with the SAT Circular 7 and the SAT Circular 37 or to establish that we should not be taxed under the general anti-avoidance rule of the EIT Law. This could have a material adverse effect on our financial condition and results of operations.

PRC Value-added Tax

Pursuant to the Interim Value-added Tax Regulations of the PRC* (中華人民共和國增值稅暫行條例) which was amended and became effective on 19 November 2017 and the Implementing Rules for the Interim Regulations of the PRC on Value-added Tax* (中華人民共和國增值稅暫行條例實施細則) which was amended on 28 October 2011 and became effective on 1 November 2011 (collectively the "**VAT Law**"), all entities and individuals that are engaged in the sale of goods, the provision of repairs and replacement services and the importation of goods in China are generally required to pay value-added tax (the "**VAT**") at a rate of 17.0% of the gross sales proceeds received, less any deductible VAT already paid or borne by the taxpayer. Further, when exporting goods, the exporter is entitled to all the refund of VAT that it has already paid or borne unless otherwise stipulated.

On 16 November 2011, the Ministry of Finance (the "**MOF**") and SAT jointly promulgated the Pilot Plan for Levying VAT in Lieu of Business* (營業稅改徵增值稅試點方案). Starting form 1 January 2012, the PRC government has been gradually implementing a pilot program in certain provinces and municipalities, to levy a 6% VAT on revenue generated from certain kinds of services in lieu of business tax.

On 23 March 2016, the MOF and SAT jointly issued the Circular of Full Implementation of Business Tax to VAT Reform* (關於全面推開營業稅改徵增值稅試點的通知) (the "**Circular 36**") which confirms that business tax will be completely replaced by VAT from 1 May 2016.

According to the Circular of the MOF and the SAT on Adjusting Value-added Tax Rates* (財政部、稅務總局關於調整增值稅稅率的通知) promulgated on 4 April 2018 and effective on 1 May 2018, where a taxpayer engages in a taxable sales activity for the VAT purpose or imports goods, the previous applicable 17.0% tax rates are adjusted to be 16.0%.

According to the Announcement on Policies Concerning Deepening the Reform of Value-added Tax* (關於深化增值稅改革有關政策的公告), which was promulgated on 20 March 2019 and became effective on 1 April 2019, a VAT general taxpayer who is previously subject to 16% on VAT-taxable sales activities shall have the applicable tax rates adjusted to 13%.

Withholding Income Tax and Tax Treaties

The EIT Law provides that since 1 January 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

Pursuant to an Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes* (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the "**Double Tax Avoidance Arrangement**"), and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority having satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other governing laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, in compliance with the Notice of SAT on the Issues concerning the Application of the Dividend Clauses of Tax Agreements* (國家稅務總局關於執行稅收協定股息條款有關問題的通知) (the "**Circular 81**"), which was promulgated and became effective on 20 February 2009, if the relevant PRC tax authorities determine in their discretion that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. On 3 February 2018, the SAT issued the Announcement on Certain Issues Concerning the Beneficial Owners in a Tax Agreement* (關於稅收協定中"受益所有人"有關問題的公告) (the "**Circular 9**"), which provides the guidance for determining whether a resident of a contracting state is the "beneficial owner" of an item of income under China's tax treaties and similar arrangements. Under Circular 9, a beneficial owner generally shall be engaged in substantive business activities and an agent may not be regarded as a beneficial owner and, therefore, may not qualify for these benefits.

Urban Land Use Tax

Pursuant to the Interim Regulations on Urban Land Use Tax of the PRC* (中華人民共和國城鎮土地使用稅暫行條例) promulgated by the State Council on 27 September 1988 and most recently amended on 2 March 2019, the urban land tax is levied based on the area of the relevant land, the amount tax of urban land shall range from RMB0.6 to RMB30.0 per square metre.

Real Estate Tax

Under the Interim Regulations on Real Estate Tax of the PRC* (中華人民共和國房產稅暫行條例) promulgated by the State Council on 15 September 1986, effective from 1 October 1986 and amended on 8 January 2011, real estate tax is changed at the rate of 1.2% if it is calculated on the basis of the residual value of a building which is the original value of a building minus certain percentage ranging from 10% to 30%, and at the rate of 12% if it is calculated on basis of the rental of the real estate.

Deed tax

Under the Interim Regulations on Deed Tax of the PRC* (中華人民共和國契稅暫行條例) promulgated by the State Council on 7 July 1997 and amended on 2 March 2019, a deed tax is chargeable to transferees (whether an individual or otherwise) of land (including grant of state-owned land use right, grant of stare-owned land use rights and etc.), building ownership within the territory of mainland China under the provisions of these regulations. Since deed tax rate ranges from 3% to 5%, the applicable deed tax rate is subject to the determination by local governments of provinces, autonomous regions and municipalities directly under the central government in light of the local conditions, within the aforesaid range and report their effective tax rates to MOFCOM and SAT for the record.

Regulations relating to Foreign Exchange

Foreign Currency Exchange

The Regulation of the PRC on Foreign Exchange Control* (中華人民共和國外匯管理條例), most recently amended by the State Council in 1 August 2008 and effective on 5 August 2008, is the principal regulation on foreign currency exchange in the PRC. the regulation, the Renminbi is freely convertible for current account items after due process, including distribution of dividends, trade-related foreign exchange transactions and service-related foreign exchange transactions, whereas foreign exchange for capital account items, such as direct investments or loans, requires prior approval of and registration with the State Administration of Foreign Exchange (the "**SAFE**").

Capital Settlement and Overseas Remittance of Foreign-Invested Enterprises

Pursuant to the Circular of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment* (國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知) (the "**SAFE Circular 59**"), promulgated by SAFE on 19 November 2012, which became effective on 17 December 2012 and was most recently amended on 10 October 2018, the approval from SAFE is not required for opening a foreign exchange account and depositing foreign exchange into the accounts relating to the direct investments. SAFE Circular 59 also simplifies foreign exchange-related registration required for the foreign investors to acquire the equity interests of Chinese companies, and further improves the administration on foreign exchange settlement for foreign-invested enterprises.

The Provisions on Foreign Exchange Administration Over Direct Investment Made by Foreign Investors in the PRC* (外國投資者境內直接投資外匯管理規定) were promulgated by SAFE on 10 May 2013, effective on 13 May 2013 and recently amended on 10 October 2018, in order to promote and facilitate foreign investors to make direct investment in the PRC, which allows a foreign-invested enterprise that needs to remit funds abroad to purchase and remit foreign exchange with the relevant bank due to capital reduction, liquidation, advance recovery of investment, profit distribution, etc. after the due registration.

On 1 June 2015, the Notice of SAFE on Reforming the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign- invested Enterprises* (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) came into effect, which helps further deepen the reform of the foreign exchange administration system and better satisfy and facilitate the needs of foreign-invested enterprises for business and fund operations. This notice allows foreign-invested enterprises to settle their foreign exchange capital on a discretionary basis.

Furthermore, on 9 June 2016, SAFE promulgated Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts* (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) (the "**SAFE Circular 16**"), which became effective on 9 June 2016, pursuant to which, in addition to foreign currency capital, enterprises registered in China may also convert their foreign debts, as well as repatriated funds raised through overseas listing, from foreign currency to Renminbi on a discretional basis. SAFE Circular 16 also reiterates that the use of capital so converted shall follow "the principle of authenticity and self-use" within the business scope of the enterprise.

In January 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification* (國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知) (the "**SAFE Circular 3**"), which became effective on 26 January 2017 and stipulates several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including (i) under the principle of genuine transaction, banks shall check board resolutions regarding profit distribution, the original version of tax filing records and audited financial statements; and (ii) domestic entities shall hold income to account for previous years' losses before remitting the profits. Further, pursuant to the SAFE Circular 3, domestic entities shall make detailed explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with an outbound investment.

Regulations relating to Foreign Exchange Registration of Overseas Investment by PRC Residents

In July 2014, SAFE issued SAFE Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles* (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the "**SAFE Circular 37**"), which became effective on 4 July 2014. SAFE Circular 37 regulates foreign exchange matters in relation to the use of special purpose vehicles (the "**SPVs**"), by PRC residents (including PRC institutions and individuals) to seek offshore investment and financing or conduct round trip investment in China. Under SAFE Circular 37, a SPV refers to an offshore entity established or controlled, directly or indirectly, by PRC residents for the purpose of seeking offshore financing or making offshore investment, using legitimate onshore or offshore assets or interests, while "round trip investment" refers to direct investment in China by PRC residents through SPVs, namely, establishing foreign-invested enterprises to obtain the ownership, control rights and management rights. SAFE Circular 37 provides that before making contribution into an SPV, PRC residents are required to complete foreign exchange registration with SAFE or its local branch.

SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment* (關於進一步簡化和改進直接投資外匯管理政策的通知) on 13 February 2015, which took effect on 1 June 2015. This notice has amended SAFE Circular 37, requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing.

PRC residents or entities who have contributed legitimate onshore or offshore interests or assets to SPVs but have not obtained registration as required before the implementation of the SAFE Circular 37 shall register their ownership interests or control in the SPVs with qualified banks. An amendment to the registration is required if there is a material change with respect to the SPV registered, such as any change of basic information (including change of the PRC residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, and mergers or divisions. Failure to comply with the registration procedures set forth in SAFE Circular 37 and the subsequent notice, or making misrepresentation on or failure to disclose controllers of the foreign-invested enterprise that is established through round-trip investment, may result in restrictions being imposed on the foreign exchange activities of the relevant foreign-invested enterprise, including payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent or affiliate, and the capital inflow from the offshore parent, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

Laws and Regulations relating to Dividend Distribution

The principal legislation with respect to payment or distribution of dividends by wholly foreign-invested enterprises include (i) the Company Law, (ii) the WFOE Law, and (iii) the Implementation Details for the WFOE Law. Under these laws, foreign-invested enterprises in the PRC may pay dividends only out of accumulated profits, after setting aside annually at least 10% of accumulated after-tax profits as reserve fund, if any, until such time as the accumulative amount of such fund reaches 50% of the enterprise's registered capital. These reserved funds are not distributable as cash dividends. A PRC company is not permitted to distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

Regulations relating to Stock Incentive Plans

In February 2012, SAFE promulgated the Circular of SAFE on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-listed Companies* (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知) (the "**Stock Option Rules**"), which became effective on 15 February 2012. Under the Stock Option Rules and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and to complete certain other procedures. Participants of a stock incentive plan who are PRC residents shall retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly-listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants shall also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. The PRC agents must, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas publicly-listed companies shall be remitted into the bank accounts in the PRC opened by the PRC agents before the distribution to such PRC residents.

In addition, SAT has issued certain circulars concerning employee share options or restricted shares. Under these circulars, the employees working in the PRC who exercise share options or are granted restricted shares will be subject to PRC individual income tax. The PRC subsidiaries of such overseas listed company have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If the employees fail to pay or the PRC subsidiaries fail to withhold their income taxes according to relevant laws and regulations, the PRC subsidiaries may face sanctions imposed by the tax authorities or other PRC government authorities.

Regulations relating to Merger and Acquisition

On 8 August 2006, six PRC regulatory agencies, including the MOFCOM, the State-Owned Assets Supervision and Administration Commission of the State Council, the SAT, the State Administration for Industry and Commerce, SAFE, and China Securities Regulatory Commission, jointly promulgated the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors* (關於外國投資者併購境內企業的規定) (which was subsequently amended by the MOFCOM on 22 June 2009) (the "**M&A Provisions**") to regulate merger and acquisition of non-foreign investment enterprises ("**domestic enterprises**") by foreign investors, which became effective on 8 September 2006.

Pursuant to the M&A Provisions, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise or subscribes for the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; or (ii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets or purchases the assets of a domestic enterprise and then invests such assets to establish a foreign-invested enterprise. According to Article 11 of the M&A Provisions, where a domestic company or enterprise, or domestic natural person, through an overseas company legally established or controlled by it/him, acquires a domestic company which is related to or connected with it/him, approval from MOFCOM is required.

SANCTIONS LAWS AND REGULATIONS

Hogan Lovells, our International Sanctions Legal Advisers, have provided the following summary of the sanctions regimes imposed by their respective jurisdictions. This summary does not intend to set out the laws and regulations relating to the United States, the European Union, the United Nations and Australian sanctions in their entirety.

U.S.

Treasury regulations

OFAC is the primary agency responsible for administering U.S. sanctions programmes against targeted countries, entities, and individuals. "Primary" U.S. sanctions apply to "U.S. persons" or activities involving a U.S. nexus (e.g., funds transfers in U.S. currency or activities involving U.S.-origin goods, software, technology or services even if performed by non-U.S. persons), and "secondary" U.S. sanctions apply extraterritorially to the activities of non-U.S. persons even when the transaction has no U.S. nexus. Generally, U.S. persons are defined as entities organized under U.S. law (such as companies and their U.S. subsidiaries); any U.S. entity's domestic and foreign branches (sanctions against Iran and Cuba also apply to U.S. companies' foreign subsidiaries or other non-U.S. entities owned or controlled by U.S. persons); U.S. citizens or permanent resident aliens ("green card" holders), regardless of their location in the world; individuals physically present in the United States; and U.S. branches or U.S. subsidiaries of non-U.S. companies.

Depending on the sanctions program and/or parties involved, U.S. law also may require a U.S. company or a U.S. person to "block" (freeze) any assets/property interests owned, controlled or held for the benefit of a sanctioned country, entity, or individual when such assets/property interests are in the United States or within the possession or control of a U.S. person. Upon such blocking, no transaction may be undertaken or effected with respect to the asset/property interest — no payments, benefits, provision of services or other dealings or other type of performance (in case of contracts/agreements) — except pursuant to an authorization or license from OFAC.

OFAC's comprehensive sanctions programmes currently apply to Cuba, Iran, North Korea, Syria, and the Crimea region of Russia/Ukraine (the comprehensive OFAC sanctions programme against Sudan was terminated on 12 October 2017). OFAC also prohibits virtually all business dealings with persons and entities identified in the SDN List. Entities that a party on the SDN List owns (defined as a direct or indirect ownership interest of 50% or more, individually or in the aggregate) are also blocked, regardless of whether that entity is expressly named on the SDN List. Additionally, U.S. persons, wherever located, are prohibited from approving, financing, facilitating, or guaranteeing any transaction by a non-U.S. person where the transaction by that non-U.S. person would be prohibited if performed by a U.S. person or within the United States.

United Nations

The United Nations Security Council (the "UNSC") can take action to maintain or restore international peace and security under Chapter VII of the United Nations Charter. Sanctions measures encompass a broad range of enforcement options that do not involve the use of armed force. Since 1966, the UNSC has established 30 sanctions regimes.

The UNSC sanctions have taken a number of different forms, in pursuit of a variety of goals. The measures have ranged from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions. The UNSC has applied sanctions to support peaceful transitions, deter non-constitutional changes, constrain terrorism, protect human rights and promote non-proliferation.

There are 14 ongoing sanctions regimes which focus on supporting political settlement of conflicts, nuclear non-proliferation, and counter-terrorism. Each regime is administered by a sanctions committee chaired by a non-permanent member of the UNSC. There are ten monitoring groups, teams and panels that support the work of the sanctions committees.

United Nations sanctions are imposed by the UNSC, usually acting under Chapter VII of the United Nations Charter. Decisions of the UNSC bind members of the United Nations and override other obligations of United Nations member states.

European Union

Under European Union sanction measures, there is no "blanket" ban on doing business in or with a jurisdiction targeted by sanctions measures. It is not generally prohibited or otherwise restricted for a person or entity to do business (involving non-controlled or unrestricted items) with a counterparty in a country subject to European Union sanctions where that counterparty is not a Sanctioned Person or not engaged in prohibited activities, such as exporting, selling, transferring or making certain controlled or restricted products available (either directly or indirectly) to, or for use in a jurisdiction subject to sanctions measures.

Australia

The Australian restrictions and prohibitions arising from the sanctions laws apply broadly to any person in Australia, any Australian anywhere in the world, companies incorporated overseas that are owned or controlled by Australians or persons in Australia, and/or any person using an Australian flag vessel or aircraft to transport goods or transact services subject to United Nations sanctions.

OVERVIEW

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 31 July 2017. Based in Haian City, Jiangsu Province, the PRC, we are one of the leading manufacturers of rotary kiln and grinding systems in the PRC and the global market. We also provide one-stop solution services in respect of production lines. According to the F&S Report, we were the largest supplier of rotary kiln system and the second largest supplier of grinding equipment systems in the PRC and the global market in terms of revenue in 2018. We have an established research and development team that possesses strong research and development capabilities. We manufacture rotary kilns and grinding equipment that are customised according to customers' requirements and that can cater to industries of building materials, metallurgy, chemical, environmental protection and so on. Our one-stop solution services in respect of production lines to customers are highly customised, from design of the production line, manufacturing and installation of the required equipment and part to training of the customers' personnel.

Our Group's history traces back to 1994 when Jiangsu Pengfei Group Company* (江蘇鵬飛集團公司), a collective enterprise, was established in the PRC. Later, Jiangsu Pengfei Group Company* (江蘇鵬飛集團公司) was converted into a joint stock company which was called Jiangsu Pengfei Industrial Group Limited* (江蘇鵬飛實業股份有限公司) in 2002 in the PRC and renamed as Jiangsu Pengfei[(1)] in 2003. Jiangsu Pengfei was involved in collective interests until 2010, when all remaining collective interests held by collective enterprise shareholders had been validly transferred to individual shareholders.

On 3 November 2017, the government of Haian city issued a letter concerning the confirmation of the restructuring and transfer of collective shares of Jiangsu Pengfei. The letter confirmed that the restructuring was approved by the relevant government departments, authentic, fair, legal and effective, and from 2001 to 2010, all transfers of collective interests were authentic, legal and effective, the transfer price was fair and fully paid, and there was no loss of collective assets or damage to collective interests. The government confirmed that after the restructuring and transfers, Jiangsu Pengfei has all rights of their assets and there is no potential disputes involving collective assets.

For details of the key business development of the Group, please refer to the paragraph headed "— Our Development Milestones" in this section and the section headed "Business — Overview" in this prospectus.

OUR DEVELOPMENT MILESTONES

The following table sets forth the significant milestones in our history:

Year	Key Development Milestones
1995	Since Jiangsu Pengfei Group Company* (江蘇鵬飛集團公司) was established, we secured our first overseas business in relation to manufacturing of equipment in 1995

Note

(1) Hereinafter, Jiangsu Pengfei refers to both Jiangsu Pengfei Industrial Group Limited* (江蘇鵬飛實業股份有限公司) from its establishment in 2002 until when its name was changed in 2003, and Jiangsu Pengfei thereafter.

Year	Key Development Milestones
2002	Jiangsu Pengfei Group Company* (江蘇鵬飛集團公司) was converted from a collective enterprise to joint stock company, Jiangsu Pengfei Industrial Group Limited* (江蘇鵬飛實業股份有限公司)
2003	Jiangsu Pengfei Industrial Group Limited* (江蘇鵬飛實業股份有限公司) changed its name to Jiangsu Pengfei
2007	We secured our first overseas business in provision of one-stop solution services in respect of construction of production lines to our customers in 2007.
2007	Our rotary kiln under the brand of "Pengfei" was awarded "China Top Brand" "中國名牌" by State Administration of Quality Supervision, Inspection and Quarantine
2007	We were first accredited with ISO 9001:2015 by virtue of our quality management system.
2010	All remaining collective interests in Jiangsu Pengfei held by collective enterprise shareholders had been validly transferred to individual shareholders. Jiangsu Pengfei has since then ceased to be involved in collective interests.
2010	Our trademark was recognised by the Trademark Office of 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商標局) as "China Well-Known Trademark (中國馳名商標)".
2013	We secured our first business in Bangladesh under One Belt One Road in respect of construction of production lines in 2013. Our production facilities in North Industrial District, Haian City, Jiangsu Province, the PRC was established and put into use.
2016	We were accredited as National Centre for Enterprise Technology.
2017	We were recognised as Champion Model Enterprise for Single Commodity in National Manufacturing Industry* (全國製造業單項冠軍示範企業) by MIIT and Jiangsu Famous Export Brand (江蘇省重點培育和發展的國際知名品牌) by Jiangsu Province Department of Commerce (江蘇省商務廳).
2017	Our Company was incorporated in the Cayman Islands.
2018	We were recognised as Outstanding Enterprise in Building Materials and Machinery Industry for 40 Years since China's Reform and Opening-up* (中國改革開放40年建材機械行業優秀企業) by China Building Materials Machinery Industry Association* (中國建材機械工業協會).

OUR MAJOR SUBSIDIARIES

(i) Jiangsu Pengfei

Following the restructuring of the predecessor Jiangsu Pengfei Group Company* (江蘇鵬飛集團公司), Jiangsu Pengfei was established in the PRC on 8 July 2002 as a joint stock company with a registered capital of RMB51,385,900 under its initial name of Jiangsu Pengfei Industrial Group Limited* (江蘇鵬飛實業股份有限公司). As at the date of its establishment, the shareholders with their respective subscribed capital contribution and shareholding of Jiangsu Pengfei were as follows:

Shareholders[1]	Subscribed capital contribution[2] (RMB)	Approximate percentage of Shareholding (%)
Haian County Dagong Collective Assets Management Company Limited* (海安縣大公集體資產經營有限公司)[3]	24,869,600	48.40
Haian County Building Equipment Manufacturing Plant* (海安縣建材設備製造總廠)[4]	17,956,300	34.94
Ben Youlan (賁友蘭)	2,630,000	5.12
Wang Jiaan (王家安)	1,380,000	2.69
Zhu Chun (朱純)	710,000	1.38
Wang Yun (王雲)	380,000	0.74
Zhou Yinbiao (周銀標).	280,000	0.54
Ben Daochun (賁道春).	280,000	0.54
Chen Yulou (陳玉樓)	280,000	0.54
Chen Lidong (陳黎東)	280,000	0.54
Ben Daolin (賁道林)	230,000	0.45
Cai Tongfu (蔡同富)	200,000	0.39
Ben Xudong (賁旭東)	200,000	0.39
Yu Yangui (于延桂)	200,000	0.39
Dai Xianru (戴賢如)	160,000	0.31
Liu Chengguan (劉成官)	120,000	0.23
Qian Jiayin (錢加銀)	120,000	0.23
Zhang Doufa (張門發)	80,000	0.16
Ding Jialin (丁佳林).	80,000	0.16
Zhou Bugao (周步高).	70,000	0.14
Chen Jixiang (沈吉祥)	70,000	0.14
Wang Xiaobo (王小波).	40,000	0.08
Yu Zhongwen (于中文)	40,000	0.08
Lin Xianyue (林先月)	40,000	0.08
Yuan Chuanjun (袁傳軍)	40,000	0.08
Wang Shiqin (王世芹)	40,000	0.08
Ding Qinghai (丁慶海).	40,000	0.08

Shareholders[(1)]	Subscribed capital contribution[(2)] (RMB)	Approximate percentage of Shareholding (%)
Cui Hengfu (崔恒富)	40,000	0.08
Wang Jin (王進)	40,000	0.08
Zhou Guangshun (周光順)	40,000	0.08
Jiang Xiaoming (蔣曉明)	40,000	0.08
Wu Yijun (吳義軍)	40,000	0.08
Jiao Yuanjin (焦遠進)	40,000	0.08
Zhou Yue (周悦)	40,000	0.08
Zhou Kewen (周克穩)	40,000	0.08
Zhou Jin (周錦)	40,000	0.08
Wang Huajun (王華俊)	30,000	0.06
Zhang Gui (張貴)	30,000	0.06
Liu Yaqin (劉亞芹)	30,000	0.06
Wang Huajun (王華均)	30,000	0.06
Pei Jianian (裴加年)	30,000	0.06
Cui Yegui (崔業貴)	30,000	0.06
Zhou Jianyi (周建益)	30,000	0.06
Total	51,385,900	100

Notes:

(1) Save that Haian County Dagong Collective Assets Management Company Limited* (海安縣大公集體資產經營有限公司) and Haian County Building Equipment Manufacturing Plant* (海安縣建材設備製造總廠) are Independent Third Parties of the Group, the other individual shareholders were employees of Jiangsu Pengfei as at the date of its establishment.

(2) During the restructuring of Jiangsu Pengfei Group Company*(江蘇鵬飛集團公司), the shareholders of Jiangsu Pengfei made capital contribution with object capital (such as machine and equipment) or land use rights. The capital contribution of Haian County Dagong Collective Assets Management Company Limited* (海安縣大公集體資產經營有限公司) included rural collective land of approximately 112,433 square meter with an estimated value of RMB14,069,600. Under PRC Company law, shareholders of a company who contribute non-cash capital shall go through the transfer procedures according to law. Under PRC law, except for special circumstances stipulated by laws and regulations, the collective land use rights of peasant could not be assigned, transferred or leased for non-agricultural construction purpose. Therefore, the transfer of rural collective land of Haian County Dagong Collective Assets Management Company Limited* (海安縣大公集體資產經營有限公司) to Jiangsu Pengfei could not be registered at that time, thus there was a shortfall of RMB14,069,600 capital contribution. During the restructuring of Jiangsu Pengfei in 2010 for all remaining collective interests transferred to individual shareholders, Dagong Town People's Government* (大公鎮人民政府) confirmed that the shortfall of capital contribution by Haian County Dagong Collective Assets Management Company Limited* (海安縣大公集體資產經營有限公司) should be replenished by Wang Jiaan (王家安) and other 11 existing shareholders who were actually the transferees for the restructuring of Jiangsu Pengfei. Subsequently, as part of the Reorganisation, Heavy Equipment PRC entered into an equity transfer agreement with Wang Jiaan (王家安) and 38 natural person shareholders of Jiangsu Pengfei on 8 September 2018 for transfer of equity interests in Jiangsu

Pengfei to Heavy Equipment PRC, pursuant to which Heavy Equipment PRC agreed to replenish such shortfall of capital contribution. The shortfall of RMB14,069,600 was replenished by cash contribution from Heavy Equipment PRC on 15 October 2018. As (i) the equity transfer agreement was approved by all the shareholders in shareholders meeting, and (ii) a total of approximately 71.75% of the registered capital collectively held in Jiangsu Pengfei was already transferred from Haian County Dagong Collective Assets Management Company Limited* (海安縣大公集體資產經營有限公司) and Haian County Building Equipment Manufacturing Plant* (海安縣建材設備製造總廠) to 12 existing shareholders pursuant to an equity share transfer agreement dated 17 December 2010 and thus Jiangsu Pengfei has ceased to be involved in collective interests, the replenishment of the shortfall of RMB14,069,600 by Heavy Equipment PRC did not require the approval by Dagong Town People's Government* (大公鎮人民政府) and our PRC Legal Advisor confirms it is legal and valid.

(3) Haian County Dagong Collective Assets Management Company Limited* (海安縣大公集體資產經營有限公司) was a collective enterprise established on 7 February 2002 collectively owned by Haian County Dagong Town Enterprise Service Center* (海安縣大公鎮企業服務中心) and Haian County Dagong Industry Supply and Marketing Management Department* (海安縣大公工業供銷經理部). The Company's business scope was investment in collective assets.

(4) Haian County Building Equipment Manufacturing Plant* (海安縣建材設備製造總廠) was a collective enterprise established on 26 December 1980 and the main investor of Jiangsu Pengfei Group Company* (江蘇鵬飛集團公司) when it was established in 1994. The collective enterprise was deregistered.

During the Track Record Period and up to the Latest Practicable Date, Jiangsu Pengfei is mainly engaged in equipment manufacturing and installation, and construction of production lines business in the PRC and overseas.

(a) ***Changes in registered capital***

As at 8 July 2002, being the date of establishment, the registered capital of Jiangsu Pengfei was RMB51,385,900, which was subsequently increased to RMB351,385,900 on 8 September 2018 and has remained the same since then.

(b) ***Material Changes in shareholding***

During the period from 2002 to 2010, there were a few instances of share transfer among the existing shareholders, as a result of which Ben Youlan (賁友蘭), Zhu Chun (朱純) and Zhou Guangshun (周光順) ceased to be the shareholders of Jiangsu Pengfei and there was an additional shareholder Pei Qirong (裴其榮), who was an employee of Jiangsu Pengfei.

For the purposes of restructuring of Jiangsu Pengfei, Haian County Dagong Collective Assets Management Company Limited* (海安縣大公集體資產經營有限公司) and Haian County Building Equipment Manufacturing Plant* (海安縣建材設備製造總廠) transferred a total of approximately 71.75% of the registered capital collectively held in Jiangsu Pengfei to 12 existing shareholders(1) at a total consideration of RMB18,060,000 determined with reference to assessment amount pursuant to an equity share transfer agreement dated 17 December 2010(2). The equity transfer agreement was approved by Dagong Town People's Government (大公鎮人民政府) on 18 December 2010. The consideration was settled at an agreed discounted price of RMB16,260,000 on 22 December 2010 as the consideration was fully paid at one time. Subsequent to the share transfer and immediately prior to the time when Jiangsu Pengfei was involved in the Reorganisation process, the shareholders with their respective capital contribution and shareholding of Jiangsu Pengfei were as follows:

Shareholders(1)	**Subscribed capital contribution (RMB)**	**Approximate percentage of Shareholding (%)**
Wang Jiaan (王家安) (2)	28,425,900	55.32
Zhou Yinbiao (周銀標)	4,430,000	8.62
Yu Yangui (于延桂)	3,100,000	6.03
Dai Xianru (戴賢如)	2,800,000	5.45
Wang Yun (王雲)	2,290,000	4.46
Chen Yulou (陳玉樓)	2,040,000	3.97
Ben Daolin (賁道林)	1,630,000	3.17
Chen Lidong (陳黎東)	1,380,000	2.69
Cai Tongfu (蔡同富)	1,350,000	2.63
Ben Xudong (賁旭東)	1,200,000	2.34
Ben Daochun (賁道春)	1,080,000	2.10

Notes:

(1) The 12 existing shareholders include: Wang Jiaan (王家安), Zhou Yinbiao (周銀標), Yu Yangui (于延桂), Dai Xianru (戴賢如), Wang Yun (王雲), Chen Yulou (陳玉樓), Ben Daolin (賁道林), Chen Lidong (陳黎東), Cai Tongfu (蔡同富), Ben Xudong (賁旭東), Ben Daochun (賁道春) and Pei Qirong (裴其榮).

(2) According to the collective interest transfer implementation plan of Jiangsu Pengfei approved by its board of directors in directors' meeting, its shareholders in shareholders meeting and subsequently by Dagong Town People's Government (大公鎮人民政府) for the restructuring of Jiangsu Pengfei, the lead transferee shall be recommended by the staff and workers' congress and approved by Dagong Town People's Government (大公鎮人民政府), while other transferees shall be the directors, supervisors or senior management of Jiangsu Pengfei. Wang Jiaan (王家安) was elected by the staff and workers' congress as the lead transferee for the restructuring of Jiangsu Pengfei, thus only Wang Jiaan (王家安) was stated as the transferee in the equity share transfer agreement dated 17 December 2010. The other 11 existing shareholders were included as transferees in the internal allocation plan approved by Dagong Town People's Government (大公鎮人民政府). On 20 December 2010, Wang Jiaan (王家安) entered into an equity transfer agreement with the other 11 transferees, pursuant to which 71.75% of the registered capital of Jiangsu Pengfei transferred by Haian County Dagong Collective Assets Management Company Limited* (海安縣大公集體資產經營有限公司) and Haian County Building Equipment Manufacturing Plant* (海安縣建材設備製造總廠) were distributed internally with consideration according to the internal allocation plan.

Shareholders[1]	Subscribed capital contribution (RMB)	Approximate percentage of Shareholding (%)
Pei Qirong (裴其榮)	350,000	0.68
Liu Chengguan (劉成官)	120,000	0.23
Qian Jiayin (錢加銀)	120,000	0.23
Zhang Doufa (張鬥發)	80,000	0.16
Ding Jialin (丁佳林)	80,000	0.16
Zhou Bugao (周步高)	70,000	0.14
Chen Jixiang (沈吉祥)	70,000	0.14
Wang Xiaobo (王小波)	40,000	0.08
Yu Zhongwen (于中文)	40,000	0.08
Lin Xianyue (林先月)	40,000	0.08
Yuan Xiaofei (袁小飛)[3]	40,000	0.08
Wang Shiqin (王世芹)	40,000	0.08
Ding Qinghai (丁慶海)	40,000	0.08
Cui Hengfu (崔恒富)	40,000	0.08
Jiao Yuanjin (焦遠進)	40,000	0.08
Wang Jin (王進)	40,000	0.08
Jiang Xiaoming (蔣曉明)	40,000	0.08
Wu Yijun (吳義軍)	40,000	0.08
Zhou Yue (周悦)	40,000	0.08
Zhou Kewen (周克穩)	40,000	0.08
Zhou Jin (周錦)	40,000	0.08
Wang Huajun (王華俊)	30,000	0.06
Zhang Gui (張貴)	30,000	0.06
Liu Yaqin (劉亞芹)	30,000	0.06
Ben Zhonglin (賁忠林)[3]	30,000	0.06
Pei Haiqing (裴海青)[3]	30,000	0.06
Cui Xinxin (崔欣欣)[4]	30,000	0.06
Zhou Jianyi (周建益)	30,000	0.06
Total	51,385,900	100

Notes:

(1) Except Liu Chengguan (劉成官), Qian Jiayin (錢加銀), Zhang Doufa (張鬥發), Ding Jialin (丁佳林), Yuan Xiaofei (袁小飛), Wang Jin (王進), Wang Huajun (王華俊) and Cui Xinxin (崔欣欣), all other individual shareholders were employees of Jiangsu Pengfei as at the Latest Practicable Date.

(2) 4,347,900 employee shares, amounting to approximately 8.46% equity interest of Jiangsu Pengfei, was held by Wang Jiaan (王家安) on trust from 17 December 2010 until 10 October 2014, when the board of directors of Jiangsu Pengfei resolved to allocate all 4,347,900 employee shares to Wang Jiaan (王家安) in recognition of his contribution to Jiangsu Pengfei.

(3) Pursuant to the shareholders' resolutions dated 27 November 2017, it was resolved that shares of Yuan Chuanjun (袁傳軍), Wang Huajun (王華均) and Pei Jianian (裴加年) in Jiangsu Pengfei were inherited by Yuan Xiaofei (袁小飛) (son of Yuan Chuanjun (袁傳軍)), Ben Zhonglin (賁忠林) (wife of Wang Huajun (王華均)) and Pei Haiqing (裴海青) (daughter of Pei Jianian (裴加年)) respectively.

(4) Pursuant to the shareholders' resolutions dated 8 September 2018, it was resolved that shares of Cui Yegui (崔業貴) in Jiangsu Pengfei were inherited by Cui Xinxin (崔欣欣) (daughter of Cui Yegui (崔業貴)).

(ii) Pengfei Equipment

Pengfei Equipment, previously known as Haian County Pengfei Building Material Equipment Co., Ltd.* (海安縣鵬飛建材設備有限公司), was established in the PRC on 13 November 2001 as a limited liability company with a registered capital of RMB6,805,500, which was owned as to approximately 73.99% by Jiangsu Pengfei Group Company*(江蘇鵬飛集團公司) and approximately 26.01% by 12 individual shareholders[(1)].

During the Track Record Period and up to the Latest Practicable Date, the principal business activities of Pengfei Equipment involve equipment manufacturing and installation, and construction of production lines business in the PRC and overseas.

Notes:

(1) The 12 individual shareholders and his/her respective approximate equity interest in Pengfei Equipment as at the date of establishment are as follows: 5.58% by Guo Wenwu (郭文武), 3.53% by Lu Lixin (盧立新), 4.70% by Dai Wansheng (戴萬生), 3.53% by Tang Tianmao (唐田茂), 1.91% by Zhou Weidong (周衛東), 1.91% by Xu Xiaonian (徐曉年), 1.47% by Wang Yaoming (王耀明), 1.03% by Wang Zhen (王震), 0.59% by Zhou Feng (周峰), 0.59% by Wang Huacheng (王華成), 0.59% by Cui Yongqing (崔永清) and 0.59% by Chen Xiaofeng (陳曉峰). The 12 individual shareholders are Independent Third Parties to our Group. Jiangsu Pengfei Group Company*(江蘇鵬飛集團公司) made capital contribution with housing building, with an estimated value of RMB4,038,300 and RMB1,560,000 in 2001 and 2004 respectively; and Dai Wanping (戴萬平) made capital contribution with housing building with an estimated value of RMB16,700 in 2004. The housing building was on collective land and under PRC law, except for special circumstances stipulated by laws and regulations, house-ownership on collective land could not be assigned, transferred or leased. Thus, the said housing building could not be transferred to Pengfei Equipment and there was a shortfall of RMB5,615,000 capital contribution. The shortfall of RMB5,615,000 was replenished by cash contribution from Jiangsu Pengfei and Dai Wanping (戴萬平) pursuant to the shareholders' resolution of Pengfei Equipment dated 1 September 2018. The shortfall of RMB5,615,000 was confirmed to be replenished by 21 September 2018.

(a) *Changes in registered capital*

The following table sets out the changes in Pengfei Equipment's registered capital since its establishment.

Date	Registered capital before changes (RMB)	Registered capital after changes (RMB)
10 September 2004	6,805,500	10,115,500
21 September 2018	10,115,500	10,215,500

(b) ***Material Changes in shareholding***

On 20 March 2004, Jiangsu Pengfei and Zhou Jun (周軍) entered into a capital contribution transfer agreement, pursuant to which Jiangsu Pengfei transferred approximately 1.18% of equity interest in Pengfei Equipment to Zhou Jun (周軍) as a consideration of the transfer of approximately 1.17% equity interest in Pengfei Construction from Zhou Jun (周軍) to Jiangsu Pengfei on 18 December 2002. On the same day, Guo Wenwu (郭文武) and Chen Qin (陳琴), the employee of Pengfei Equipment, wife of Guo Wenwu (郭文武) entered into a capital contribution transfer agreement, pursuant to which Guo Wenwu (郭文武) transferred approximately 1.81% equity interest in Haian County Oasis Environmental Engineering Limited Company* (海安縣綠洲環保工程有限公司) ("**Haian Oasis**") to Chen Qin (陳琴) at nil consideration.

For the purposes of cost efficiency, pursuant to shareholder resolutions of Pengfei Equipment dated 20 March 2004, Pengfei Equipment merged with Haian Oasis by increasing its registered capital by RMB3,310,000 and issuing shares to the shareholders of Haian Oasis[(1)]. Immediately before the said merger, Haian Oasis was owned as to the following approximate shareholding: 74.02% by Jiangsu Pengfei, 8.16% by Zhou Lie (周烈), 6.04% by Pei Long (裘龍), 4.83% by Wang Liming (王禮明), 2.72% by Cao Zhiying (曹智英)[(2)], 1.81% by Chen Qin (陳琴), 1.21% by Liu Longchi (劉龍池), 0.6% by Dai Wanping (戴萬平) and 0.6% by Zhou Jiankai (周建凱).

As a result of the said merger, the registered capital of Pengfei Equipment increased to RMB10,115,500, which was owned as to approximately 73.21% by Jiangsu Pengfei and as to approximately 26.79% by other individual shareholders.[(3)]

Pursuant to shareholder resolutions of Pengfei Equipment dated 1 September 2018, Jiangsu Pengfei transferred an aggregate of approximately 6.43% of equity interest in Pengfei Equipment to 9 individual shareholders[(4)] of Pengfei Equipment at a consideration of RMB650,000 based on the then registered capital of Pengfei Equipment. Pursuant to the same shareholder resolutions, Cao Ping (曹萍) subscribed for capital contribution of RMB100,000 in Pengfei Equipment.

As a result of the said transfer and capital contribution, immediately before Pengfei Equipment was involved in the Reorganisation process, the registered capital of Pengfei Equipment increased to RMB10,215,500, which was owned as to approximately 66.13% by Jiangsu Pengfei and as to approximately 33.87% by Other Pengfei Equipment Shareholders[(5)].

Notes:

(1) The following number of shares of Pengfei Equipment were issued to the shareholders of Haian Oasis: 2,450,000 shares to Jiangsu Pengfei, 270,000 shares to Zhou Lie (周烈), 200,000 shares to Pei Long (裘龍), 160,000 shares to Wang Liming (王禮明), 90,000 shares to Cao Zhiying (曹智英), 60,000 shares to Chen Qin (陳琴), 40,000 shares to Liu Longchi (劉龍池), 20,000 shares to Dai Wanping (戴萬平) and 20,000 shares to Zhou Jiankai (周建凱).

(2) Cao Zhiying (曹智英) is wife of Wang Jiaan (王家安).

(3) The respective approximate equity interest of other individual shareholders in Pengfei Equipment following the said merger was as follows: 2.37% by Lu Lixin (盧立新), 1.98% by Pei Long (裘龍), 1.29% by Xu Xiaonian (徐曉年), 0.79% by Zhou Jun (周軍), 0.59% by Chen Qin (陳琴), 0.4% by Chen Xiaofeng (陳曉峰), 0.2% by Zhou Jiankai (周建凱), 0.69% by Wang Zhen (王震), 0.89% by Cao Zhiying (曹智英), 1.29% by Zhou Weidong (周衛東), 2.67% by Zhou Lie (周烈), 0.99% by Wang Yaoming (王耀明), 0.2% by Dai Wanping (戴萬平), 3.76% by Guo Wenwu (郭文武), 0.4% by Cui Yongqing (崔永清), 3.16% by Dai Wansheng (戴萬生), 0.4% by Liu Longchi (劉龍池), 1.58% by Wang Liming (王禮明), 0.4% by Zhou Feng (周峰), 0.4% by Wang Huacheng (王華成) and 2.37% by Tang Tianmao (唐田茂).

(4) Jiangsu Pengfei transferred the approximate shareholdings of Pengfei Equipment as follows: 0.99% to Guo Wenwu (郭文武), 0.99% to by Lu Lixin (盧立新), 0.99% to Dai Wansheng (戴萬生), 0.99% to Tang Tianmao (唐田茂), 0.99% to Zhou Lie (周烈), 0.99% to Wang Liming (王禮明), 0.30% to Cao Zhiying (曹智英), 0.099% to Zhou Weidong (周衛東) and 0.099% to Xu Xiaonian (徐曉年).

(5) The respective approximate equity interest of Other Pengfei Equipment Shareholders in Pengfei Equipment following the said share transfer was as follows: 4.70% by Guo Wenwu (郭文武), 4.11% by Dai Wansheng (戴萬生), 3.62% by Zhou Lie (周烈), 3.33% by Lu Lixin (盧立新), 3.33% by Tang Tianmao (唐田茂), 2.54% by Wang Liming (王禮明), 1.96% by Pei Long (裴龍), 1.37% by Xu Xiaonian (徐曉年), 1.37% by Zhou Weidong (周衛東), 1.17% by Cao Zhiying (曹智英), 0.98% by Wang Yaoming (王耀明), 0.98% by Cao Ping (曹萍), 0.78% by Zhou Jun (周軍), 0.69% by Wang Zhen (王震), 0.59% by Chen Qin (陳琴), 0.39% by Chen Xiaofeng (陳曉峰), 0.39% by Cui Yongqing (崔永清), 0.39% by Liu Longchi (劉龍池), 0.39% by Wang Huacheng (王華成), 0.39% by Zhou Feng (周峰), 0.2% by Dai Wanping (戴萬平) and 0.2% by Zhou Jiankai (周建凱). Apart from that Cao Zhiying (曹智英) is wife of Wang Jiaan (王家安) and that Guo Wenwu (郭文武) and Chen Qin (陳琴) are spouse, there is no relationship among Other Pengfei Equipment Shareholders, Wang Jiaan (王家安), PF International Shareholders and PF Global Shareholders. All Other Pengfei Equipment Shareholders are existing or former employees of Pengfei Equipment. Guo Wenwu (郭文武), Zhou Lie (周烈) and Zhou Jun (周軍) are currently employees of Jiangsu Pengfei; Tang Tianmao (唐田茂), Cao Zhiying (曹智英), Wang Yaoming (王耀明) and Wang Zhen (王震) have retired; apart from the above, all Other Pengfei Equipment Shareholders are existing employees of Pengfei Equipment.

(iii) Heavy Equipment PRC

Heavy Equipment PRC was established in the PRC on 8 April 2004 as a limited liability company with a registered capital of US$1,280,000, which was owned as to 28.125% by Shwin Chouk (楊榮東) and 71.875% by Jiangsu Pengfei.

Upon incorporation, the principal business of Heavy Equipment PRC was production and sales of components and parts for cement rotary kiln machinery. Heavy Equipment PRC was set up by Jiangsu Pengfei and Shwin Chouk (楊榮東) as Shwin Chouk (楊榮東) was optimistic about the cement equipment market in China and his cement production line in Myanmar (Burma) needed components and parts which could be provided by Heavy Equipment PRC for follow-up maintenance and repair.

During the Track Record Period and up to the Latest Practicable Date, the principal business activities of Heavy Equipment PRC involve leasing of property and equipment to our Group.

(a) *Changes in registered capital*

The following table sets out the changes in Heavy Equipment PRC's registered capital since its establishment.

Date	Registered capital before changes (US$)	Registered capital after changes (US$)
23 November 2004	1,280,000	1,580,000
23 December 2015	1,580,000	1,360,000
29 March 2018	1,360,000	9,560,000

(b) ***Material Changes in shareholding***

After the initial investment in Heavy Equipment PRC, Shwin Chouk (楊榮東) remained optimistic about the Chinese market, and at the same time, Jiangsu Pengfei would like to focus on its own business development instead of the business of a joint venture company, thus Jiangsui Pengfei decided only to retain a minority stake in Heavy Equipment PRC and disposed of approximately 54.69% equity interest in Heavy Equipment PRC to Shwin Chouk (楊榮東).

On 15 November 2004, Jiangsu Pengfei transferred approximately 54.69% of its equity interest in Heavy Equipment PRC at a total consideration of US$700,000 to Shwin Chouk (楊榮東)[(1)]. The consideration of the said share transfer was determined on the basis of the then registered capital of Heavy Equipment PRC, as Heavy Equipment PRC had just commenced its business and its net asset value was similar to the subscribed capital contribution, which was fully settled on 31 December 2005.

On the same day, Shwin Chouk (楊榮東) subscribed for capital contribution in the amount of US$300,000 in Heavy Equipment PRC, which increased the registered capital of Heavy Equipment PRC to US$1,580,000.

Subsequent to the said capital contribution and share transfer, Shwin Chouk (楊榮東) became the controlling shareholder of Heavy Equipment PRC and the shareholders of Heavy Equipment PRC were as follows:

Shareholders	**Subscribed capital contribution (US$)**	**Approximate percentage of Shareholding (%)**
Shwin Chouk (楊榮東)	1,360,000	86.08
Jiangsu Pengfei	220,000	13.92
Total	1,580,000	100

Before the commencement of the Track Record Period, as Shwin Chouk (楊榮東) primarily focused on his personal business in Myanmar (Burma) and Heavy Equipment PRC had no other business operation except leasing of property and equipment to our Group, so on 18 October 2015,

(1) Shwin Chouk (楊榮東) was an owner of a cement production line project in Myanmar (Burma). The Group sold complete sets of equipment and provided installation services for the cement production line in 2000 and Heavy Equipment PRC sold components and parts to the cement production line in 2005. From 2016 to February 2018, Heavy Equipment PRC leased the property and equipment to Jiangsu Pengfei, with leasing income (excluding tax) of Heavy Equipment PRC being RMB499,920, RMB499,920 and RMB83,320 for 2016, 2017 and two months ended 28 February 2018, respectively, based on market rental value. The leasing arrangement between Heavy Equipment PRC and Jiangsu Pengfei prior to Heavy Equipment PRC's acquisition by the Group in March 2018 was conducted on an arm's length basis with terms and prices comparable to similar transactions conducted with other independent third parties. Apart from these transactions, there is no other relationship between Shwin Chouk (楊榮東) and the Group or its subsidiaries, directors, shareholders and senior management.

Jiangsu Pengfei decided to divest in Heavy Equipment PRC and reduced its share of capital contributions in the amount of US$220,000 in Heavy Equipment PRC. Subsequent to the reduced registered capital and immediately prior to the Reorganisation, the shareholding structure of Heavy Equipment PRC was wholly owned by Shwin Chouk (楊榮東) with the registered capital of US$1,360,000.

CONFIRMATION FROM OUR PRC LEGAL ADVISERS

Our PRC Legal Advisers have confirmed that with the replenishment of capital contribution shortfall by the relevant shareholders, the above increase or decrease of registered capital and share transfers are lawful and valid, and the necessary legal procedures have been completed and we have obtained all applicable approvals from the PRC governmental authorities.

DISPOSAL OF OR DEREGISTRATION OF SUBSIDIARIES AND ASSOCIATED COMPANIES BY OUR GROUP DURING THE TRACK RECORD PERIOD

To streamline our Group's organizational structure and to focus on our core business, Jiangsu Pengfei disposed of our entire interest in seven subsidiaries and associated companies. In addition, six subsidiaries in which Jiangsu Pengfei had an equity interest have been deregistered. The consideration for each of the disposals was determined based on arm's length negotiations between the parties and was fully settled. Each of the disposals and de-registrations was properly and legally completed.

Details of such disposals and de-registrations are set forth as follows:

Subsidiaries or associated companies being disposed of to Independent Third Parties

	Name of subsidiary/ associated company	Percentage of registered capital of the respective disposed entities subscribed by our Group before the disposal	Principal business	Disposal consideration (RMB'000)	Transferee(s)	Reason for disposal by our Group and acquisition by the transferee(s)	Disposal completion date[(1)]	Nature and amount of transactions with other Group entity(ies) from the commencement of the Track Record Period and up to the date of disposal (RMB'000)	Nature and amount of transactions with our Group after the date of disposal and up to the end of the Track Record Period (RMB'000)	Transactions with major customers/ suppliers from the commencement of the Track Record Period and up to the date of disposal (RMB'000)
1.	Pengfei Construction[(2)]	95.16%	Direct mechanical equipment installation and commissioning; non-standard production; industrial and civil construction[(3)]	294.2 (based on the then actual paid-in registered capital)[(4)]	Mr. Zhou Jianjun (周建軍)[(5)]	Our Group was not involved in the operation and management of the company and considered that disposing the company would be more managerial efficient to the Group as a whole. As Mr. Zhou Jianjun (周建軍) was one of the shareholders and the actual controller of this company before disposal and, as far as the Directors are aware, he desired to increase his equity interest in this company, he acquired the equity interests from our Group. Our Group was a passive investor[(2)] of Pengfei Construction and our Group considered it would be more commercially attractive to Mr. Zhou Jianjun (周建軍) to acquire the remaining interests compared to other independent third parties, given that Pengfei Construction is a private company; and our Group expected that at least we could dispose of our interest at a reasonable price to Mr. Zhou Jianjun (周建軍) when compared to disposal to other independent third parties, not to mention the possibility of finding other independent third parties who would be interested in purchasing the interests in a private company, and therefore our Group would give priority to Mr. Zhou Jianjun (周建軍).	16 October 2017	Provision of installation services to other Group entity(ies): 582.5	Nil	Nil

Notes:

(1) The disposal completion date is based on the date when the relevant PRC authorities completed the necessary equity transfer registration.

(2) Our Group was a passive investor of Pengfei Construction prior to the disposal of the equity interest since the principal business activities of Pengfei Construction prior to its disposal by our Group was mainly the provision of mechanical equipment installation and commissioning services while our Group provided mechanical equipment installation services to our customers not as a standalone business segment or main source of income for our Group, but part and parcel to our manufacturing of equipment business and construction of production line business by outsourcing the installation works to subcontractors to be carried out under our Group's supervision, and Pengfei Construction was one of our subcontractors of installation works during the Track Record Period and prior to our disposal of its equity interest. In 2002, as part of the restructuring of Jiangsu Pengfei under the direction of Dagong Town People's Government* (大公鎮人民政府), Mr. Zhou Jianjun (周建軍), who had relevant industry experience, took the lead to establish Pengfei Construction and was responsible for the day-to-day operation and management of Pengfei Construction. Therefore, our Group held shares in Pengfei Construction as a passive investor without involvement in the day-to-day operation and management activities of Pengfei Construction and without actual control over Pengfei Construction. Such arrangement was due to the requirements of Dagong Town People's Government* (大公鎮人民政府) and the restructuring guidance documents of the PRC government including the Implementation Plan for Deepening Reform of Jiangsu Pengfei* (關於江蘇鵬飛集團公司深化改革的實施方案) and the Restructuring and Reorganisation Plan of Jiangsu Pengfei* (江蘇鵬飛集團公司改制重組方案), rather than the commercial investment decision of our Group. Jiangsu Pengfei did not appoint any of its director, supervisor or senior management personnel to the board or management team of Pengfei Construction, our Group was not involved in the day-to-day operation and management of Pengfei Construction, and Mr. Zhou Jianjun (周建軍) being the actual controller was responsible for the operation and management of Pengfei Construction, therefore, our Group did not have control over Pengfei Construction.

(3) The principal business of Pengfei Construction remained the same after disposal by our Group and as of the Latest Practicable Date.

(4) As far as the Directors are aware, the source of funding of Mr. Zhou Jianjun (周建軍) in acquisition of such equity interest in Pengfei Construction was from his personal resources.

(5) Mr. Zhou Jianjun (周建軍) was the legal representative and executive director of Pengfei Construction before and after the disposal. He was responsible for the daily operation and management of Pengfei Construction. He joined our Group's predecessor in 1986 as a worker in the installation department responsible for installation and commissioning of equipment. He resigned as a worker in the installation department in 2001 due to the restructuring guidance of the PRC government and for the purpose of establishing Pengfei Construction. Therefore, he had around 15 years of experience in mechanical equipment installation and commissioning prior to the establishment of Pengfei Construction. Mr. Zhou Jianjun (周建軍) was no longer an employee of our Group upon disposal of Pengfei Construction. Mr. Zhou's wife, Ms. Wang Yun (王雲), is one of the PF International Shareholders and an employee of Jiangsu Pengfei.

	Name of subsidiary/ associated company	Percentage of registered capital of the respective disposed entities subscribed by our Group before the disposal	Principal business	Disposal consideration (RMB'000)	Transferee(s)	Reason for disposal by our Group and acquisition by the transferee(s)	Disposal completion date[1]	Nature and amount of transactions with other Group entity(ies) from the commencement of the Track Record Period and up to the date of disposal (RMB'000)	Nature and amount of transactions with our Group after the date of disposal and up to the end of the Track Record Period (RMB'000)	Transactions with major customers/ suppliers from the commencement of the Track Record Period and up to the date of disposal (RMB'000)
2.	Large Parts Equipment	100%	Design, manufacture and sale of complete sets of mechanical equipment; lease of owned real estate properties[6]	68,000 (based on the valuation report)[7]	Mr. Wang Kehong (王克洪)[8]	Before the Track Record Period, our Group engaged this company for the processing and assembling of large size equipment using the components provided by the Group since Large Parts Equipment is located nearer to Jiangsu Province Nantong City Port Export Port* (江蘇省南通市出口港) ("**Nantong Port**") than our Group. This arrangement was mainly to resolve the transportation limitation and reduce transportation costs from transporting large size equipment from our Group to Nantong Port. Since 2015, an inland terminal deport located near to our Group's headquarter has been built and put into use. Since then, our Group was able to manufacture large size equipment ourselves and transport the equipment to Nantong Port or other ports via such inland terminal deport at a lower cost than engaging this company. As a result, our Group did not require the services from this company anymore and this company ceased to provide such services to our Group since 2015. Mr. Wang Kehong (王克洪) under the encouragement of an individual, who was an Independent Third Party and willing to provide funding to Mr. Wang to acquire Large Parts Equipment to venture into equipment processing business, acquired the entire equity interests of this company from our Group given that (i) he was interested in the land and property owned by Large Parts Equipment due to its close proximity to Nantong Port and he expected to generate rental income and future capital gain from the land and property owned by Large Parts Equipment; (ii) he had the relevant industry experience for development his own business through Large Parts[8] Equipment, (iii) this company had already been established with business scope in its business licence relevant to his industry experience, and (iv) it was more convenient to acquire an existing company than to incorporate a new company. In order to support the "Widespread Entrepreneurship and Innovation" ("大眾創業, 萬眾創新") policy released and promoted by the State Council of the PRC government in 2015 and 2016 and with a view of the potential benefit of creating business opportunities to our Group by supporting its own employee for developing their own businesses, our Group agreed to dispose of the equity interest in Large Parts Equipment to Mr. Wang Kehong (王克洪). Given that Large Parts Equipment is a private company with limited business operations before its disposal, our Group considered there was no liquid market for the sale of such equity interests and it was relatively impractical to solicit interests from independent third parties to acquire the equity interests of Large Parts Equipment.	21 June 2017	Nil [9]	Nil	Nil

Notes:

(6) Despite the permitted scope of business of Large Parts Equipment set forth in its business license stated above, Large Parts Equipment ceased to engage in processing and assembling of large size equipment business in 2015 and it was mainly engaged in the business of leasing of owned real estate properties before disposal by our Group. The principal business of Large Parts Equipment in leasing owned real estate properties remained the same after disposal by our Group and as of the Latest Practicable Date. At the time of disposal, the majority of assets of Large Parts Equipment was land and property and the small amount of aging machinery and equipment owned by Large Parts Equipment. Therefore, our Group considers Large Parts Equipment not to be in direct competition with us. Our Group had been looking for a buyer willing to acquire Large Parts Equipment with a consideration of at least RMB68,000,000 based on its investment cost since Large Parts Equipment ceased to provide services to the Group in 2015 and until the disposal of Large Parts Equipment to Mr. Wang Kehong (王克洪).

(7) As far as the Directors are aware, the source of funding of Mr. Wang Kehong (王克洪) in acquisition of the entire equity interest in Large Parts Equipment was from his personal resources and funding from Independent Third Parties. According to the best knowledge of the Directors, the majority of the source of funding of his acquisition of Large Parts Equipment was from an Independent Third Party who is an individual and personal acquaintance to him. According to the best knowledge of the Directors, apart from that Independent Third Party being an ex-employee of our Group who had left our Group for more than 20 years, there are no past or present relationship (business, financing or otherwise) between such Independent Third Party and the Group, its shareholders, Directors, senior management or their respective associates.

(8) Mr. Wang Kehong (王克洪) had no official role in Large Parts Equipment and was not involved in its daily operation before the disposal. He became the legal representative of Large Parts Equipment responsible for its daily operation and management after the disposal. He had over 15 years of working experience before his acquisition of Large Parts Equipment during which he worked in the accounting department of a building material company from 2002 to 2006 and then joined our Group as a supply section sub-chief in 2007 and was promoted to supply section chief in 2014. He was an employee of Jiangsu Pengfei with title of supply section chief responsible for daily operation and management of the supply section before disposal. According to the internal control policy of our Group that the position of supply section chief should be reviewed and changed every three years, the term of Mr. Wang Kehong (王克洪) as a supply section chief was supposed to end in October 2017 and so our Group was prepared to replace Mr. Wang Kehong (王克洪) with a new supply section chief.

As at June 2017, Mr. Wang Kehong (王克洪) was responsible for some of the supply agreements which the Group had advanced prepayments for but the raw materials delivered had not been accepted by the Group due to quality issue or the raw materials had not been delivered by the supplier on time. Mr. Wang Kehong (王克洪) was responsible for handling these supply agreements, amongst other handover matters, for the period from June 2017 to September 2018. Our Group considers extending the term of Mr. Wang Kehong (王克洪) as a supply section chief to handle these matters to be in the best interests of the Group. At the time of disposal in 2017, the majority of assets of Large Parts Equipment was land and property and the small amount of aging machinery and equipment and it was mainly engaged in the business of leasing of owned real estate properties. Therefore, the Group considered there was no conflict of interests between the responsibilities undertaken by Mr. Wang Kehong (王克洪) in the Group and his ownership of Large Parts Equipment. Mr. Wang Kehong (王克洪) ceased to be an employee of our Group since September 2018.

(9) All transactions between the Company and other Group entity(ies) were conducted before the Track Record Period.

	Name of subsidiary/ associated company	Percentage of registered capital of the respective disposed entities subscribed by our Group before the disposal	Principal business	Disposal consideration (RMB'000)	Transferee(s)	Reason for disposal by our Group and acquisition by the transferee(s)	Disposal completion date[1]	Nature and amount of transactions with other Group entity(ies) from the commencement of the Track Record Period and up to the date of disposal (RMB'000)	Nature and amount of transactions with our Group after the date of disposal and up to the end of the Track Record Period (RMB'000)	Transactions with major customers/ suppliers from the commencement of the Track Record Period and up to the date of disposal (RMB'000)
3.	Pengfei Trade[10]	100%	Sales of mechanical equipment, hardware products and electronic products; self-operating and as agent of import and export businesses of various commodities and technologies[11]	5,000 (based on the valuation report)[12]	Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰)[13]	Previously, in response to the strong encouragement of Dagong Town People's Government* (大公鎮人民政府) on setting up new branches and subsidiaries since 2008 due to the relevant PRC government policy documents encouraging development of private economy including the Opinion on Promoting the Separation of the Main Body and Subsidiary of Enterprises for Developing Service Industry (Trial)* (關於推進企業主輔分離發展服務業的意見(試行)) and to echo the PRC government's policy for developing tertiary business sector, such as trading business, our Group established this company in 2012 with the view that this company could attract purchases from overseas clients and our Group could then conduct trading business via the company indirectly, but the Group had no concrete plan to develop the business of Pengfei Trade since its establishment. However, this company failed to generate meaningful revenue or business opportunities on its own after its incorporation. Also, our Group subsequently appreciated that trading business was not one of our key business strengths and focuses. In light of the abovementioned reasons, our Group decided to adjust its business strategies and to conduct sales directly by Jiangsu Pengfei instead of indirectly through this company. At the relevant time in 2015 and 2016, the State Council of the PRC government released several guidelines on and promoted the policy of "Widespread Entrepreneurship and Innovation" ("大眾創業、萬眾創新") with an aim to foster the development of new entities, new products and new markets and to achieve wealth creation amongst the public by encouraging individuals' participation in entrepreneurial activities through starting their own new business. In view of such policy and to capture their own business opportunities, Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) acquired the entire equity interests of this company from our Group given that (i) they had the relevant industry experience, (ii) this company had already been established with business scope in its business licence relevant to their industry experience, and (iii) it was more convenient to acquire an existing company than to incorporate a new company. In order to support the "Widespread Entrepreneurship and Innovation" ("大眾創業, 萬眾創新") policy and with a view of the potential benefit of creating business opportunities to our Group by supporting its own employee for developing their own businesses, our Group procured Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) as the transferees of the disposal. Pengfei Trade, our Group and/or any of their shareholders have not received any benefits from the PRC government under such policy in relation to the Group's disposal of Pengfei Trade. Given that Pengfei Trade is a private company with limited business operations before its disposal, our Group considered there was no liquid market for the sale of such equity interests and it was relatively impractical to solicit interests from independent third parties to acquire the equity interests of Pengfei Trade. It was under such circumstances that the Group disposed of the equity interest in Pengfei Trade for the purpose of simplifying its corporate structure.	21 April 2016	Purchase of equipment from other Group's entity(ies): 20,844.4 Loan to our Group: 5,000	Loan from our Group and repayment of loan: 67,000.0[14]	Sales of rotary kiln cylinders to Customer C: 20,844.4

Notes:

(10) Before its disposal, Mr. Zhou Yinbiao (周銀標) was the authorized personnel responsible for the management of Pengfei Trade. Pengfei Trade is now deregistered since 5 December 2018. It has been deregistered due to the lack of operations as it failed to secure any sales from customers after disposal by our Group to Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) and Mr. Chen and Mr. Zhang decided to focus on their respective roles and responsibilities in our Group.

(11) The principal business of Pengfei Trade remained the same after disposal by our Group until deregistration.

(12) As at the date of the share transfer agreement for disposal of the entire equity interest in Pengfei Trade, our Group had borrowed RMB5 million for business development from Pengfei Trade, which is equivalent to the amount of registered and paid-up capital of Pengfei Trade. After our Group had established Pengfei Trade and paid up its registered capital, in view of that our Group had no immediate business development plan for Pengfei Trade at the relevant time and the funds contributed by our Group to the paid-up registered capital of Pengfei Trade were considered as idle funds, for the purpose of enhancing the Group's capital efficiency, such idle funds were borrowed and utilised by the Group as working capital for its other business operations and such reallocation of capital were recorded as loans borrowed by the Group from Pengfei Trade. In consideration of the transfer of the entire equity interest in Pengfei Trade to Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰), the outstanding loan amount of RMB5 million owed by our Group to Pengfei Trade would be assigned to Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰), which is equivalent to the disposal consideration.

(13) Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) are both employees of Jiangsu Pengfei. Mr. Chen Lichun (陳禮春) was a salesman and Mr. Zhang Guifeng (張桂峰) was an administrative officer of Jiangsu Pengfei before disposal and were responsible for daily operation of Jiangsu Pengfei. Mr. Chen Lichun (陳禮春) became a financial accounting staff and Mr. Zhang Guifeng (張桂峰) remained as an administrative officer of Jiangsu Pengfei after disposal and as at the Latest Practicable Date and are responsible for the daily operation of Jiangsu Pengfei. Mr. Chen Lichun (陳禮春) has prior working experience in trading business with customer relationship and Mr. Zhang Guifeng (張桂峰) has prior working experience in sales business. The intention of Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) in acquiring Pengfei Trade was to start their own business to capture potential business opportunities through Pengfei Trade by taking into consideration of the low cost of acquiring an existing company than incorporating a new company as the acquisition of Pengfei Trade was settled by assigning the outstanding loan owed by our Group to Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰). At the time of acquisition, Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) planned to achieve their expected return by approaching overseas customers through Pengfei Trade. As Pengfei Trade did not own any properties, machinery and did not employ any employees and notwithstanding that both Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) remained as employees of Jiangsu Pengfei after acquisition of Pengfei Trade, they were able to operate and manage Pengfei Trade with their own minimal effort. Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) had no official role in Pengfei Trade and was not involved in its daily operation before the disposal. Mr. Zhang Guifeng (張桂峰) acted as a supervisor of Pengfei Trade after the disposal.

(14) At the end of 2016, Pengfei Trade was requested by a potential overseas customer to provide fund proof and bank guarantee from bank. In view of the potential business with Pengfei Trade for sub-contract works and products to be supplied by our Group in the potential production line project with the potential overseas customer, Jiangsu Pengfei entered into a loan agreement with Pengfei Trade on 1 December 2016 pursuant to which Pengfei Trade obtained a term loan from 5 December 2016 to 4 March 2017 in the amount of RMB67,000,000 with 6% interest rate per annum from Jiangsu Pengfei. Pursuant to the directors' resolutions of Jiangsu Pengfei on 3 December 2016, Pengfei Trade can only deposit the loan amount in a bank account approved by our Group and the loan amount can only be used for the purpose of issuing fund proof to its customers. Further, Jiangsu Pengfei retained all the company seal, financial seal, bank account seal and online banking key of the bank account of Pengfei Trade as collateral until repayment. The loan amount was drawn down on 8 December 2016 and 22 December 2016. Subsequently, due to disagreement on the terms of the bank guarantee to be provided to the potential customer, Jiangsu Pengfei requested for repayment and the loan amount was repaid on 3 January 2017 and 10 January 2017 and Pengfei Trade did not proceed with the potential project in the end. Pursuant to the loan agreement, no interest was charged as Jiangsu Pengfei requested for early repayment of the loan.

	Name of subsidiary/ associated company	Percentage of registered capital of the respective disposed entities subscribed by our Group before the disposal	Principal business	Disposal consideration (RMB'000)	Transferee(s)	Reason for disposal by our Group and acquisition by the transferee(s)	Disposal completion date[1]	Nature and amount of transactions with other Group entity(ies) from the commencement of the Track Record Period and up to the date of disposal (RMB'000)	Nature and amount of transactions with our Group after the date of disposal and up to the end of the Track Record Period (RMB'000)	Transactions with major customers/ suppliers from the commencement of the Track Record Period and up to the date of disposal (RMB'000)
4.	Xinye Electronics[15]	28.22%	Production and sales of automated control cabinets, belt conveyors and spirals[16]	1,419.8 (based on the valuation report)[17]	Mr. Lin Xian Ming (林先明)[18]	As our Group is only a minority shareholder of this company and has limited control over its business strategies and directions, our Group considered that it was not in the interest of our Group to retain any equity interest in this company. As Mr. Lin Xian Ming (林先明) was one of the shareholders and the controlling shareholder of this company before the disposal and, as far as the Directors are aware, he desired to increase his equity interest in this company, he acquired the equity interests of this company owned by our Group. As our Group was a passive investor of Xinye Electronics and only had a minority interest in XInye Electronics, our Group considered it would be more commercially attractive to Mr. Lin Xian Ming (林先明) to acquire the remaining interests compared to other independent third parties, given that Xinye Electronics is a private company; and our Group expected that at least we could dispose of our interest at a reasonable price to Mr. Lin Xian Ming (林先明) when compared to disposal to other independent third parties, not to mention the possibility of finding other independent third parties who would be interested in purchasing the minority interests in a private company, and therefore our Group would give priority to Mr. Lin Xian Ming (林先明).	8 August 2016	(i) Sales of raw materials to other Group entity(ies): 3,998.2 (ii) Land leased from other Group entity(ies): 10.0	(i) Sales of raw materials to our Group: 3,002.6 (ii) Land leased from our Group: 41.7	Nil

Notes:

(15) Xinye Electronics is one of the suppliers of our Group.

(16) The principal business of Xinye Electronics remained the same after disposal by our Group and as of the Latest Practicable Date.

(17) As far as the Directors are aware, the source of funding of Mr. Lin Xian Ming (林先明) in acquisition of such equity interest in Xinye Electronics was from his personal resources.

(18) Mr. Lin Xian Ming (林先明) was the controlling shareholder, legal representative and executive director of Xinye Electronics responsible for its daily operation and management before and after the disposal. Other than that, Mr. Lin Xian Ming (林先明) is not a shareholder, director or employee of any subsidiaries or associated companies of the Group. Mr. Lin is no longer an employee of our Group upon disposal of Xinye Electronics. He is also a controlling shareholder of 江蘇新業重工股份有限公司 (Jiangsu Xinye Heavy Industry Co., Ltd.)*, a top five suppliers of our Group for the year ended 31 December 2017. The purchase amount of the Group from 江蘇新業重工股份有限公司 (Jiangsu Xinye Heavy Industry Co., Ltd.)* for the years ended 31 December 2016, 2017 and 2018 was RMB5,042,000, RMB31,075,000 and RMB5,011,000, respectively. The significant higher transaction amount between the Group and 江蘇新業重工股份有限公司 (Jiangsu Xinye Heavy Industry Co., Ltd.)* for FY2017 was due to a significantly higher amount of supplier fee paid by the Group to 江蘇新業重工股份有限公司 (Jiangsu Xinye Heavy Industry Co., Ltd.)* being a supplier and sub-contractor of our Group to provide engineering and design, mechanical equipment and materials, test run and commissioning and certain civil construction works and dust collectors for the Turkey Cement Production Line project located in Turkey which commenced in November 2016. To the best of our Directors' knowledge and belief and the annual report in the National Enterprise Credit Information Publicity System of PRC, the annual revenue of 江蘇新業重工股份有限公司 (Jiangsu Xinye Heavy Industry Co., Ltd.)* for the years ended 31 December 2016, 2017 and 2018 was approximately RMB49 million, RMB96 million and RMB109 million respectively. Accordingly, the proportion of 江蘇新業重工股份有限公司 (Jiangsu Xinye Heavy Industry Co., Ltd.)* s revenue that was attributable to the Group for the years ended 31 December 2016, 2017 and 2018 was approximately 10%, 32% and 5% respectively. The terms of the transactions between 江蘇新業重工股份有限公司 (Jiangsu Xinye Heavy Industry Co., Ltd.)* and the Group were comparable to that between our Group and other independent suppliers.

	Name of subsidiary/ associated company	Percentage of registered capital of the respective disposed entities subscribed by our Group before the disposal	Principal business	Disposal consideration (RMB'000)	Transferee(s)	Reason for disposal by our Group and acquisition by the Transferee(s)	Disposal completion date[1]	Nature and amount of transactions with other Group entity(ies) from the commencement of the Track Record Period and up to the date of disposal (RMB'000)	Nature and amount of transactions with our Group after the date of disposal and up to the end of the Track Record Period (RMB'000)	Transactions with major customers/ suppliers from the commencement of the Track Record Period and up to the date of disposal (RMB'000)
5.	Pengfei Special Steel	22.36%	Production and sales of building machinery parts; processing and sales of wear-resistant composite seamless steel tubes, castings and forgings, steel ball[19]	2,880 (based on the then actual paid-in registered capital)[20]	Mr. Zhu Zhongyun (朱仲雲)[21]	As our Group is only a minority shareholder of this company and has limited control over its business strategies and directions, our Group considered that it was not in the interest of our Group to retain any equity interest in this company. As Mr. Zhu Zhongyun (朱仲雲) was one of the shareholders and the controlling shareholder of this company before disposal and, as far as the Directors are aware, he desired to increase his equity interest in this company, he acquired the equity interests of this company owned by our Group. As our Group was a passive investor of Pengfei Special Steel and only had a minority interest in Pengfei Special Steel, our Group considered it would be more commercially attractive to Mr. Zhu Zhongyun (朱仲雲) to acquire the remaining interests compared to other independent third parties, given that Pengfei Special Steel is a private company; and our Group expected that at least we could dispose of our interest at a reasonable price to Mr. Zhu Zhongyun (朱仲雲) when compared to disposal to other independent third parties, not to mention the possibility of finding other independent third parties who would be interested in purchasing the minority interests in a private company, and therefore our Group would give priority to Mr. Zhu Zhongyun (朱仲雲).	4 August 2016	Purchase of scrap steel from other Group entity(ies): 688.2 Sales of raw materials to other Group entity(ies): 1,017.7 Loan to our Group: 2,880	Purchase of scrap steel from other Group entity(ies): 407.0 Sales of raw materials to other Group entity(ies): 10,871.8[22]	Purchase of speed reduction unit from 南京高精傳動設備製造集團有限公司 (Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd.)* (one of the top five suppliers for the years ended 31 December 2016 and 2017 and the four months ended 30 April 2019): 225.6

Notes:

(19) The principal business of Pengfei Special Steel was changed to "Production and sales of building machinery parts and ventilation equipment; processing and sales of wear-resistant composite seamless steel tubes, castings and forgings, steel ball; sales of construction materials" on 7 March 2017 and remained the same as of the Latest Practicable Date.

(20) As at the date of disposal of the entire equity interest in Pengfei Special Steel, our Group owed RMB 2.88 million to Pengfei Special Steel, which is equivalent to the amount of actual paid-in registered capital of Pengfei Special Steel. In consideration of the transfer of the equity interest in Pengfei Special Steel to Mr. Zhu Zhongyun (朱仲雲), the outstanding loan amount of RMB 2.88 million owed by our Group to Pengfei Special Steel would be assigned to Mr. Zhu Zhongyun (朱仲雲), which is equivalent to the disposal consideration.

(21) Mr. Zhu Zhongyun (朱仲雲) was the legal representative and executive director of Pengfei Special Steel responsible for its daily operation and management before and after the disposal. After the disposal, Mr. Zhu Zhongyun (朱仲雲) became the then sole owner of Pengfei Special Steel. He has never been an employee of our Group apart from his role in Pengfei Special Steel.

(22) The price and other key terms of the transactions of purchase of raw materials by our Group from Pengfei Special Steel were comparable to that between our Group and other independent suppliers.

	Name of subsidiary/ associated company	Percentage of registered capital of the respective disposed entities subscribed by our Group before the disposal	Principal business	Disposal consideration (RMB'000)	Transferee(s)	Reason for disposal by our Group and acquisition by the Transferee(s)	Disposal completion date[1]	Nature and amount of transactions with other Group entity(ies) from the commencement of the Track Record Period and up to the date of disposal (RMB'000)	Nature and amount of transactions with our Group after the date of disposal and up to the end of the Track Record Period (RMB'000)	Transactions with major customers/ suppliers from the commencement of the Track Record Period and up to the date of disposal (RMB'000)
6.	Pengfei Technology Venture[23]	100%	No business operation [24]	9,000 (based on the valuation report)[25]	Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰)[26]	Our Group established Pengfei Technology Venture in 2009 in response to the strong encouragement of Dagong Town People's Government* (大公鎮人民政府) on setting up new branches and subsidiaries since 2008 due to the relevant PRC government policy documents encouraging development of private economy including the Opinion on Promoting the Separation of the Main Body and Subsidiary of Enterprises for Developing Service Industry (Trial)* (關於推進企業主輔分離發展服務業的意見(試行)) and the Group had no concrete plan to develop the business of Pengfei Technology Venture since its establishment. But this company had not commenced any business and had no business operation during the period from its establishment up to the date of disposal by our Group. At the relevant time in 2015 and 2016, the State Council of the PRC government released several guidelines on and promoted the policy of "Widespread Entrepreneurship and Innovation" ("大眾創業、萬眾創新") with an aim to foster the development of new entities, new products and new markets and to achieve wealth creation amongst the public by encouraging individuals' participation in entrepreneurial activities through starting their own new business. In view of such policy and to capture their own business opportunities, Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) acquired the entire equity interests of this company from our Group given that (i) they had the relevant industry experience, (ii) this company had already been established with business scope in its business licence relevant to their industry experience, and (iii) it was more convenient to acquire an existing company than to incorporate a new company. In order to support the "Widespread Entrepreneurship and Innovation" ("大眾創業, 萬眾創新") policy and with a view of the potential benefit of creating business opportunities to our Group by supporting its own employee for developing their own businesses, our Group procured Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) as the transferees of the disposal. Pengfei Technology Venture, our Group and/or any of their shareholders have not received any benefits from the PRC government under such policy in relation to the Group's disposal of Pengfei Technology Venture. Given that Pengfei Technology Venture is a private company with limited business operations before its disposal, our Group considered there was no liquid market for the sale of such equity interests and it was relatively impractical to solicit interests from independent third parties to acquire the equity interests of Pengfei Technology Venture. It was under such circumstances that the Group disposed of the equity interest in Pengfei Technology Venture for the purpose of simplifying its corporate structure.	21 April 2016	Loan to our Group: 9,000	Nil	Nil

Notes:

(23) Before its disposal, Mr. Wang Jiaan (王家安) was the authorized personnel responsible for the management of Pengfei Technology Venture. Pengfei Technology Venture is now deregistered since 1 August 2018. It has been deregistered due to the lack of operations as it failed to secure any sales from customers after disposal by our Group to Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) and Mr. Chen and Mr. Zhang decided to focus on their respective roles and responsibilities in our Group.

(24) The permitted scope of business of Pengfei Technology Venture as recorded in its business licence remained the same after disposal by our Group until deregistration. According to the best knowledge of the Directors, Pengfei Technology Venture had no business operation after disposal by our Group and until its deregistration.

(25) As at the date of the share transfer agreement for disposal of the entire equity interest in Pengfei Technology Venture, our Group had borrowed RMB9 million from Pengfei Technology Venture, which is equivalent to the amount of registered and paid-up capital of Pengfei Technology Venture. After our Group had established Pengfei Technology Venture and paid up its registered capital, in view of that our Group had no immediate business development plan for Pengfei Technology Venture at the relevant time and the funds contributed by our Group to the paid-up registered capital of Pengfei Technology Venture were considered as idle funds, for the purpose of enhancing the Group's capital efficiency, such idle funds were borrowed and utilised by the Group as working capital for its other business operations and such reallocation of capital were recorded as loans borrowed by the Group from Pengfei Technology Venture. In consideration of the transfer of the entire equity interest in Pengfei Technology Venture to Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰), the outstanding loan amount of RMB9 million owed by our Group to Pengfei Technology Venture would be assigned to Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰), which is equivalent to the disposal consideration.

(26) Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) are both employees of Jiangsu Pengfei. Mr. Chen Lichun (陳禮春) was a salesman and Mr. Zhang Guifeng (張桂峰) was an administrative officer of Jiangsu Pengfei before disposal and were responsible for daily operation of Jiangsu Pengfei. Mr. Chen Lichun (陳禮春) has prior working experience in trading business with customer relationship and Mr. Zhang Guifeng (張桂峰) has prior working experience in sales business. The intention of Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) in acquiring Pengfei Technology Venture was to start their own business to capture potential business opportunities through Pengfei Technology Venture by taking into consideration of the low cost of acquiring an existing company than incorporating a new company as the acquisition of Pengfei Technology Venture was settled by assigning the outstanding loan owed by our Group to Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰). At the time of acquisition, Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) planned to achieve their expected return by approaching potential customers through Pengfei Technology Venture. As Pengfei Technology Venture did not own any properties, machinery and did not employ any employees and notwithstanding that both Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) remained as employees of Jiangsu Pengfei after acquisition of Pengfei Technology Venture, they were able to operate and manage Pengfei Technology Venture with their own minimal effort. Mr. Chen Lichun (陳禮春) became a financial accounting staff and Mr. Zhang Guifeng (張桂峰) remained as an administrative officer of Jiangsu Pengfei after disposal and as at the Latest Practicable Date and are responsible for the daily operation of Jiangsu Pengfei. Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) had no official role in Pengfei Technology Venture and was not involved in its daily operation before the disposal. Mr. Zhang Guifeng (張桂峰) acted as a supervisor of Pengfei Technology Venture after the disposal.

	Name of subsidiary/ associated company	Percentage of registered capital of the respective disposed entities subscribed by our Group before the disposal	Principal business	Disposal consideration (RMB'000)	Transferee(s)	Reason for disposal by our Group and acquisition by the Transferee(s)	Disposal completion date(1)	Nature and amount of transactions with other Group entity(ies) from the commencement of the Track Record Period and up to the date of disposal (RMB'000)	Nature and amount of transactions with our Group after the date of disposal and up to the end of the Track Record Period (RMB'000)	Transactions with major customers/ suppliers from the commencement of the Track Record Period and up to the date of disposal (RMB'000)
7.	International Heavy Industry(27)	100%	No business operation (28)	5,000 (based on the valuation report)(29)	Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰)(30)	Our Group established International Heavy Industry in 2011 in response to the strong encouragement of Dagong Town People's Government* (大公鎮人民政府) on setting up new branches and subsidiaries since 2008 due to the relevant PRC government policy documents encouraging development of private economy including the Opinion on Promoting the Separation of the Main Body and Subsidiary of Enterprises for Developing Service Industry (Trial)* (關於推進企業主輔分離發展服務業的意見(試行)) and the Group had no concrete plan to develop the business of International Heavy Industry since its establishment. But this company had not commenced any business and had no business operation during the period from its establishment up to the date of disposal by our Group. At the relevant time in 2015 and 2016, the State Council of the PRC government released several guidelines on and promoted the policy of "Widespread Entrepreneurship and Innovation" ("大眾創業、萬眾創新") with an aim to foster the development of new entities, new products and new markets and to achieve wealth creation amongst the public by encouraging individuals' participation in entrepreneurial activities through starting their own new business. In view of such policy and to capture their own business opportunities, Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) acquired the entire equity interests of this company from our Group given that (i) they had the relevant industry experience, (ii) this company had already been established with business scope in its business licence relevant to their industry experience, and (iii) it was more convenient to acquire an existing company than to incorporate a new company. In order to support the "Widespread Entrepreneurship and Innovation" ("大眾創業, 萬眾創新") policy and with a view of the potential benefit of creating business opportunities to our Group by supporting its own employee for developing their own businesses, our Group procured Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) as the transferees of the disposal. International Heavy Industry, our Group and/or any of their shareholders have not received any benefits from the PRC government under such policy in relation to the Group's disposal of International Heavy Industry. Given that International Heavy Industry is a private company with limited business operations before its disposal, our Group considered there was no liquid market for the sale of such equity interests and it was relatively impractical to solicit interests from independent third parties to acquire the equity interests of International Heavy Industry. It was under such circumstances that the Group disposed of the equity interest in International Heavy Industry for the purpose of simplifying its corporate structure.	21 April 2016	Loan to our Group: 5,000	Nil	Nil

Notes:

(27) Before its disposal, Mr. Wang Jiaan (王家安) was the authorized personnel responsible for the management of International Heavy Industry. International Heavy Industry is now deregistered since 1 August 2018. It has been deregistered due to the lack of operations as it failed to secure any sales from customers after disposal by our Group to Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) and Mr. Chen and Mr. Zhang decided to focus on their respective roles and responsibilities in our Group.

(28) The permitted scope of business of International Heavy Industry as recorded in its business licence remained the same after disposal by our Group until deregistration. According to the best knowledge of the Directors, International Heavy Industry had no business operation after disposal by our Group and until its deregistration.

(29) As at the date of the share transfer agreement for disposal of the entire equity interest in International Heavy Industry, our Group had borrowed RMB5 million from International Heavy Industry, which is equivalent to the amount of registered and paid-up capital of International Heavy Industry. After our Group had established International Heavy Industry and paid up its registered capital, in view of that our Group had no immediate business development plan for International Heavy Industry at the relevant time and the funds contributed by our Group to the paid-up registered capital of International Heavy Industry were considered as idle funds, for the purpose of enhancing the Group's capital efficiency, such idle funds were borrowed and utilised by the Group as working capital for its other business operations and such reallocation of capital were recorded as loans borrowed by the Group from International Heavy Industry. In consideration of the transfer of the entire equity interest in International Heavy Industry to Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰), the outstanding loan amount of RMB5 million owed by our Group to International Heavy Industry would be assigned to Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰), which is equivalent to the disposal consideration.

(30) Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) are both employees of Jiangsu Pengfei. Mr. Chen (陳禮春) was a salesman and Mr. Zhang Guifeng (張桂峰) was an administrative officer of Jiangsu Pengfei before disposal and were responsible for daily operation of Jiangsu Pengfei. Mr. Chen Lichun (陳禮春) has prior working experience in trading business with customer relationship and Mr. Zhang Guifeng (張桂峰) has prior working experience in sales business. The intention of Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) in acquiring International Heavy Industry was to start their own business to capture potential business opportunities through International Heavy Industry by taking into consideration of the low cost of acquiring an existing company than incorporating a new company as the acquisition of International Heavy Industry was settled by assigning the outstanding loan owed by our Group to Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰). At the time of acquisition, Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) planned to achieve their expected return by approaching potential customers through International Heavy Industry. As International Heavy Industry did not own any properties, machinery and did not employ any employees and notwithstanding that both Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) remained as employees of Jiangsu Pengfei after acquisition of International Heavy Industry, they were able to operate and manage International Heavy Industry with their own minimal effort. Mr. Chen Lichun (陳禮春) became a financial accounting staff and Mr. Zhang Guifeng (張桂峰) remained as an administrative officer of Jiangsu Pengfei after disposal and as at the Latest Practicable Date and are responsible for the daily operation of Jiangsu Pengfei. Mr. Chen Lichun (陳禮春) and Mr. Zhang Guifeng (張桂峰) had no official role in International Heavy Trade and was not involved in its daily operation before the disposal. Mr. Chen Lichun (陳禮春) acted as a supervisor of International Heavy Trade after the disposal.

Our Directors confirm that there has been no material change in the terms of the transactions conducted between the above companies with our Group (if applicable) after the disposals.

Our Directors further confirm that none of the above companies (i) had any material outstanding liabilities or non-compliance prior to their disposal by our Group during the Track Record Period or (ii) had been the subject of any non-compliant incidents, claims, litigations or proceedings (whether actual or threatened) arising from its operations prior to the disposals.

Subsidiaries being de-registered

	Name of subsidiary	Interests held by our Group before the deregistration	Principal business	Reason for deregistration	Deregistration date
1.	Gaofei Venture Capital	100%	Venture capital and equity investment	The company had no business operation.	29 November 2017
2.	Nantong Tianpeng	75%	Production and sales of high-strength cement tile	The term of investment as stipulated in the articles of association expired and the company had no actual business operation.	28 March 2017
3.	Pengfei Logistics	100%	Ordinary freight; integrated freight station (field) logistics center (the storage of this unit)	The company had no business operation.	18 May 2016
4.	Zhongpeng Energy	100%	Energy technology development, consulting services; energy equipment manufacturing, sales, installation and commissioning	The company had no business operation.	20 May 2016
5.	Strength Machinery	100%	Design, processing and sales of key equipment for efficient extraction of new dry process cement and oil sand shale (excluding items that are specifically regulated by the PRC regulations); cement machinery production and processing	The company had no business operation.	20 May 2016

	Name of subsidiary	Interests held by our Group before the deregistration	Principal business	Reason for deregistration	Deregistration date
6.	Pengfei Machinery Equipment Research Institute	92.59%	Design, research and development on building materials machinery, environmental protection machinery, electronic products and software; provision of building materials, chemical, metallurgy, environmental, engineering project design consulting and technical services; provision of design, planning, demonstration, feasibility analysis and technical services with respect to engineering investment plans	The company had no business operation.	20 May 2016

Our PRC Legal advisers confirmed that the abovementioned disposal or deregistration of our subsidiaries and associated companies were lawful, valid and in compliance with the relevant PRC legal requirements.

REORGANISATION

Our Group underwent the Reorganisation steps in preparation for the Listing and the major steps of our Reorganisation are summarised as follows:

1. Incorporation of various Group companies

(i) ***Our Company***

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 31 July 2017 with an authorised share capital of RMB600,000,000 divided into 600,000,000 shares of par value RMB1 each. On 31 July 2017, one share of par value RMB1, credited as fully-paid was alloted and issued to the initial subscribing shareholder, Osiris International Cayman Limited, which was subsequently transferred to Ambon at par and our Company allotted and issued 51,385,899 issued shares of the Company with a par value of RMB1 each to Ambon at par. The shares were not paid up by Ambon as of 31 July 2017. Upon completion of the above, our Company was owned as to 100% by Ambon. Following completion of the Reorganisation, our Company became the holding company of our Group.

(ii) ***Ambon***

Ambon was incorporated under the laws of BVI on 27 July 2017 as a limited liability company and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US$1.00. It is an investment holding company. On 27 July 2017, one issued share of par value US$1.00 each, credited as fully-paid, was allotted and issued to Mr. Wang Jiaan (王家安) at par.

(iii) ***PF International***

PF International was incorporated under the laws of BVI on 27 November 2017 as a limited liability company and is authorised to issue a maximum of 20,000,000 ordinary shares of a single class each with a par value of US$0.0025 each. It is an investment holding company. On 27 November 2017, an aggregate of 16,710,000 issued ordinary shares of par value US$0.0025 each were allotted and issued to shareholders of PF International(1) at par.

(iv) ***PF Global***

PF Global was incorporated under the laws of BVI on 27 November 2017 as a limited liability company and is authorised to issue a maximum of 20,000,000 shares of a single class each with a par value of US$0.0025 each. It is an investment holding company. On 27 November 2017 and 1 December 2017, an aggregate of 1,200,000 and 5,050,000 issued shares of par value US$0.0025 each were allotted and issued to Ben Xudong (賁旭東) and other shareholders of PF Global(2) at par, respectively.

Notes:

(1) PF International is owned by PF International Shareholders as to the following approximate shareholding: 26.51% by Zhou Yinbiao (周銀標), 18.55% by Yu Yangui (于延桂), 16.76% by Dai Xianru (戴賢如), 13.70% by Wang Yun (王雲), 9.75% by Ben Daolin (賁道林), 8.26% by Chen Lidong (陳黎東) and 6.46% by Ben Daochun (賁道春). All shareholders were employees of Jiangsu Pengfei as at the Latest Practicable Date. Zhou Yinbiao (周銀標), Dai Xianru (戴賢如) and Ben Daolin (賁道林) are the executive Directors of our Company. There is no relationship among PF International Shareholders.

(2) PF Global is owned by PF Global Shareholders as to the following approximate shareholding: 32.64% by Chen Yulou (陳玉樓), 21.6% by Cai Tongfu (蔡同富), 19.2% by Ben Xudong (賁旭東), 5.6% by Pei Qirong (裘其榮), 1.92% by Liu Chengguan (劉成官), 1.92% by Qian Jiayin (錢加銀), 1.28% by Zhang Doufa (張門發), 1.28% by Ding Jialin (丁佳林), 1.12% by Zhou Bugao (周步高), 1.12% by Shen Jixiang (沈吉祥), 0.64% by Wang Shiqin (王世芹), 0.64% by Ding Qinghai (丁慶海), 0.64% by Cui Hengfu (崔恒富), 0.64% by Jiao Yuanjin (焦遠進), 0.64% by Wang Xiaobo (王小波), 0.64% by Yu Zhongwen (于中文), 0.64% by Lin Xianyue (林先月), 0.64% by Yuan Xiaofei (袁小飛), 0.64% by Zhou Yue (周悦), 0.64% by Zhou Kewen (周克穩), 0.64% by Zhou Jin (周錦), 0.64% by Wang Jin (王進), 0.64% by Jiang Xiaoming (蔣曉明), 0.64% by Wu Yijun (吳義軍), 0.48% by Wang Huajun (王華俊), 0.48% by Zhang Gui (張貴), 0.48% by Liu Yaqin (劉亞芹), 0.48% by Ben Zhonglin (賁忠林), 0.48% by Pei Haiqing (裴海青), 0.48% by Cui Xinxin (崔欣欣) (which was inherited from Cui Yegui (崔業貴) on 1 July 2018) and 0.48% by Zhou Jianyi (周建益). Apart from Liu Chengguan (劉成官), Qian Jiayin (錢加銀), Zhang Doufa (張門發), Ding Jialin (丁佳林), Yuan Xiaofei (袁小飛), Wang Jin (王進), Wang Huajun (王華俊) and Cui Xinxin (崔欣欣), the other shareholders of PF Global were employees of Jiangsu Pengfei as at the Latest Practicable Date. There is no relationship among PF Global Shareholders.

(v) ***PengFei BVI***

PengFei BVI was incorporated under the laws of BVI on 2 August 2017 as a limited liability company and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US$1.00 each. It is an investment holding company. On 2 August 2017, one issued ordinary share of par value US$1.00 each was allotted and issued to our Company at par.

(vi) ***Heavy Equipment HK***

Heavy Equipment HK was incorporated in Hong Kong with limited liability on 11 August 2017 with one paid-up ordinary share issued to PengFei BVI at the date of incorporation. It is an investment holding company. Since its incorporation, Heavy Equipment HK has been a wholly-owned subsidiary of PengFei BVI.

2. Transfer of 95.16% equity interests of Pengfei Construction from Jiangsu Pengfei to Mr. Zhou Jianjun (周建軍)

Pursuant to a share transfer agreement dated 28 September 2017, Jiangsu Pengfei transferred RMB6,494,200 of equity interests of Pengfei Construction (equivalent to approximately 95.16% of registered capital of Pengfei Construction) to Mr. Zhou Jianjun (周建軍) (whose wife, Ms. Wang Yun (王雲), is one of the PF International Shareholders) in consideration of RMB294,200 based on Jiangsu Pengfei's actual paid-in registered capital in Pengfei Construction. For details of the disposal of Pengfei Construction, please refer to the paragraph headed "Disposal or Deregistration of Subsidiaries and Associated Companies by Our Group during the Track Record Period" in this section.

3. Transfer of 32.52% and 12.16% shareholding of our Company from Ambon to PF International and PF Global respectively

On 20 December 2017, Ambon transferred 16,710,293 shares and 6,250,109 shares of our Company (32.52% and 12.16% shareholding of our Company) to PF International and PF Global, respectively, the consideration of both transfers was RMB1 each. The considerations for both transfers were settled by 20 December 2017. The share capital of the shares transferred were not paid up as of 20 December 2017. After such transfers, our Company is owned as of approximately 55.32%, 32.52% and 12.16% by Ambon, PF International and PF Global, respectively.

4. Transfer of the entire equity interest of Heavy Equipment PRC from Mr. Shwin Chouk (楊榮東) to Heavy Equipment HK

On 6 March 2018, Mr. Shwin Chouk (楊榮東), an Independent Third Party to the Group, entered into an equity transfer agreement with Heavy Equipment HK, pursuant to which Mr. Shwin Chouk (楊榮東) transferred his 100% equity interest in Heavy Equipment PRC to Heavy Equipment HK at a consideration of US$1,360,000 based on the amount of the then registered capital of Heavy Equipment PRC, as Heavy Equipment PRC had no business operation at that time except leasing of property and equipment to our Group and its net asset value was similar to the subscribed capital contribution, which was settled on 27 April 2018. In light of the above, the parties to the agreement estimated the value of Heavy Equipment PRC to be US$1,360,000 based on the amount of the then registered capital of Heavy Equipment PRC and set the consideration amount. The transfer was completed on 29 March 2018. Upon completion of the transfer, Heavy Equipment PRC became a wholly-owned subsidiary of Heavy Equipment HK. Mr. Shwin Chouk (楊榮東) ceased to have interests in Heavy Equipment PRC since 6 March 2018. As Heavy Equipment PRC has leased property and equipment to our Group, our Group considered that the transfer of the entire equity interest of Heavy Equipment PRC from Shwin Chouk (楊榮東) to the Group (i) would enhance the completeness of the Group as a whole as the property occupied and the equipment used by our Group would be owned by our Group; and (ii) would be more managerially efficient to the Group as a whole, in light of the Reorganisation.

On 6 March 2018, Heavy Equipment HK subscribed for capital contributions in the amount of US$8,200,000 in Heavy Equipment PRC.

5. Paying up part of the unpaid shares of our Company held by Ambon, PF International and PF Global

On 25 April 2018, Ambon, PF Global and PF International paid up part of their respective unpaid shares of our Company for the amount of US$1,659,600, US$364,800 and US$975,600, respectively.

On 10 May 2018, Ambon, PF Global and PF International further paid up part of their respective unpaid shares of our Company for the amount of US$1,659,600, US$364,800 and US$975,600, respectively.

6. Transfer of 0.00057% and 0.00021% shareholding of our Company from PF International and PF Global to Ambon respectively

On 22 August 2018, PF International and PF Global transferred 293 shares and 109 shares of our Company (0.00057% and 0.00021% shareholding of our Company) to Ambon, respectively, the consideration of both transfers was RMB1 each. The considerations were settled by 22 August 2018. After such transfers, our Company is owned as of approximately 55.32%, 32.52% and 12.16% by Ambon, PF International and PF Global, respectively.

7. Transfer of equity interests of natural person shareholders in Jiangsu Pengfei to Heavy Equipment PRC and Nantong Golden

Pursuant to shareholders' resolution dated 8 September 2018, it was agreed to increase the registered capital of Jiangsu Pengfei to RMB351,385,900. Heavy Equipment PRC subscribed for capital contributions in the amount of RMB300,000,000 in Jiangsu Pengfei, equivalent to approximately 85.3762% equity interest in Jiangsu Pengfei. On 8 September 2018, Heavy Equipment PRC entered into an equity transfer agreement with natural person shareholders of Jiangsu Pengfei, pursuant to which the 38 natural person shareholders[(1)] transferred all their equity interests in Jiangsu Pengfei amounting to an aggregate of approximately 6.5341% equity interest in Jiangsu Pengfei and Mr. Wang Jiaan (王家安) transferred approximately 8.0894% equity interest in Jiangsu Pengfei to Heavy Equipment PRC, respectively, both together transferred an aggregate of approximately 14.6235% equity interest in Jiangsu Pengfei to Heavy Equipment PRC at an aggregate consideration

Notes:

(1) The 38 individual shareholders and their respective approximate shareholding in Jiangsu Pengfei were as follows: 1.26% by Zhou Yinbiao (周銀標), 0.88% by Yu Yangui (于延桂), 0.80% by Dai Xianru (戴賢如), 0.65% by Wang Yun (王雲), 0.58% by Chen Yulou (陳玉樓), 0.46% by Ben Daolin (賁道林), 0.39% by Chen Lidong (陳黎東), 0.38% by Cai Tongfu (蔡同富), 0.34% by Ben Xudong (賁旭東), 0.31% by Ben Daochun (賁道春), 0.10% by Pei Qirong (裘其榮), 0.03% by Liu Chengguan (劉成官), 0.03% by Qian Jiayin (錢加銀), 0.02% by Ding Jialin (丁佳林), 0.02% by Zhang Doufa (張鬥發), 0.02% by Shen Jixiang (沈吉祥), 0.02% by Zhou Bugao (周步高), 0.01% by Cui Hengfu (崔恒富), 0.01% by Ding Qinghai (丁慶海), 0.01 by Jiang Xiaoming (蔣曉明), 0.01% by Jiao Yuanjin (焦遠進), 0.01% by Lin Xianyue (林先月), 0.01% by Wang Jin (王進), 0.01% by Wang Shiqin (王世芹), 0.01% by Wang Xiaobo (王小波), 0.01% by Wu Yijun (吳義軍), 0.01% by Yuan Xiaofei (袁小飛), 0.01% by Yu Zhongwen (于中文), 0.01% by Zhou Kewen (周克穩), 0.01% by Zhou Jin (周錦), 0.01% by Zhou Yue (周悅), 0.01% by Ben Zhonglin (賁忠林), 0.01% by Cui Xinxin (崔欣欣), 0.01% by Liu Yaqin (劉亞芹), 0.01% by Pei Haiqing (裘海青), 0.01% by Wang Huajun (王華俊), 0.01% by Zhang Gui (張貴) and 0.01% by Zhou Jianyi (周建益).

of RMB36,997,200, with reference to the then actual paid-up registered capital of Jiangsu Pengfei, which was settled by 27 September 2018. On 8 September 2018, Nantong Golden (fully-owned subsidiary of Heavy Equipment PRC), a company set up by our Company to fulfil the PRC regulation that a share limited company shall have 2-200 shareholders, entered into an equity transfer agreement with Mr. Wang Jiaan (王家安), pursuant to which Mr. Wang Jiaan (王家安) transferred approximately 0.0003% equity interest in Jiangsu Pengfei to Nantong Golden at a consideration of RMB648 with reference to the then actual paid-up registered capital of Jiangsu Pengfei. The transfer was completed on 14 September 2018. Upon completion of the transfer, Nantong Golden held approximately 0.0003% and Heavy Equipment PRC held approximately 99.9997% of equity interests of Jiangsu Pengfei. All natural person shareholders ceased to have interests in Jiangsu Pengfei since 8 September 2018.

8. Loan from Peak Holding to our Company and full payment of share capital of our Company

On 27 October 2018, our Company entered into a loan agreement with Peak Holding ("**PH Loan Agreement**"). Pursuant to the PH Loan Agreement, our Company obtained a two-year term loan in the amount of US$3,408,202 (equivalent to RMB22,000,000) with 6% interest rate per annum from Peak Holding.[(2)] The loan was used for purposes of funding for reorganisation.

Pursuant to the deeds of assignment dated 11 November 2018 entered into between Peak Holding and each of Ambon, PF International and PF Global, Peak Holding assigned US$1,093,887, US$643,035 and US$240,513 of its debts owed by our Company to Ambon, PF International and PF Global, respectively ("**Assigned Amount**"), for the purpose of setting-off the equivalent outstanding unpaid amount of shares which Ambon, PF International and PF Global owed to our Company ("**Unpaid Amount**") as a part of the Reorganisation. Upon the assignment of the Assigned Amount, Ambon, PF International and PF Global, being the shareholders of our Company, owe the respective amounts equivalent to the Assigned Amount to Peak Holding directly. On the same day, our Company resolved the Assigned Amount to be set-off by the Unpaid Amount. Accordingly, the shares were fully paid up by Ambon, PF International and PF Global on the same day.

On 15 November 2018, pursuant to the supplemental agreement to the PH Loan Agreement entered into between Peak Holding and our Company, the term of the loan was amended to one year to commence from 26 May 2018 and end on 25 May 2019.

(2) On 22 December 2017, Peak Holding, Jiangsu Pengfei and our Company entered into a capital increment agreement ("**Capital Increment Agreement**") for a proposed equity investment by Peak Holding into our Company, pursuant to which Peak Holding agreed to subscribe for our Company's shares ("**Subscription**") in consideration of RMB22,000,000 or US$3,408,202 ("**Subscription Amount**") subject to the fulfilment of certain conditions, including, amongst others, approvals of the Subscription by the board's and the shareholders' meeting of our Company. According to the Capital Increment Agreement, our Company shall complete the Reorganisation for Listing purpose after the Subscription taking place, which was subject to the obtaining of board and shareholders approvals of our Company as conditions precedent to the Subscription. Later on before such board approvals and shareholders' approval taking place, as our Company required funding for the Reorganisation, Peak Holding advanced US$2,000,000 and US$1,408,202 (together, the "**Advanced Amount**"), which were equivalent to the Subscription Amount, to our Company on 23 May 2018 and 24 May 2018, respectively, with the view that the Advanced Amount would be deemed as the Subscription Amount for the purpose of the Subscription under the Capital Increment Agreement after the Reorganisation. However, as the Hong Kong stock market was volatile in the second half of 2018 and due to the continued uncertainties surrounding the global economy, Peak Holding decided not to proceed with the equity investment into our Company. Since the Subscription was then agreed by both parties not to take place, the board and the shareholders of our Company would no longer be required to approve the Subscription under the Capital Increment Agreement. As a result, the conditions of the Capital Increment Agreement had not been met and therefore the Capital Increment Agreement failed to take effect. As the Subscription did not take place, Peak Holding and our Company agreed to convert the Subscription into a loan arrangement. In light of this, on 27 October 2018, the PH Loan Agreement was entered into by Peak Holding and our Company, pursuant to which the Advanced Amount previously advanced by Peak Holding to our Company was converted to a loan advanced to our Company. The Capital Increment Agreement was then terminated on 28 October 2018.

On 25 May 2019, pursuant to another supplemental agreement to the PH Loan Agreement entered into between Peak Holding and our Company, the term of the loan was extended to 25 May 2020.

As at the Latest Practical Date, the outstanding balance owing to Peak Holding by our Company under the PH Loan Agreement was US$1,607,750, inclusive of the principal and interests incurred.

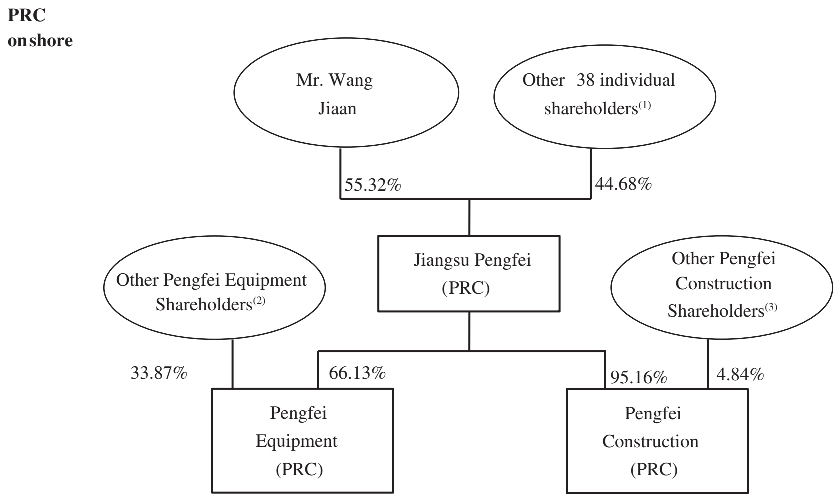
9. Re-denomination of the share capital of our Company

Pursuant to the resolution of the shareholders of our Company passed on 25 October 2019, the authorised share capital of our Company was increased from RMB600,000,000 divided into 600,000,000 shares of par value of RMB1 each to the aggregate of (i) RMB600,000,000 divided into 600,000,000 shares of par value of RMB1 each and (ii) HK$100,000,000 divided into 10,000,000,000 Shares with a par value of HK$0.01 each by the creation of 10,000,000,000 Shares with a par value of HK$0.01 each. As at 25 October 2019, 28,425,900, 16,710,000 and 6,250,000 Shares with par value of HK$0.01 each in our Company were allotted and issued as fully paid to Ambon, PF International and PF Global for considerations of RMB28,425,900, RMB16,710,000 and RMB6,250,000 respectively. Immediately after the above allotment and issue having been effected, our Company repurchased 28,425,900, 16,710,000 and 6,250,000 shares with a par value RMB1 each in issue for considerations of RMB28,425,900, RMB16,710,000 and RMB6,250,000 respectively from Ambon, PF International and PF Global. Following the repurchase, the authorised share capital of our Company was reduced by the cancellation of 600,000,000 shares of a par value of RMB1 each, such that the authorised share capital of the our Company became HK$100,000,000 divided into 10,000,000,000 Shares with a par value of HK$0.01 each.

10. Capitalisation Issue

Conditional upon the share premium account of our Company being credited with the proceeds of the Share Offer, an appropriate sum will be capitalised and applied in paying up in full 323,614,100 Shares to be allotted and issued to Ambon, PF International and PF Global respectively, so that the number of Shares so allotted and issued, when aggregated with the number of Shares already owned by Ambon, PF International and PF Global, will constitute not more than 75% of the issued share capital of our Company (taking no account of the Shares which may be issued upon exercise of the over-allotment option). Immediately after the Share Offer and Capitalisation Issue, Ambon, PF International and PF Global will hold 207,444,000 Shares, 121,946,000 Shares and 45,610,000 Shares, together representing 75% of the enlarged share capital in our Company and the public will hold 125,000,000 Shares, representing 25% of the enlarged share capital in our Company (taking no account of the Shares which may be issued upon exercise of the over-allotment option).

The corporate structure of our Group immediately before the relevant entities are involved in the Reorganisation process is set out as below:



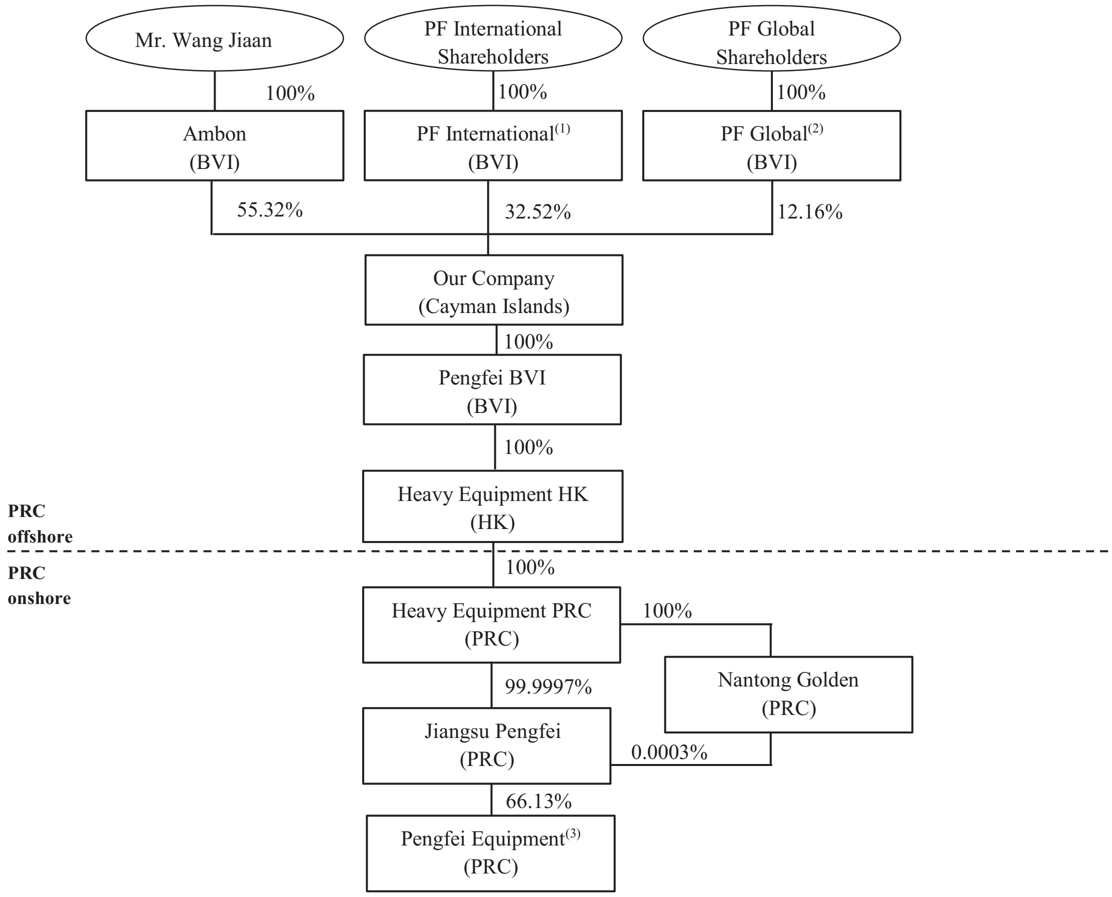
Notes:

(1) The 38 individual shareholders and their respective approximate shareholding are as follows: 8.62% by Zhou Yinbiao(周銀標), 6.03% by Yu Yangui (于延桂), 5.45% by Dai Xianru (戴賢如), 4.46% by Wang Yun (王雲), 3.97% by ChenYulou (陳玉樓), 3.17% by Ben Daolin (賁道林), 2.69% by Chen Lidong (陳黎東), 2.63% by Cai Tongfu (蔡同富), 2.34% by Ben Xudong (賁旭東), 2.10% by Ben Daochun (賁道春), 0.68% by Pei Qirong (裘其榮), 0.23% by Liu Chengguan (劉成官), 0.23% by Qian Jiayin (錢加銀), 0.16% by Ding Jialin (丁佳林), 0.16% by Zhang Doufa (張門發), 0.14% by Shen Jixiang (沈吉祥), 0.14% by Zhou Bugao (周步高), 0.08% by Cui Hengfu (崔恒富), 0.08% by Ding Qinghai (丁慶海), 0.08% by Jiang Xiaoming (蔣曉明), 0.08% by Jiao Yuanjin (焦遠進), 0.08% by Lin Xianyue (林先月), 0.08%by Wang Jin (王進), 0.08% by Wang Shiqin (王世芹), 0.08% by Wang Xiaobo (王小波), 0.08% by Wu Yijun (吳義軍), 0.08% by Yu Zhongwen (于中文), 0.08% by Yuan Xiaofei (袁小飛), 0.08% by Zhou Jin(周錦), 0.08% by Zhou Kewen (周克穩), 0.08% by Zhou Yue (周悦), 0.06% by Ben Zhonglin (賁忠林), 0.06% by Cui Xinxin (崔欣欣), 0.06% by Liu Yaqin(劉亞芹), 0.06% by Pei Haiqing (裘海青), 0.06% by Wang Huajun (王華俊), 0.06% by Zhang Gui (張貴), and 0.06% by Zhou Jianyi (周建益).

(2) Other Pengfei Equipment Shareholders with respective approximate shareholding are as follows: 4.70% by Guo Wenwu (郭文武), 4.11% by Dai Wansheng (戴萬生), 3.62% by Zhou Lie (周烈), 3.33% by Lu Lixin (盧立新), 3.33% by Tang Tianmao (唐田茂), 2.54% by Wang Liming (王禮明), 1.96% by Pei Long (裘龍), 1.37% by Zhou Weidong (周衛東), 1.37% by Xu Xiaonian (徐曉年), 1.17% by Cao Zhiying (曹智英), 0.98% by Cao Ping (曹萍), 0.98% by Wang Yaoming (王耀明), 0.78% by Zhou Jun (周軍), 0.69% by Wang Zhen (王震), 0.59% by Chen Qin (陳琴), 0.39% by Chen Xiaofeng (陳曉峰), 0.39% by Cui Yongqing (崔永清), 0.39% by Liu Longchi (劉龍池), 0.39% by Wang Huacheng (王華成), 0.39% by Zhou Feng (周峰), 0.2% by Dai Wanping (戴萬平), and 0.2% by Zhou Jiankai (周建凱).

(3) Other Pengfei Construction Shareholders with respective approximate shareholding are as follows: 3.08% by Zhou Jianjun (周建軍), 0.59% by Cui Xiaohua (崔曉華), 0.59% by Wu Yiwen (吳義文) and 0.59% by Wu Yi (吳義).

The corporate structure of our Group immediately after the Reorganisation but before the completion of the Capitalisation Issue and the Share Offer is set out as below:



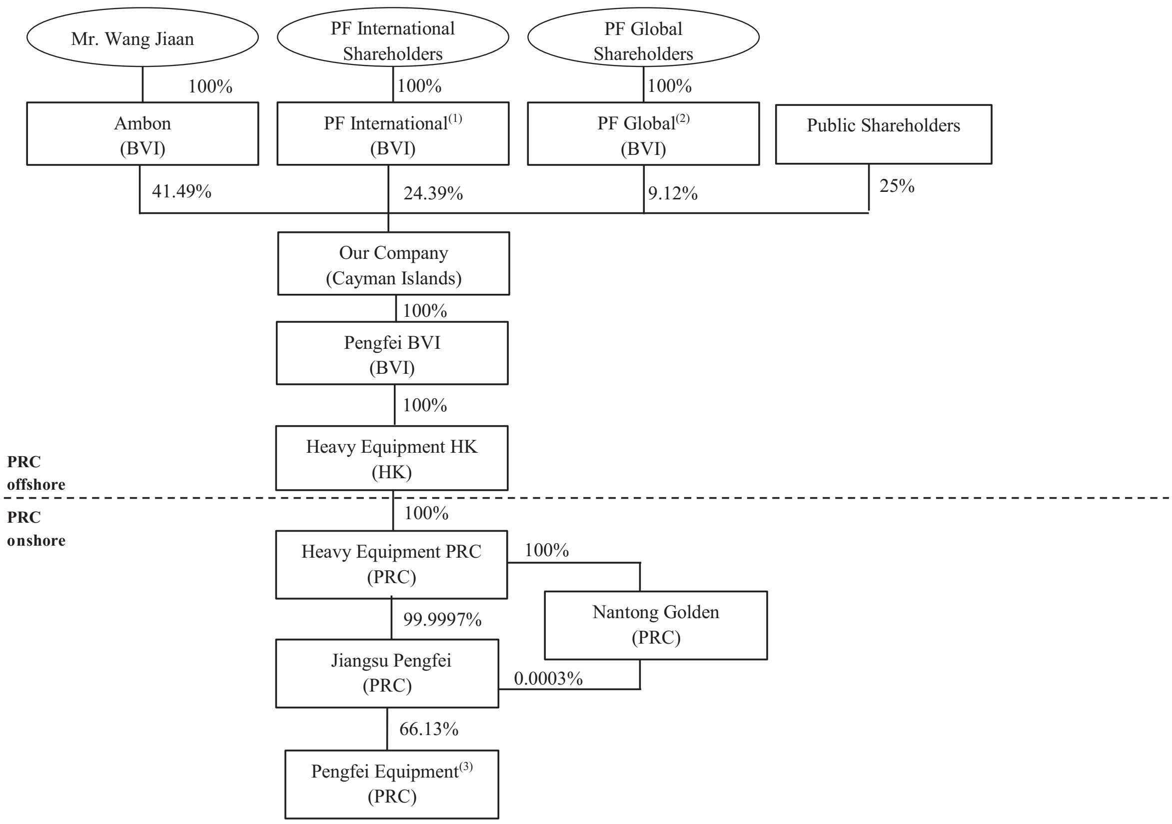
Notes:

(1) PF International is owned by PF International Shareholders as to the following approximate shareholding: 26.51% by Zhou Yinbiao (周銀標), 18.55% by Yu Yangui (于延桂), 16.76% by Dai Xianru (戴賢如), 13.70% by Wang Yun (王雲), 9.75% by Ben Daolin (賁道林), 8.26% by Chen Lidong (陳黎東) and 6.46% by Ben Daochun (賁道春). There is no relationship among PF International Shareholders.

(2) PF Global is owned by PF Global Shareholders as to the following approximate shareholding: 32.64% by Chen Yulou (陳玉樓), 21.6% by Cai Tongfu (蔡同富), 19.2% by Ben Xudong (賁旭東), 5.6% by Pei Qirong (裴其榮), 1.92% by Liu Chengguan (劉成官), 1.92% by Qian Jiayin (錢加銀), 1.28% by Ding Jialin (丁佳林), 1.28% by Zhang Doufa (張門發), 1.12% by Shen Jixiang (沈吉祥), 1.12% by Zhou Bugao (周步高), 0.64% by Cui Hengfu (崔恒富), 0.64% by Ding Qinghai (丁慶海), 0.64% by Jiang Xiaoming (蔣曉明), 0.64% by Jiao Yuanjin (焦遠進), 0.64% by Lin Xianyue (林先月), 0.64% by Wang Jin (王進), 0.64% by Wang Shiqin (王世芹), 0.64% by Wang Xiaobo (王小波), 0.64% by Wu Yijun (吳義軍), 0.64% by Yu Zhongwen (于中文), 0.64% by Yuan Xiaofei (袁小飛), 0.64% by Zhou Jin (周錦), 0.64% by Zhou Kewen (周克穩), 0.64% by Zhou Yue (周悦), 0.48% by Ben Zhonglin (賁忠林), 0.48% by Cui Xinxin (崔欣欣), 0.48% by Liu Yaqin (劉亞芹), 0.48% by Pei Haiqing (裴海青), 0.48% by Wang Huajun (王華俊), 0.48% by Zhang Gui (張貴), and 0.48% by Zhou Jianyi (周建益). There is no relationship among PF Global Shareholders.

(3) Pengfei Equipment is owned as to the following approximate shareholding: 66.13% by Jiangsu Pengfei, as well as Other Pengfei Equipment Shareholders: 4.70% by Guo Wenwu (郭文武), 4.11% by Dai Wansheng (戴萬生), 3.62% by Zhou Lie (周烈), 3.33% by Lu Lixin (盧立新), 3.33% by Tang Tianmao (唐田茂), 2.54% by Wang Liming (王禮明), 1.96% by Pei Long (裴龍), 1.37% by Xu Xiaonian (徐曉年), 1.37% by Zhou Weidong (周衛東), 1.17% by Cao Zhiying (曹智英), 0.98% by Wang Yaoming (王耀明), 0.98% by Cao Ping (曹萍), 0.78% by Zhou Jun (周軍), 0.69% by Wang Zhen (王震), 0.59% by Chen Qin (陳琴), 0.39% by Chen Xiaofeng (陳曉峰), 0.39% by Cui Yongqing (崔永清), 0.39% by Liu Longchi (劉龍池), 0.39% by Zhou Feng (周峰), 0.39% by Wang Huacheng (王華成), 0.2% by Zhou Jiankai (周建凱) and 0.2% by Dai Wanping (戴萬平). Apart from that Cao Zhiying (曹智英) is wife of Wang Jiaan (王家安) and that Guo Wenwu (郭文武) and Chen Qin (陳琴) are spouse, there is no relationship among Other Pengfei Equipment Shareholders.

The corporate structure of our Group immediately after completion of the Share Offer and the Capitalisation Issue (assuming no exercise of the over-allotment option) is set out as below:



Notes:

(1) PF International is owned by PF International Shareholders as to the following approximate shareholding: 26.51% by Zhou Yinbiao (周銀標), 18.55% by Yu Yangui (于延桂), 16.76% by Dai Xianru (戴賢如), 13.70% by Wang Yun (王雲), 9.75% by Ben Daolin (賁道林), 8.26% by Chen Lidong (陳黎東) and 6.46% by Ben Daochun (賁道春). There is no relationship among PF International Shareholders.

(2) PF Global is owned by PF Global Shareholders as to the following approximate shareholding: 32.64% by Chen Yulou (陳玉樓), 21.6% by Cai Tongfu (蔡同富), 19.2% by Ben Xudong (賁旭東), 1.92% by Liu Chengguan (劉成官), 1.92% by Qian Jiayin (錢加銀), 1.28% by Ding Jialin (丁佳林), 1.28% by Zhang Doufa (張門發), 1.12% by Shen Jixiang (沈吉祥), 1.12% by Zhou Bugao (周步高), 0.64% by Cui Hengfu (崔恒富), 0.64% by Ding Qinghai (丁慶海), 0.64% by Jiang Xiaoming (蔣曉明), 0.64% by Jiao Yuanjin (焦遠進), 0.64% by Lin Xianyue (林先月), 0.64% by Wang Jin (王進),

0.64% by Wang Shiqin (王世芹), 0.64% by Wang Xiaobo (王小波), 0.64% by Wu Yijun (吳義軍), 0.64% by Yu Zhongwen (于中文), 0.64% by Yuan Xiaofei (袁小飛), 0.64% by Zhou Jin (周錦), 0.64% by Zhou Kewen (周克穩), 0.64% by Zhou Yue (周悦), 0.48% by Ben Zhonglin (賁忠林), 0.48% by Cui Xinxin (崔欣欣), 0.48% by Liu Yaqin (劉亞芹), 0.48% by Pei Haiqing (裴海青), 0.48% by Wang Huajun (王華俊), 0.48% by Zhang Gui (張貴), and 0.48% by Zhou Jianyi (周建益). There is no relationship among PF Global Shareholders.

(3) Pengfei Equipment is owned as to the following approximate shareholding: 66.13% by Jiangsu Pengfei, as well as Other Pengfei Equipment Shareholders: 4.70% by Guo Wenwu (郭文武), 4.11% by Dai Wansheng (戴萬生), 3.62% by Zhou Lie (周烈), 3.33% by Lu Lixin (盧立新), 3.33% by Tang Tianmao (唐田茂), 2.54% by Wang Liming (王禮明), 1.96% by Pei Long (裴龍), 1.37% by Xu Xiaonian (徐曉年), 1.37% by Zhou Weidong (周衛東), 1.17% by Cao Zhiying (曹智英), 0.98% by Cao Ping (曹萍), 0.98% by Wang Yaoming (王耀明), 0.78% by Zhou Jun (周軍), 0.69% by Wang Zhen (王震), 0.59% by Chen Qin (陳琴), 0.39% by Chen Xiaofeng (陳曉峰), 0.39% by Cui Yongqing (崔永清), 0.39% by Liu Longchi (劉龍池), 0.39% by Wang Huacheng (王華成), 0.39% by Zhou Feng (周峰), 0.2% by Dai Wanping (戴萬平), and 0.2% by Zhou Jiankai (周建凱). Apart from that Cao Zhiying (曹智英) is wife of Wang Jiaan (王家安) and that Guo Wenwu (郭文武) and Chen Qin (陳琴) are spouse, there is no relationship among Other Pengfei Equipment Shareholders.

LOCK-UP

Our Controlling Shareholders, Wang Jiaan (王家安) and Ambon, agreed that any Shares held by them will be subject to a lock-up after the Listing. Please refer to the "Underwriting" section in this prospectus for further details.

To demonstrate their commitment to our Group, each of PF International and PF Global voluntarily undertake to our Company that they shall not, among other matters, dispose of any Shares during the First Six-Month Period (as defined in the "Underwriting" section in this prospectus), as undertaken by our Controlling Shareholders during the First Six-Month Period pursuant to Rule 10.07 of the Listing Rules.

M&A RULES

On 8 August 2006, six PRC regulatory authorities in China (including CSRC, MOFCOM and SAFE) jointly promulgated Regulations on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》), which became effective on 8 September 2006 and were subsequently amended on 22 June 2009, (the "**M&A Rules**"). The M&A Rules specifies that, where a foreign investor establishes a foreign-invested enterprise by merging or acquiring a domestic enterprise, it shall be subject to the approval of MOFCOM or ministry of commerce at the provincial level, and shall apply for registration or change of registration with State Administration of Industry & Commerce or local administration of industry & commerce. In addition, the M&A Rules include provisions that purport to require offshore special purpose companies, controlled directly or indirectly by PRC companies or individuals with a view to list in an oversea stock exchange with their operating companies or assets in China, to obtain the approval of the CSRC prior to the listing and trading of their securities in any overseas stock exchange.

As advised by our PRC Legal Advisers, since Heavy Equipment PRC has always been a foreign-invested enterprise, the acquisition of all equity interest of Heavy Equipment PRC by Heavy Equipment HK was a transaction relating to alteration of investors' equity interest in an established foreign-invested enterprise, which the M&A Rules is not applicable. Also, as advised by our PRC Legal Advisers, since Heavy Equipment PRC was established prior to the effective date of the M&A

Rules, the set up of Nantong Golden, subscription of capital contribution in and acquisition of the shareholding of Jiangsu Pengfei by Heavy Equipment PRC are not subject to M&A rules and are not required to obtain the approval of the MOFCOM and the CSRC. However, uncertainties still exist as to how the M&A Rules will be interpreted and implemented. Our PRC Legal Advisers' opinion stated above is subject to any new laws, rules and regulations or detailed implementations and interpretations relating to the M&A Rules.

CIRCULAR NO. 37 AND CIRCULAR NO. 13

On July 4, 2014, SAFE promulgated the SAFE Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles* (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the "**SAFE Circular 37**"), which became effective on the same day. According to the SAFE Circular 37, a domestic resident (including PRC individuals and institutions) shall, before contributing lawful domestic and overseas assets or interests to a special purpose vehicle, register with the SAFE or its local branch to effect foreign exchange registration. SAFE Circular 37 also requires the PRC residents to file changes to their registration where their offshore special purpose vehicles undergo material events such as change of basic information including PRC residence, capital increase or decrease, share transfer or exchange, merger or division, as well as name and operation period. Accordingly, as each of Wang Jiaan (王家安), Zhou Yinbiao (周銀標), Yu Yangui (于延桂), Dai Xianru (戴賢如), Wang Yun (王雲), Ben Daolin (賁道林), Chen Lidong (陳黎東), Ben Daochun (賁道春), Ben Xudong (賁旭東), Chen Yulou (陳玉樓), Cai Tongfu (蔡同富), Liu Chengguan (劉成官), Qian Jiayin (錢加銀), Zhang Doufa (張門發), Ding Jialin (丁佳林), Wang Shiqin (王世芹), Ding Qinghai (丁慶海), Cui Hengfu (崔恒富), Jiao Yuanjin (焦遠進), Wang Xiaobo (王小波), Yu Zhongwen (于中文), Lin Xianyue (林先月), Yuan Xiaofei (袁小飛), Zhou Bugao (周步高), Shen Jixiang (沈吉祥), Zhou Yue (周悅), Zhou Kewen (周克穩), Zhou Jin (周錦), Wang Huajun (王華俊), Zhang Gui (張貴), Liu Yaqin (劉亞芹), Ben Zhonglin (賁忠林), Wang Jin (王進), Jiang Xiaoming (蔣曉明), Wu Yijun (吳義軍), Pei Haiqing (裘海青), Cui Yegui (崔業貴), Zhou Jianyi (周建益) and Pei Qirong (裘其榮) has established a total of three investment holding companies in the BVI through which they indirectly hold shares in our Company during the process of the Reorganization, they became ultimate beneficial shareholders of our Company. The act is subject to registration in accordance with SAFE Circular 37.

Pursuant to the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment* (關於進一步簡化和改進直接投資外匯管理政策的通知) promulgated on 13 February 2015, which took effect on 1 June 2015 (the "**SAFE Circular 13**"), the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located. Accordingly, as advised by our PRC Legal Advisers, each of Wang Jiaan (王家安), Zhou Yinbiao (周銀標), Yu Yangui (于延桂), Dai Xianru (戴賢如), Wang Yun (王雲), Ben Daolin (賁道林), Chen Lidong (陳黎東), Ben Daochun (賁道春), Ben Xudong (賁旭東), Chen Yulou (陳玉樓), Cai Tongfu (蔡同富), Liu Chengguan (劉成官), Qian Jiayin (錢加銀), Zhang Doufa (張門發), Ding Jialin (丁佳林), Wang Shiqin (王世芹), Ding Qinghai (丁慶海), Cui Hengfu (崔恒富), Jiao Yuanjin (焦遠進), Wang Xiaobo (王小波), Yu Zhongwen (于中文), Lin Xianyue (林先月), Yuan Xiaofei (袁小飛), Zhou Bugao (周步高), Shen Jixiang (沈吉祥), Zhou Yue (周悅), Zhou Kewen (周克穩), Zhou Jin (周錦), Wang Huajun (王華俊), Zhang Gui (張貴), Liu Yaqin (劉亞芹), Ben Zhonglin (賁忠林), Wang Jin (王進), Jiang Xiaoming (蔣曉明), Wu Yijun (吳義軍), Pei

Haiqing (裘海青), Cui Yegui (崔業貴), Zhou Jianyi (周建益) and Pei Qirong (裘其榮) has completed the registrations stipulated under SAFE Circular 37 and SAFE Circular 13 by 24 January 2018, while Cui Xinxin (崔欣欣), who inherited shares of our Company from her father Cui Yegui (崔業貴), has duly complied with the requirements by 27 September 2018.

PRC Approvals

As advised by our PRC Legal Advisers, all approvals or filings required under PRC laws and regulations in connection with each step of the Reorganisation have been obtained. All the charges in shareholdings in the PRC companies mentioned in this "**History, development and reorganisation**" section are legal, valid and enforceable.

OVERVIEW

We are a leading manufacturer of rotary kilns, grinding equipment and their related equipment in the PRC and the global market and have been in the industry for over 20 years. According to the F&S Report, in 2018, we were the largest supplier of rotary kilns and their related equipment in the PRC and the global market in terms of revenue with a market share of 22.0% and 13.3%, respectively and we were the second largest supplier of grinding equipment and their related equipment in the PRC and the global market in terms of revenue with a market share of 13.1% and 7.9%, respectively.

We engage in equipment manufacturing and installation, and construction of production line business which are divided into three business lines, namely (i) manufacturing of equipment, in which we engage in the design, manufacturing and sales of equipment including related parts and components for various industries including building materials, metallurgy, chemical and environmental protection industries; (ii) installation services, in which we mainly provide installation services to our customers under our manufacturing of equipment business as this is part and parcel of our manufacturing of equipment business; and (iii) construction of production line, in which we act as an EPC service provider providing bespoke one-stop solutions in respect of design, procurement, construction and/or trial operations of production lines.

During the Track Record Period, our total revenue and revenue by business lines is set out below:

	Year ended 31 December						Four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Manufacturing of equipment	575,626	74.1	653,701	69.1	780,410	76.8	203,911	83.2	283,006	70.8
Installation services	30,786	4.0	17,140	1.8	21,985	2.2	3,035	1.2	7,290	1.8
Construction of production line	170,249	21.9	275,302	29.1	213,806	21.0	38,118	15.6	109,606	27.4
Total	776,661	100.0	946,143	100.0	1,016,201	100.0	245,064	100.0	399,902	100.0

For further details, please see "Business model" in this section of the prospectus.

Our products under the manufacturing of equipment business consist of two main categories, namely: (i) rotary kiln system which mainly includes rotary kilns, preheaters, coolers, dryers, ancillary machinery and related parts and components; (ii) grinding equipment system which mainly includes vertical mills, roller presses, tube mills, separators and ancillary machinery. During the Track Record Period, our revenue generated by our manufacturing of equipment business is set out below:

	Year ended 31 December						Four months ended 30 April			
Product category	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Rotary kiln system	315,611	54.8	343,487	52.5	479,422	61.4	85,158	41.8	225,748	79.8
Grinding equipment system	246,376	42.8	295,155	45.2	277,484	35.6	110,295	54.1	46,982	16.6
Others	13,639	2.4	15,059	2.3	23,504	3.0	8,458	4.1	10,276	3.6
Total	575,626	100.0	653,701	100.0	780,410	100.0	203,911	100.0	283,006	100.0

The table below sets out the breakdown of our revenue generated by our manufacturing of equipment business by geographical location for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Mainland China	500,408	86.9	432,580	66.2	693,848	88.9	158,602	77.8	272,990	96.5
Outside Mainland China	75,218	13.1	221,121	33.8	86,562	11.1	45,309	22.2	10,016	3.5
	575,626	100.0	653,701	100.0	780,410	100.0	203,911	100.0	283,006	100.0

For further details, please see "Equipment manufacturing and installation services business" in this section of the prospectus.

For our construction of production line business, we primarily focus on the construction of production line projects for building materials industry, such as cement production line projects. As part of our business strategies, in recent years, we have also diversified and tap into the construction of production line projects for other industries including metallurgy, chemical and environmental protection industries. However, during the Track Record Period, our Group had not recognized any revenue from construction of production line projects for other industries and all revenue generated by our Group's construction of production line business was attributable to customers in the building materials industry. During the Track Record Period, most customers under our construction of production line business were located outside the PRC, including "Belt and Road" countries such as Bangladesh, Kazakhstan, Turkey and Uzbekistan. The table below sets out the breakdown of our revenue generated by our construction of production line business by geographical location for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Mainland China	21,451	12.6	1,523	0.6	—	—	—	—	—	—
Outside Mainland China	148,798	87.4	273,779	99.4	213,806	100.0	38,118	100.0	109,606	100.0
	170,249	100.0	275,302	100.0	213,806	100.0	38,118	100.0	109,606	100.0

For further details, please see "Construction of production line business" in this section of the prospectus.

During the Track Record Period, our Group had completed nine production line projects with respect to different industries including cement, clinker, active lime, natural gas and mineral powder production lines and as at the Latest Practicable Date, our Group had five production lines projects in progress. Our top five customers during the Track Record Period are mostly based in the PRC and some of which are from "Belt and Road" countries, while all our top five suppliers are based in the PRC.

As at the Latest Practicable Date, we had obtained a number of material certifications in recognition of our quality control measures including the Quality Management System Certification ISO9001:2015, and we have obtained 55 authorised patents primarily for the manufacturing of rotary kiln, grinding equipment and their related equipment and 6 trademarks for our "PENGFEI" brand — , which, in the opinion of our Directors are material to our business. As at the Latest Practicable Date, our staff force reached 922 and we had over 25 cranes with a loading capacity of 50 tons or more and machinery such as vertical lathes and coiling machines to perform various scopes of work required in our business operations. Our investment in machinery enables us to carry out our business effectively. For the three years ended 31 December 2018 and the four months ended 30 April 2019, we spent RMB0.3 million, RMB6.8 million, RMB4.6 million and RMB1.0 million, respectively on purchases of new machinery and equipment. Please see the section headed "Production facilities and production process" in this section of the prospectus for further details. We also place great emphasis on our research and development capabilities so as to maintain our market position and allow us to compete effectively with leading players in the rotary kiln and grinding equipment industries. During the Track Record Period, our research and development expenses amounted to approximately RMB32.6 million, RMB31.5 million and RMB32.4 million and RMB11.7 million, respectively. Please see the section headed "Research and development" in this section of the prospectus for further details.

COMPETITIVE STRENGTHS

We have strong market position as a leading manufacturer of rotary kilns, grinding equipment and their related equipment in the PRC and the global market

We have strong market position as a leading manufacturer of rotary kilns, grinding equipment and their related equipment in the PRC and the global market and have been in the industry for over 20 years. According to the F&S Report, in 2018, we were the largest supplier of rotary kilns and their related equipment in the PRC and the global market in terms of revenue with a market share of 22.0% and 13.3%, respectively and we were the second largest supplier of grinding equipment and their related equipment in the PRC and the global market in terms of revenue with a market share of 13.1% and 7.9%, respectively. In addition, in recognition of the quality of our products, we have received numerous awards and recognition from various organisations over the years including the Outstanding Enterprise in Building Materials and Machinery Industry for 40 Years since China's Reform and Opening-up (中國改革開放40年建材械行業優秀企業) from China Building Materials Machinery Industry Association (中國建材機械工業協會) in 2018 and the Single Champion Demonstration Enterprise of Manufacturing Industry (製造業單項冠軍示範企業) from the MIIT and China Federation of Industrial Economics (中國工業經濟聯合會) in 2017, and we were appointed as the Vice-Chairman Unit of the 5th Council of China Building Materials Federation (中國建築材料聯合會) in 2016.

We have also made contributions in setting national and industry standards on numerous occasions. Since 2006 and up to the Latest Practicable Date, we had participated in setting seven national standards and 18 industry standards such as National Standard for Tube Mill Equipment for Cement Industry (水泥工業管磨裝備) (GB/T 27976-2011) in relation to grinding equipment in 2012 and National Standard for Rotary Kiln for Cement Industry (水泥工業用回轉窰) (GB/T 32994-2016) in relation to rotary kiln in 2017, all of which pertained to the building materials industries in the PRC.

Given we are a relatively mature and established manufacturer in the rotary kiln and grinding equipment industry in the PRC and the global market, and the existence of various entry barriers on the rotary kiln and grinding equipment industries, our Directors believe that it will be relatively difficult for new industry entrants to operate on a similar scale and/or achieve a similar level of economies of scale as our Group.

We sell our products and provide our services to customers around the world and have well-established business relationships with customers located in "Belt and Road" countries

We have a wide international footprint and we sold our products and provided our one-stop solution services to more than 50 customers based in "Belt and Road" countries during the Track Record Period, including Bangladesh, Kazakhstan, Turkey and Uzbekistan. Revenue generated from customers based in "Belt and Road" countries accounted for approximately RMB153.2 million, RMB372.0 million, RMB266.3 million and RMB111.5 million, representing approximately 19.7%, 39.3%, 26.2% and 27.9%, respectively, of our total revenue for the Track Record Period. We have also received various engineering awards and recognitions for projects undertaken in "Belt and Road" countries, including Building Materials Machinery Industry Enterprise Leader "International Market Expansion Award" (建材機械行業領軍企業"國際市場開拓獎") in 2011 and an honour pennant received by the cement plant located in Algeria where the cement production line located thereat was constructed by us. We were appointed as the Vice-Chairman Unit of China Building Materials Alliance for Global Production Capacity Cooperation (中國建材國際產能合作企業聯盟) between 2016 and 2018. We believe that our experience with customers located in "Belt and Road" countries during the Track Record Period will stand us in good stead and assist us in identifying potential business opportunities with other unexplored "Belt and Road" countries, which will expand our sales and services network and ultimately increase our profitability and competitiveness in the long run.

We have an established research and development team that possesses strong research and development capabilities

Our research and development capability is evidenced by our accreditation as the National Center for Enterprise Technology (國家企業技術中心) jointly by the NDRC, the Ministry of Science and Technology (科技部), the Ministry of Finance (財政部), the General Administration of Customs (海關總署) and the SAT since 2016. Our research and development team is supervised by Ben Daochun, who has over 25 years of experience in the rotary kiln and grinding equipment industries. He is supported by an in-house research and development team of 128 employees with an average of over 10 years of relevant industry experience as at the Latest Practicable Date. Our research and development team is also supported by engineers and professors from renowned institutes and universities through our collaboration with them. Our research and development team also works closely with our sales and marketing team in order to understand the specific needs and changing demands of our customers, after which our research and development team would apply their technical knowledge to develop new products, improve the functionality of our Group's existing products and/or enhance our capability to provide bespoke one-stop solution services in respect of production lines. In order to keep ourselves up-to-date with the latest market trends on matters of innovation, environmental protection and energy-saving, our research and development team also participates in exhibitions and technology conferences both in China and overseas relating to rotary kiln and grinding equipment industries.

In recognition of our research and development capabilities, we were accredited as Key High-Tech Enterprise of China Torch Program (國家火炬計劃重點高新技術企業), and were chosen to undertake national projects such as National Industry Revitalisation and Technology Upgrade Project (國家產業振興和技術改造項目). As at the Latest Practicable Date, we have successfully obtained 55 patents in the PRC especially in respect of new and/or enhanced products/technologies developed either in-house or in collaboration with our research partners. During the Track Record Period, we entered into collaboration arrangements with the Institute of Process Engineering, Chinese Academy of Sciences (中國科學院過程工程研究所) for the development of energy-saving technologies and equipment and Anhui University of Science and Technology (安徽理工大學) for the development of "flip-flop sieve with multi-degree-of-freedom" (多自由度弛張篩).

Since 2008, our Group has established a project research and development committee for the research and development of widening the application of rotary kiln pyrolysis technology to metallurgy, chemical and environmental protection industries based on our rotary kiln system and our 10 patented technologies relating to rotary kiln. One of the technologies using rotary kiln that we have preliminarily researched is rotary kiln pyrolysis for the treatment of various types of municipal solid waste.

Please refer to "Business — Research and development" for further details on our research and development projects and collaborations with external institutions.

We believe that our research and development team's vision and capabilities are vital towards growing our profit and market share and ultimately, our ability to diversify into other industries and maintaining our competitiveness in the rotary kiln and grinding equipment industries.

We are able to offer customised products and act as EPC service provider providing bespoke one-stop solution services to customers

Our main products include rotary kiln, grinding equipment and their related equipment. Historically, our Group manufactured rotary kilns, grinding equipment and their related equipment primarily for the building materials industry. However, through various research and development activities conducted over the years, we now possess the capability to manufacture rotary kilns, grinding equipment and their related equipment that are customised according to customers' requirements and that can cater to non-building materials industries, including metallurgy, chemical and environmental protection industries. In addition to our manufacturing and installation of equipment business, we also act as EPC service provider providing bespoke one-stop solution services in respect of construction of production lines to customers both in the PRC and overseas markets. Such bespoke one-stop solution services are highly customised and each project entails several stages, including design of the production line, civil construction work related to the production line, procurement of raw materials, parts and components, and equipment, manufacturing and installation of the required equipment and parts, trial operations of the production line and training of the customers' personnel to ensure that they acquire the necessary technical knowledge to run the production line effectively. We believe that the ongoing gradual expansion of our product variety as well as our ability to provide holistic solutions in respect of production lines both in the PRC and overseas markets will not only distinguish us from our competitors but will also ensure our future profitability in the long run.

We have established a well-recognised brand and have a good market reputation

We have established a well-recognised brand and have built up market recognition of our products and services under the "PENGFEI" brand — in the PRC. The "PENGFEI" brand — was recognised as China Well-known Trademark (中國馳名商標) by the State Trademark Bureau of the PRC (中國國家商標局) in 2010 and Jiangsu Famous Export Brand (江蘇省重點培育和發展的國際知名品牌) by Jiangsu Province Department of Commerce (江蘇省商務廳) in 2017. Our brand was also recognized as Top 50 Original Industrial Brand Names in Jiangsu Province (江蘇省自主工業品牌五十強) in 2017.

Our commitment to quality has been recognised by the accreditation of the ISO9001:2015 Quality Management System. We believe that our quality control measures have helped us to establish a brand image that is associated with good quality and consistent products and services that can cater to various industries. This is further proven by the list of our customers which includes renowned enterprises in the PRC and overseas markets.

Our management team has extensive industry knowledge and experience

Our management team has extensive industry knowledge, operational experience and management skills. With majority of our management team having experience in the rotary kiln and grinding equipment industries, our management team, with an average of over 20 years' experience, is able to identify and pursue market opportunities and formulate and implement development strategies effectively. Our chairman and executive Director, Mr. Wang Jiaan, has over 40 years of experience in the rotary kiln and grinding equipment industries and is responsible for the overall leadership, management direction and leading the Board in setting business strategies for our Group. Mr. Wang was accredited as the Outstanding Entrepreneur in Building Materials and Machinery Industry for 40 Years since China's Reform and Opening-up (中國改革開放40年建材機械行業優秀企業家) by China Building Materials Machinery Industry Association (中國建材機械工業協會) in 2018. As a result of our management team's effort, we have been accredited as the Enterprise with Remarkable Results in the Transformation and Upgrade of Building Materials Industry (建材行業轉型升級成效顯著企業) by China Building Materials Federation (中國建築材料聯合會) in recognition of our innovation and transformation of our products in 2016. We believe that the accumulated years of industry, operational and management experience will allow our management team to capture market opportunities appropriate for our Group and formulate and implement sound business strategies that will allow our Group to attain sustainable business growth in the long run. Please refer to "Directors, senior management and staff" for further details on the qualifications and experience of our Directors and management team.

BUSINESS STRATEGIES

We intend to invest in a project for manufacturing rotary kilns that possess the latest roasting and pyrolysis technology and increase productivity

We intend to invest in a project for manufacturing rotary kilns that possess the latest roasting and pyrolysis technology in order to tap into the metallurgy, chemical and environmental protection industries with a primary focus on the treatment of various municipal solid waste and such rotary kilns are also expected to be applied to the treatment of low-rank coal and non-ferrous metals. In light of such expansion plan, we intend to construct a new production plant with an estimated site area of 15,652 sq.m. on a parcel of land located at the vicinity of our North Plant. We believe that constructing such new production plant is essential for us to diversify into metallurgy, chemical and environmental protection industries in anticipation of the growth of our business operations and to prepare for the expansion of our global market reach, which we believe would be key towards capturing a larger market share in the relevant industries for which our products are applicable to and maintaining our competitive edge against our major competitors. For further details, please see the section headed "Future plans and use of proceeds" in this prospectus.

We also intend to increase our production capacity and efficiency by upgrading our production machinery and equipment. Like any other manufacturing company, a risk commonly encountered is the risk of ageing production machinery and equipment, which may lead to problems such as equipment downtime, compromised quality and ultimately losing customers and affecting sales. In addition, the utilisation rates of our current production plant during the Track Record Period were approximately 72.73%, 89.39%, 96.96% and 100.00% for producing rotary kilns and 62.26%, 73.58%, 90.57% and 42.45% for producing grinding equipment, respectively.

In respect of the ongoing need to ensure that our production machinery and equipment are in good working condition, we intend to upgrade and purchase additional machineries and equipment in order to enhance our overall production efficiency as well as allow us to have better control over our operating costs and maintain our profitability in future.

We intend to further invest in our research and development capabilities

We intend to further invest in our research and development capabilities so as to: (i) expand our product portfolio; and (ii) improve the functionality and efficiency of our products. Our research and development team would focus on the research and development of energy saving and environmentally-friendliness technologies, in particular, technologies relating to (a) efficient rotary kiln pyrolysis for the treatment of co-processing solid waste, (b) efficient low-rank coal cleaning pyrolysis technology, and (c) high-efficient energy-saving lithium calcination rotary kiln system. We would also focus on the research and development of smart manufacturing and automated production machineries in order to improve the functionality and efficiency of our products. We also plan to cooperate with renowned research institutes in order to strengthen our research and development capabilities in order to keep us up-to-date with and align our business direction with global trends so that our products will not be rendered obsolete by our customers and hence ensure our profitability in the long run.

We intend to expand our customer base

We intend to expand our customer base by: (i) venturing into new markets located in "Belt and Road" countries; (ii) reinforcing our market presence in the building materials industry and further diversifying into metallurgy, chemical and environmental protection industries; and (iii) enhancing our marketing efforts in rotary kiln and grinding equipment industries.

In respect of new markets located in "Belt and Road" countries, we believe that the PRC government's implementation of the "Go Global" strategy represented by the "One Belt and One Road" Initiative will bring abundant business opportunities for our Group to expand within the PRC and overseas markets. Our Group had business transactions with more than 50 customers based in "Belt and Road" countries during the Track Record Period and we intend to expand our global market to reach out to other unexplored "Belt and Road" countries which have plans to purchase production equipment and/or construct production line projects.

Apart from serving our customers in the building materials industry, we have also expanded our products and services to serve our customers in other industries, mainly metallurgy, chemical and environmental protection industries as a result of our research and development efforts. We commenced commercial production of equipment for non-building materials industries since 2012. Revenue generated from our customers in non-building materials industries accounted for approximately 40.3%, 31.5%, 49.8% and 55.8%, respectively, of our total revenue for the Track Record Period, and we intend to increase the percentage of revenue contribution from our customers in non-building materials industries in the next few years. We believe that diversifying our business and relying on a wider spread of customers for revenue generation will be critical for our future sustainability and growth in light of the 2016 Guiding Opinions issued by the State Council which aims to eliminate a batch of cement and clinker production capacities by 2020 such that the market share of the top 10 enterprises by cement and clinker production capacities will reach approximately 60%, and the profit margin of the cement industry will be close to the average level of industries. In addition, filing and construction of cement and clinker projects for new and expanded production capacities is strictly prohibited until the end of 2020. Meanwhile, elimination of excessive capacities of the cement industry by joint restructuring is supported. As a result, cement production enterprises in the downstream market are required to utilise cement rotary kiln, grinding equipment and their related equipment with advanced production capacity that could achieve environmentally friendly purpose, those rotary kiln, grinding equipment and their related equipment suppliers who are unable to manufacture cement producing equipment with advanced production capacity will be difficult to survive in the market. Moreover, stricter environmental standards in the PRC also force rotary kiln, grinding equipment and their related equipment suppliers to eliminate backward production capacity, which requires large amounts of investment on upgrading equipment with higher costs. In other words, those rotary kiln, grinding equipment and their related equipment suppliers which lack of capital or technical capabilities will be challenged and even wiped out from the market. Hence, we will continue to expand our products and services to customers in non-building materials industries.

In respect of marketing activities, in order to maintain our growth, we intend to engage in more advertising and promotion activities as well as participate in more local and international exhibitions and conferences relating to industries that we intend to venture into. We also intend to increase the accessibility of our website to our international customers by increasing the number of readable languages of our website.

We intend to continue to expand our construction of production line business in the international market

During the Track Record Period, we completed nine production line projects and six of which were production line projects located in overseas markets and four out of the six production line projects overseas were located in "Belt and Road" countries. As at the Latest Practicable Date, we had five on-going production line projects. Except for one project which is located in the PRC, all our other on-going production line projects are located in "Belt and Road" countries. In light of the growing demand of rotary kilns, grinding equipment and their related equipment in the international market, we aim to strengthen our role as an EPC service provider in relation to the development of our construction of production line business in such market. Building on our leading position in the rotary kiln and grinding equipment industry in China and the global market, we will actively explore opportunities in relation to construction of production lines located in "Belt and Road" countries and emerging markets where there is a significant demand for building materials such as cement and lime as well as production equipment relating to building materials such as rotary kilns, grinding equipment and their related equipment. In order to expand our construction of production line business in the international market, we will also prioritise our overseas projects by promoting our capability as an EPC provider providing services for the construction of production line projects.

Our Directors believe that this will help building our brand name in the global market to attract more potential business partners in the building materials industry.

BUSINESS MODEL

We mainly engage in equipment manufacturing and installation, and construction of production lines business which are divided into three business lines, namely:

Manufacturing of equipment: We engage in the design, manufacturing and sales of equipment including related parts and components for various industries including building materials, metallurgy, chemical and environmental protection industries. The key equipment manufactured by us consists of rotary kilns, grinding equipment and their related equipment.

Installation services: This business line is part and parcel of our manufacturing of equipment business as we mainly provide installation services to our customers under our manufacturing of equipment business.

Construction of production line: We primarily act as an EPC service provider providing bespoke one-stop solutions in respect of design, procurement, construction and/or trial operations of production lines.

The table below sets out the breakdown of our revenue by business lines for the years/periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Manufacturing of equipment	575,626	74.1	653,701	69.1	780,410	76.8	203,911	83.2	283,006	70.8
Installation services	30,786	4.0	17,140	1.8	21,985	2.2	3,035	1.2	7,290	1.8
Construction of production line	170,249	21.9	275,302	29.1	213,806	21.0	38,118	15.6	109,606	27.4
Total	776,661	100.0	946,143	100.0	1,016,201	100.0	245,064	100.0	399,902	100.0

MANUFACTURING OF EQUIPMENT AND INSTALLATION SERVICES BUSINESS

Our products under the manufacturing of equipment business consist of two main categories, namely: (i) rotary kiln system which mainly includes rotary kilns, preheaters, coolers, dryers, ancillary machinery and related parts and components; (ii) grinding equipment system which mainly includes vertical mills, roller presses, tube mills, separators, ancillary machinery and related parts and components. The table below sets out the breakdown of our revenue generated by our manufacturing of equipment and installation services business for the years/periods indicated:

	Year ended 31 December						Four months ended 30 April			
Product category	**2016**		**2017**		**2018**		**2018**		**2019**	
	RMB'000	**%**	**RMB'000**	**%**	**RMB'000**	**%**	**RMB'000 (unaudited)**	**%**	**RMB'000**	**%**
Manufacturing of equipment										
Rotary kiln system	315,611	52.1	343,487	51.2	479,422	59.7	85,158	41.1	225,748	77.8
Grinding equipment system	246,376	40.6	295,155	44.0	277,484	34.6	110,295	53.3	46,982	16.2
Others	13,639	2.2	15,059	2.2	23,504	3.0	8,458	4.1	10,276	3.5
Sub-total	575,626	94.9	653,701	97.4	780,410	97.3	203,911	98.5	283,006	97.5
Installation services	30,786	5.1	17,140	2.6	21,985	2.7	3,035	1.5	7,290	2.5
Total	606,412	100.0	670,841	100.0	802,395	100.0	206,946	100.0	290,296	100.0

The table below sets out the breakdown of our revenue generated by our manufacturing of equipment business and the gross profit margin by geographical location for the years/periods indicated:

	Year ended 31 December									Four months ended 30 April					
	2016			**2017**			**2018**			**2018**			**2019**		
	RMB '000	**%**	**GP margin %**	**RMB '000**	**%**	**GP margin %**	**RMB '000**	**%**	**GP margin %**	**RMB '000 (unaudited)**	**%**	**GP margin %**	**RMB '000**	**%**	**GP margin %**
Mainland China	500,408	86.9	16.1	432,580	66.2	20.5	693,848	88.9	21.5	158,602	77.8	24.1	272,990	96.5	20.6
Outside Mainland China	75,218	13.1	18.7	221,121	33.8	29.5	86,562	11.1	22.7	45,309	22.2	18.2	10,016	3.5	20.0
	575,626	100.0	16.4	653,701	100.0	23.6	780,410	100.0	21.7	203,911	100.0	22.8	283,006	100.0	20.6

For the three years ended 31 December 2018 and the four months ended 30 April 2019, we sold 47 units, 59 units, 64 units and 22 units of rotary kilns, respectively, which attributed to over 50% of the revenue generated from our manufacturing of equipment business relating to rotary kiln system for each of the three years ended 31 December 2018 and the four months ended 30 April 2019.

For the three years ended 31 December 2018 and the four months ended 30 April 2019, we also sold (i) 5 units, 17 units, 13 units and 0 units of vertical mills; (ii) 4 units, 13 units, 19 units and 4 units of roller presses; and (iii) 52 units, 48 unit, 64 units and 11 units of tube mills, respectively. The sales of vertical mills, roller presses and tube mills attributed to over 50% of the revenue generated from manufacturing of equipment business relating to grinding equipment system for each of the three years ended 31 December 2018 and the four months ended 30 April 2019.

The table below sets forth details of gross profit margin of our key products under our manufacturing of equipment business for the years/periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
				(unaudited)	
	%	%	%	%	%
Gross profit margin					
Rotary kiln	12.8	20.6	18.4	21.5	16.2
Grinding equipment					
Vertical mill	11.7	18.1	13.7	9.0	—*(Note)*
Roller press	16.4	24.4	21.6	19.2	20.0
Tube mill	14.8	23.3	19.0	14.6	17.0

Note: We did not record gross profit margin for sales of vertical mills for the four months ended 30 April 2019 as no sales of vertical mill was made during such period.

Our manufacturing of equipment and installation services business generally involves the following phases, namely:

(a) ***marketing and sales*** — this phase involves the marketing of our products and services, participating in tender invitation and application;

(b) ***customisation and development*** — this phase involves assessing whether the customer intends to purchase our standard products or require further customisation in accordance with their required specifications and intended use of products. For customers which require our standard products, we will enter into agreements with them. For customers which require customized products, we will provide design plan and parameters to customers for consideration. If our customers require us to provide installation services in addition to equipment manufacturing, we will obtain quotations from our qualified sub-contractors for installation services in order to include such sub-contracting fees in our fee quote to our customers. Once our customers are satisfied with our initial design plan and our fee quote, we will enter into contract and finalise the design plan. Our customers are generally required to make an advance payment of 30% of the total contract value before we commence our work;

(c) ***procurement, production and delivery*** — upon receipt of advance payment from our customers, we will start to procure the raw materials, parts and components required in stages for production of our products pursuant to the contracts signed with our customers.

Our principal raw materials are steel materials including steel plates, castings and forgings, and our principal parts and components include motors, reducers and bearings. During the course of our production, our customers will generally be required to make progress payment so that we can procure further raw materials, parts and components. Once we complete the production process, our customers will be required to make payment before delivery of the products. Generally, our customers will be required to pay 90% to 95% of the total contract before delivery of our products;

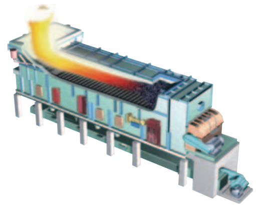
(d) ***installation, inspection and customer acceptance*** — if our customers require us to provide installation services, we will liaise with our sub-contractors and arrange installation of products for our customers. If our customers do not require us to provide installation services, our technical team will provide on-site supervision of installation of our products. Upon completion of installation, we will conduct inspection and testing of the equipment. Upon completion of which, if our customers are satisfied with our products, a test run report will be issued to us by our customer; and

(e) ***warranty period*** — our contract normally stipulates a warranty period of around 12 months from the date of test run report or 18 months from the date of delivery of our products, whichever is earlier. If full payment of the total contract value has been received by us, which is usually the case for our overseas customers, a bank guarantee, equivalent to approximately 5% to 10% of the total contract value as retention money, will be issued to our customers. In the absence of warranty claim after the warranty period, the bank guarantee will be released. Alternatively, if full payment of the total contract value has not been received by us, a retention money of approximately 5% to 10% of the total contract value will be paid to us in the absence of warranty claim after the warranty period.

Rotary kiln system

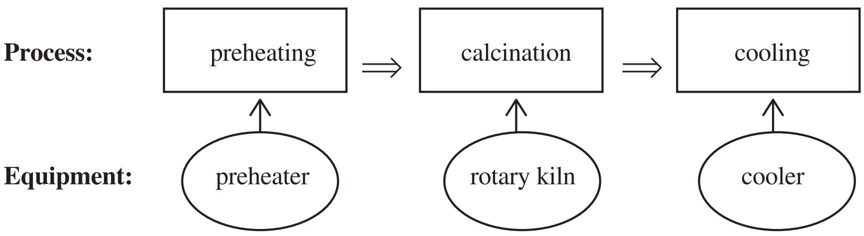
Our rotary kiln system mainly includes rotary kilns, preheaters, coolers, dryers, ancillary machinery and the related pats and components. Rotary kiln system is used in various industries including building materials, metallurgy, chemical and environmental protection industries. The table below sets out our core products included in the rotary kiln system manufactured by our Group:

Name of equipment	Description	
Rotary kiln	Rotary kiln is used to raise materials to a high temperature (calcination) in a continuous process. Materials produced using rotary kilns include cement, lime, iron ore, non-ferrous metal ore (such as chromium, nickel, iron and lithium), minerals (such as aluminium hydroxide and chrome ore), etc.	
Preheater	Preheater is mainly composed of, among other things, gyrating cylinder, air duct, feed chute, decomposing burner and air lock valve as components, the tumbling high temperature air streams inside the kiln enable sufficient heat exchange between raw material powder and hot air streams to complete suspension preheating and decomposition of some raw materials, preparing the raw materials for calcination inside the kiln.	

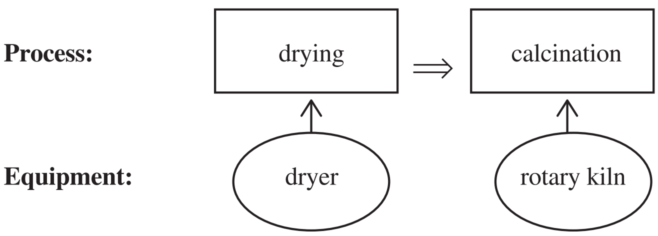
Name of equipment	Description	
Cooler	Cooler is the ancillary main device of the rotary kiln system. Its main function is to cool down the high temperature clinker burned in the rotary kiln rapidly for improving quality and ease of grinding of clinker, and to recycle the residual heat to the preheater for reuse, resulting in cooling clinker while recovering residual heat.	
Dryer	Dryer is mainly composed of, among other things, cylinder, supporting device, large and small gears, reducer and electric motor as components, devices installed inside the cylinder include hot air channel, lifting plate and discharging device. Rotation of the dryer cylinder enables spiral movements of materials between the hot air channel and lifting plate for drying the materials.	

The following diagram illustrates the key functions of our core products in the rotary kiln system used in building materials and non-building materials industries:

Rotary kiln system used in building materials industry



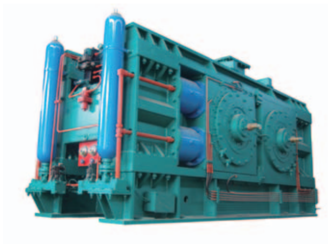
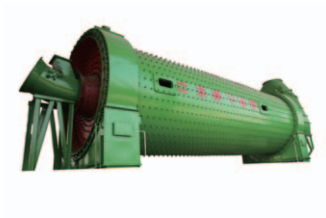
Rotary kiln system used in non-building materials industry(Note)



Note: The rotary kiln system used in non-building materials industry generally does not require the process of preheating and cooling, therefore preheater and cooler are not used.

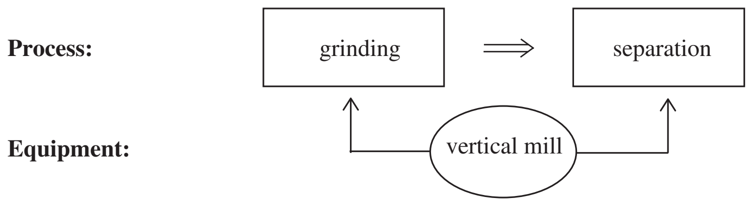
Grinding equipment system

Our grinding equipment system mainly consists of vertical mills, roller presses, tube mills, separators, ancillary machinery and related parts and components which are used to break down solid materials into smaller pieces by grinding, crushing or cutting. Products in the grinding equipment system are mainly used in building materials industry. The table below sets out our core products in the grinding equipment system manufactured by our Group:

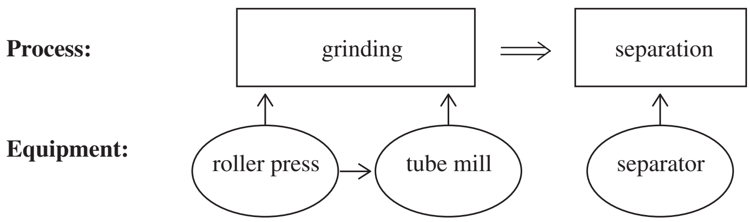
Name of equipment	Description	
Vertical mill	Vertical mill is a grinding equipment integrating drying, grinding and separating functions. Through the rotation of rollers led by the rotating grinders, materials are grinded into powder form between the rollers and grinders, the grinded materials will go through the selection process during which a flow of gas will pass through the channel and rough granules will automatically fall on the grinder for second grinding, the rest are selected by the machine as finished products which will be collected through the dust collection and conveyance system into the finished product storage.	
Roller press.	Roller press is constituted by two squeezing rollers with rotation in opposite directions. Materials are fed at the top of the two rollers, squeezed between the squeezing rollers into dense and hard material cakes for dispensing. Besides containing a certain proportion of granule products, the material cakes also contain non-product granules with numerous cracks inside that improve the ease of material grinding.	
Tube mill	Tube mill is a key milling equipment for milling breakdown materials by adding a certain amount of steel balls of different gradings as a grinding medium to carry out dry or wet milling of various types of ores and other milling materials by open or closed milling methods. It is mainly used for milling raw materials, cement, coal powder, steel slag, quartz sand, bauxite, ceramic sand, etc.	
Separator	Separator is a sieving equipment for separating coarse and fine materials through centrifugal or gyrating methods, materials grinded to a qualified fine level will be selected, coarse materials will be returned to the mill for re-grinding, so that fineness of the finished product is adjusted to prevent uneven coarseness and fineness.	

The following diagram illustrates the key functions of our core products in the grinding equipment system:

Ventical mill(Note)



Roller press, tube mill and separator



Note: Vertical mill integrates the functions of grinding and separation, and can be used as an alternative of roller press, tube mill and separator.

Others

We manufacture our own ancillary machineries and we also purchase ancillary machineries from third parties for our rotary kiln system and grinding equipment system. For our rotary kiln system, such ancillary machineries mainly compose of rotary kiln control system, oil fuel hot air furnace, second burning room, quench tower, complete set of auxiliary equipment for lithium ore and sludge treatment system. Depending on the nature of the industry that our customers are engaged in, the composition of ancillary machineries in our rotary kiln system may be slightly different. For our grinding equipment, such ancillary machineries mainly composed of crusher, dust collector, conveyor, bucket elevator and packing machine.

We also manufacture parts and components related to our rotary kiln system and grinding equipment system including gear wheels, pinions, drive belts, riding wheels and liners for different industries.

CONSTRUCTION OF PRODUCTION LINE BUSINESS

We also act as an EPC service provider providing bespoke one-stop solution services in respect of construction of production lines to our customers since 2008. Initially, we primarily focused on production line projects for building materials industry, such as cement production line projects. In recent years, we started to undertake production line projects for other industries including metallurgy and environmental protection industries. However, during the Track Record Period, our Group had not recognized any revenue from construction of production line projects for non-building materials industries and all revenue generated by our Group's construction of production line business was attributable to customers in the building materials industry. Most of our customers under our construction of production line business are located outside the PRC, including "Belt and Road" countries such as Bangladesh, Kazakhstan, Turkey and Uzbekistan.

Our construction of production line business mainly follows the engineering, procurement and construction (EPC) contracting model. Under this model, depending on the terms of the contract, we provide contracting services for the entire project including design, procurement, construction, testing and commissioning of an engineering project, or any combination of the above.

The table below sets out the breakdown of our revenue generated by the construction of production line business for the years/periods indicated:

				Year ended 31 December						Four months ended 30 April			
No.	Customer	Project name	Project location	2016		2017		2018		2018		2019	
				RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
1.	A domestic and foreign civil construction project contractor in China	1000 TPD Reconstruction and Extension of Clinker Production Line ("**Congo Clinker Production Line**")	The Republic of Congo	13,591	8.0	—	—	—	—	—	—	—	—
2.	A cement producer in China	1,000,000 TPA Cement Grinding Station ("**Inner Mongolia Cement Grinding Station**")	PRC	33	0.0	—	—	—	—	—	—	—	—
3.	Customer B	200,000 TPA Cement Production Line ("**Uzbekistan Cement Production Line**")	Uzbekistan	76,247	44.8	373	0.1	—	—	—	—	—	—
4.	A cement producer in Malawi	500 TPD Clinker Production Line ("**Malawi Clinker Production Line**")	Malawi	23,079	13.6	3,538	1.3	—	—	—	—	—	—
5.	A ready mix concrete and blocks producer in Yemen	40 TPH Cement Grinding Plant ("**Yemen Cement Grinding Plant**")	Yemen	179	0.1	12,032	4.4	304	0.1	—	—	—	—
6.	A calcium oxides, calcium carbonate and limestone producer in China	600 TPD Active Lime Production Line ("**Guangdong Active Lime Production Line**")	PRC	19,983	11.7	—	—	—	—	—	—	—	—

No.	Customer	Project name	Project location	Year ended 31 December 2016 RMB'000	2016 %	2017 RMB'000	2017 %	2018 RMB'000	2018 %	Four months ended 30 April 2018 RMB'000 (unaudited)	2018 %	2019 RMB'000	2019 %
7.	A cement producer in Bangladesh	1600 TPD Cement Plant ("**Bangladesh Cement Plant**")	Bangladesh	25,992	15.3	1,706	0.6	—	—	—	—	—	—
8.	A crushed stones, powder and building materials producer in China	50,000 TPA Mineral Powder Production Line ("**Hunan Mineral Powder Production Line**")	PRC	1,435	0.8	1,523	0.6	—	—	—	—	—	—
9.	Customer F	2500 TPD Cement Production Line with WHR System ("**Turkey Cement Production Line**")	Turkey	9,702	5.7	256,131	93.0	65,065	30.4	38,118	100.0	—	—
10.	Customer K	1,200,000 TPA cement production line ("**Kazakhstan Cement Production Line**")	Kazakhstan	8	—	—	—	138,531	64.9	—	—	108,541	99.0
11.	An active lime producer in Uzbekistan	100,000 ton per year Active Lime Plant ("**Uzbekistan Active Lime Plant**")	Uzbekistan	—	—	—	—	9,906	4.6	—	—	1,065	1.0
	Total			170,249	100.0	275,302	100.0	213,806	100.0	38,118	100.0	109,606	100.0

The table below sets out the breakdown of our revenue generated by our construction of production line business and the gross profit margin by geographical location for the years/periods indicated:

	Year ended 31 December									Four months ended 30 April					
	2016			2017			2018			2018			2019		
	RMB '000	%	GP margin %	RMB '000	%	GP margin %	RMB '000	%	GP margin %	RMB '000 (unaudited)	%	GP margin %	RMB '000	%	GP margin %
Mainland China	21.451	12.6	16.4	1,523	0.6	10.3	—	—	—	—	—	—	—	—	—
Outside Mainland China	148,798	87.4	29.6	273,779	99.4	14.7	213,806	100.0	22.2	38,118	100.0	13.5	109,606	100.0	25.3
	170,249	100.0	27.9	275,302	100.0	14.7	213,806	100.0	22.2	38,118	100.0	13.5	109,606	100.0	25.3

In recent years, the Group has also diversified its construction of production line projects by undertaking projects for non-building materials industries. However, during the Track Record Period, our Group had not recognized any revenue from construction of production line projects for non-building materials industries. All of the revenue generated by our construction of production line business was attributable to our customers in the building materials industry for the three years ended 31 December 2018 and the four months ended 30 April 2019 in an amount of RMB 170.2 million, RMB 275.3 million, RMB 213.8 million and RMB109.6 million, respectively, and we did not generate any revenue from non-building materials industries for our construction of production line business during the Track Record Period.

The cycle for a typical production line project under the construction of production line business includes various stages and generally requires an average completion time of approximately 12 to 40 months. The long completion time is primarily due to the time required for the design, construction and/or installation of the entire production line and the series of inspection and on-site testing involved in the construction of production line. Each production line project normally comprises the following stages, namely:

(a) ***signing of sales contract and engagement of sub-contractor for design services*** — we discuss with our customers, and negotiate and finalise the terms of the contract directly with them. We will also obtain fee quotes from our sub-contractors so that we can reflect such sub-contracting fees in our fee quote to our customers. Once the terms including fee quote of the contract is agreed, we will sign contract with our customer. Our customers are generally required to make an advance payment of 30% of the total contract value upon signing of the contract or within a specific time period stipulated in the contract before we commence our work;

(b) ***project design and development*** — upon the commencement of the contract, we will form a project team consisting of approximately 5 to 10 employees from our technical, production and quality control departments, who will work together with external design institute to design and formulate a project implementation plan, which will include technical drawings and diagrams and list of equipment for customer's acknowledgement;

(c) ***procurement and engagement of sub-contractors for construction and/or installation service*** — our project team will, based on the project implementation plan, determine the raw materials, parts and components and other equipment required for the construction of the production line and commence the procurement process upon our receipt of the advance payment from our customers. Our procurement will generally be implemented in stages depending on the amount of installments paid by our customers pursuant to the terms of the contract depending on the type of raw materials, parts and components and equipment to be procured by us. We will also engage sub-contractors for construction and/or installation works pursuant to the terms of the contract normally after we receive the advance payment from our customers;

(d) ***production and delivery*** — our production process mainly involves the production of equipment required for the production line in accordance with the specifications stipulated in the contract and/or the project implementation plan, and such process usually begins shortly after receipt of raw materials and parts and components from our suppliers. Our customers may also be required to make progress payment to us pursuant to the terms of the contract. During the course of production, we will deliver the products to the designated port or the customer's site by batches pursuant to the terms of the contract. In general, our customers will be required to pay around 90% of the total contract value before we deliver our products;

(e) ***installation, technical training and on-site testing and inspections*** — once the civil construction work of the production line has been substantially completed and upon delivery of our products to the customer's site, our sub-contractors will start the installation of the production line and we will also provide on-site technical training to our customer's employees at the same time. Upon completion of installation, we will conduct a series of test run and inspections on the production line to ensure it is operates properly;

(f) ***issue of acceptance certificate by the customer*** — before our customer accepts the production line, we will conduct final test run of the production line which will generally last for approximately 72 hours to ascertain the production capacity of the production line is in line with the agreed capacity as set out in the contract. If our customers are satisfied with the production line installed by us, they will issue an acceptance certificate to us. In some cases, once the acceptance certificate has been issued, our customers may be required to pay us approximately 90% of the total contract value; and

(g) ***warranty period*** — our contracts normally stipulate a warranty period of 12 months after the operation of the production line and the issuance of the final acceptance certificate. During the warranty period, on-site engineering and maintenance services are provided by our technicians and engineers. Our contract generally provides that if full payment of the total contract value has been received by us, which is usually the case for our overseas customers, a bank guarantee, equivalent to approximately 5% to 10% of the total contract value as retention money, will be issued to our customers. In the absence of warranty claim after the warranty period, the bank guarantee will be released. Alternatively, if full payment of the total contract value has not been received by us, a retention money of approximately 5% to 10% of the total contract value will be paid to us in the absence of warranty claim after the warranty period.

Completed Projects

During the Track Record Period, we completed the construction of nine production line projects with respect to building materials industry involving the construction of cement, clinker, active lime and mineral powder production lines.

Set forth below are the completed production line projects constructed by us during the Track Record Period:

No.	Project name*(Note 4)*	Location	Commencement date*(Note 1)*	Completion date*(Note 2)*	Total contract value*(Note 3)*	Project description
1.	Congo Clinker Production Line	The Republic of Congo	June 2013	June 2016	RMB 144,180,000	Provision of procurement and construction services for the reconstruction and extension project of a clinker production line
2.	Inner Mongolia Cement Grinding Station	PRC	September 2013	July 2016	RMB 35,000,000	Provision of the design, supply, installation, commissioning of the complete set of a cement grinding station
3.	Yemen Cement Grinding Plant	Yemen	October 2014	June 2017	USD 2,000,000	Provision of design, purchase, sales and construction supervision of a 40 TPH cement grinding plant

No.	Project name(Note 4)	Location	Commencement date(Note 1)	Completion date(Note 2)	Total contract value(Note 3)	Project description
4.	Uzbekistan Cement Production Line	Uzbekistan	November 2014	December 2016	USD 19,830,000	Provision of engineering and procurement services for a cement plant with production capacity of 200,000 TPA of cement
5.	Malawi Clinker Production Line	Malawi	January 2015	January 2018	USD 5,452,459	Provision of engineering design, equipment supply and guidance for installation of a 500 TPD clinker production line
6.	Guangdong Active Lime Production Line	PRC	November 2015	December 2016	RMB 28,585,000	Provision of engineering, procurement services of an active lime production line with production capacity of 600 TPD
7.	Bangladesh Cement Plant	Bangladesh	February 2016	August 2017	USD 5,550,000	Provision of procurement, import, supply of machinery, equipment, prefabricated steel buildings, steel silos, services, etc. of a 1600 TPD cement plant
8.	Hunan Mineral Powder Production Line	PRC	May 2016	May 2017	RMB 3,485,200	Provision of mineral powder production line with production capacity of 50,000 TPA
9.	Turkey Cement Production Line	Turkey	November 2016	September 2018	USD 48,500,000	Provision of design, supply, erection and commissioning of a 2500 TPD cement plant together with WHR system

Notes:

1. *The commencement date of the project is determined based on the time when we received the full advance payment from our customer pursuant to the terms of the contract.*

2. *The completion date of the project is determined based on (i) the time when an acceptance certificate, (ii) other document being issued by our customer confirming their acceptance of the production line, or (iii) the date when we delivered all our products to the customer pursuant to the terms of the contract.*

3. *The total contract value refers to the total amount that we expect to receive under the terms of the contract, assuming the contract is performed in accordance with its terms.*

4. *For the revenue recognized for each completed project for the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, please refer to the table setting out the breakdown of revenue generated by the construction of production line business on pages 149 and 150.*

There is a significant discrepancy between the contract value of completed projects and the revenue recognised during the Track Record Period which is mainly due to the fact that some of the production line projects mentioned above commenced before the Track Record Period therefore only part of their revenue, depending on different stage of construction of these projects, was recognised during the Track Record Period.

Projects in Progress

The following table sets forth our production line projects which were still under construction as of the Latest Practicable Date:

No.	Project name	Location	Commencement date(Note 1)	Expected completion date(Note 2)	Total contract value(Note 3)	Project description	Revenue recognized in the year ended 31 December 2018	Revenue recognized in the four months ended 30 April 2019
							RMB'000	RMB'000
1.	Kazakhstan Cement Production Line	Kazakhstan	April 2018	June 2020	RMB 469,999,918	Provision of engineering, procurement and construction services of a 1,200,000 TPA cement production line	138,531	108,541
2.	Uzbekistan Active Lime Plant	Uzbekistan	April 2018	April 2020	USD 5,860,000	Provision of engineering and procurement of an active lime plant with production capacity of 100,000 TPA	9,906	1,065
3.	A Cement Grinding Station	Ivory Coast (Côte d'Ivoire)	January 2019	June 2020	Approximately EURO 50 million	Provision of engineering, procurement and construction of a cement grinding station with production capacity of 3200 TPD	nil	nil
4.	An Active Cement Production Line	PRC	May 2019	December 2019	Approximately RMB30 million	Provision of EP project of a 600 TPD active cement production line	nil	nil
5.	A Clinker Cement Production Line	Uzbekistan	September 2019	August 2020	Approximately USD 100 million	Provision of EPC project of a 3300 TPD clinker cement production line	nil	nil

Notes:

1. *The commencement date of the project is determined based on the time when (i) we received the entire advance payment from our customer pursuant to the terms of the contract, or (ii) the commencement order has been issued.*

2. *The expected completion date of the project is determined based on (i) the terms stipulated in the contract, or (ii) the average completion time of production line project, being approximately 12 to 40 months from the commencement date of the relevant project.*

3. *The total contract value refers to the total amount that we expect to receive under the terms of the contract, assuming the contract is performed in accordance with its terms.*

BACKLOG AND NEW CONTRACT VALUE

Backlog

Backlog represents our estimate of the contract value of work that remains to be completed as of a certain date. The contract value represents the amount that we expect to receive under the terms of the contract, assuming the contract is performed in accordance with its terms. Backlog is not a measure defined by generally accepted accounting principles. For more information, see "Risk Factors — Risks Relating to Our Business — Our results of operations may be affected by backlog which is subject to unexpected adjustment and cancellation, and credit risks."

The following table sets forth the aggregate contract value of projects in the backlog of our manufacturing of equipment and installation services, and construction of production line business as of the following dates:

	December 31						30 April	
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Manufacturing of equipment and installation services ***(Notes 1 & 2)***	932,946	53.3	1,181,335	68.5	1,402,441	56.0	1,784,948	56.4
Construction of production line ***(Note 2)***	822,110	46.7	545,240	31.5	1,102,944	44.0	1,380,465	43.6
Total	1,755,056	100.0	1,726,575	100.0	2,505,385	100.0	3,165,413	100.0

Note 1: As the installation services business is part and parcel of our manufacturing of equipment business, the backlogs of installation services business is presented together with the manufacturing of equipment business for the purpose of the above table.

Note 2: For the purpose of calculating the aggregate backlog illustrated in the above table, we have only taken into account the contracts entered into by us during the Track Record Period which have been effective.

The following table shows the movement of project value (with awarded and recognised project value) as at 1 January and 31 December, and as at 30 April 2019 during the Track Record Period and up to the Latest Practicable Date for each business line:

	Manufacturing of equipment and Installation services	Construction of production line
	(RMB'000)	(RMB'000)
As at 31 December 2015 / 1 January 2016	896,091	177,563
New contract value	647,554	816,001
Deduct the recognised contract value *(Note)*	610,699	171,454
As at 31 December 2016 / 1 January 2017	932,946	822,110
New contract value	923,051	—
Deduct the recognised contract value *(Note)*	674,662	276,870
As at 31 December 2017 / 1 January 2018	1,181,335	545,240
New contract value	1,025,754	772,110
Deduct the recognised contract value *(Note)*	804,648	214,406
As at 31 December 2018 / 1 January 2019	1,402,441	1,102,944
New contract value	674,128	387,648
Deduct the recognised contract value *(Note)*	291,621	110,127
As at 30 April 2019	1,784,948	1,380,465
New contract value	597,940	—
Deduct the recognised contract value *(Note)*	554,908	265,262
As at Latest Practicable Date	1,827,980	1,115,203

Note: The difference of the recognised contract value and the audited revenue was due to the adjustment of business tax and surcharge.

As at the Latest Practicable Date, the aggregate backlog of the contracts entered into by us was approximately RMB2,943.2 million.

We intend to finance our backlog primarily from customer progress payments and internal working capital.

New Contract Value

New contract value represents the aggregate value of contracts entered into and with advance payment received by us during a specified period. The value of a contract is the amount that we expect to receive under the terms of the contract if the contract is performed by us in accordance with its terms.

The following table sets forth the aggregate value of new contracts entered into by us in respect of our business for the years/periods indicated:

	Year ended December 31						Four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Manufacturing of equipment and installation services ***(Notes 1 & 2)***	647,554	44.2	923,051	100.0	1,025,754	57.1	282,074	87.4	674,128	63.5
Construction of production line ***(Note 2)***	816,001	55.8	0	0	772,110	42.9	40,827	12.6	387,648	36.5
Total	1,463,555	100.0	923,051	100.0	1,797,864	100.0	322,901	100.0	1,061,776	100.0

Notes:

1. *As the installation services business is part and parcel of our manufacturing of equipment business, new contract value of installation services business is presented together with the manufacturing of equipment business for the purpose of the above table.*

2. *For the purpose of calculating the aggregate new contract value illustrated in the above table, we have only taken into account the contracts entered into by us during the Track Record Period which have been effective.*

From 1 May 2019 up to the Latest Practicable Date, the aggregate value of new contracts entered into by us was approximately RMB597.9 million.

For the year ended 31 December 2017, there was no aggregate value of new contracts for the construction of production line business because we did not enter into any agreement for the construction of production line in 2017 after being preoccupied with the Turkey Cement Production Line which was relatively large in scale, and tight in schedule due to delay in civil construction work of the Turkey Cement Production Line.

AFTER-SALES SERVICES

We provide after-sales services to our customers. We generally aim to address product-related issues raised by our customers within 72 hours.

Both our production department and sales department will contact our customers to understand the use of the product and provide the relevant services. We will also prepare reports or feedback to customers if we receive any comment from our customers on products or services.

We will conduct on-site investigation of the relevant issues raised by our customers in order to determine the type of after-sales services to be provided including, repair of equipment and/or replacement of parts and components. For after-sales services which fall within the warranty period as stipulated in the sales contract, we will not charge additional fees for provision of after-sales services to customers save for such repair and/or replacement which are due to reasons caused by our customers.

During the Track Received Period, we did not experience any major complaints from our customers on the quality of our products or services. We believe that our after-sales services can leverage our technical and engineering experience to enable us to better understand the needs of our customers so as to retain customers in the long run.

PRODUCTION FACILITIES AND PRODUCTION PROCESS

Production facilities

Our production plant is located at Haian city, Jiangsu province, the PRC. Our production site covers three plant areas, namely, North Plant, South Plant and West Plant and is used by our Group for production and ancillary office purposes.

The table below sets out a summary of our three plant areas as at the Latest Practicable Date:

Description of our plant	Location	Approximate site area (sq.m.)	Function
North Plant area.	No. 99 West Renmin Road Dagong Town	194,856.46	Production plants for the purpose of manufacturing of rotary kiln with a diameter of 4.5 meters or above and grinding equipment with a diameter of 3.2 meters or above, and office
South Plant area.	No. 5 Benbei Road Dagong Town	55,825.00	Production plants for the purpose of manufacturing rotary kiln with a diameter of less than 4.5 meters and with a diameter of less than 3.2 meters
West Plant area	No. 288 North Tongyu Road Dagong Town	37,260.00	Production plants for the purpose of processing parts and components, such as plate, kiln cover, gear cover and ancillary equipment

Major production machinery and equipment

The table below sets out a summary of our major production machinery and equipment owned by us as at the Latest Practicable Date:

Major machinery/ equipment	Number of units	Principal usage and function	Approximate remaining useful life (years)
Vertical lathe	22	Supporting roller (拖輪) or large gear tuning	5
Gear hobbing machine	13	Large gear hobbing/ cutting	9
Milling and boring machine	10	High precision metal hole boring or hole milling	4
Floor-type lathe	12	Tuning of the exterior of cylinder	5
Cutting machine and coiling machine	13	Cutting and coiling of steel plates into cylinder	5
Crane.	102	Large parts lifting	6
Casting and sand cleaning machine	3	Sandblasting	6
Steel plates pre-treatment line	1	Sandblasting, painting and drying of steel plates	12

As at the Latest Practicable Date, the average age of our major production machinery and equipment was approximately six years. Our Directors estimate that the remaining number of years before replacement ranges from approximately 0 year to 15 years.

Production facilities are organized and managed by our equipment safety team, covering the deployment, acceptance, filing, repair and scrapping of such facilities. We conduct monthly maintenance of our machinery and equipment so as to ensure that our business operations will not be disrupted unnecessarily.

During the Track Record Period, we spent approximately RMB0.3 million, RMB6.8 million, RMB4.6 million and RMB1.0 million, respectively on purchase of new plant and machinery. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any breakdown of our production facilities that had a material adverse impact on our business operations.

Production capacity and utilisation rate

The table below sets out our production capacity as illustrated by the total unit of rotary kilns and grinding equipment produced per year and the utilisation rate:

		Year ended 31 December						Four months ended 30 April			
		2016		2017		2018		2018		2019	
	Production capacity (unit/year)	Amount produced (unit)	Utilisation rate (%)	Amount produced	Utilisation rate (%)	Amount produced	Utilisation rate (%)	Amount produced	Utilisation rate (%)	Amount produced	Utilisation rate (%)
Rotary kiln	66	48	72.73	59	89.39	64	96.96	15	68.18	22	100.00
Grinding equipment	106	66	62.26	78	73.58	96	90.57	28	79.25	15	42.45

Notes:

1. The above table indicating our production capacity is for illustration purpose only without taking into account any unforeseen circumstances.

2. Production plant and major processing machinery and equipment, namely gear hobbing machines and boring and milling machines, are the main factors that affect the total amount of rotary kilns and grinding equipment produced per annum.

3. Utilisation rate is calculated by dividing the total amount of rotary kilns or grinding equipment produced by us with our total production capacity of rotary kilns or grinding equipment per annum.

4. The production capacity of rotary kiln is calculated based on the total machine production hours of the gear hobbing machine which produces the large gear. Each rotary kiln is equipied with one large gear which is a crucial component of a rotary kiln which turns and rotates a rotary kiln. Hence, the number of large gear produced by the gear hobbing machine directly affects the number of rotary kiln that will be produced. Our Group has five gear hobbing machines for producing gears of diameter of over 6.3 meters for rotary kiln and grinding equipment, two of which are used to produce the large gears for rotary kilns, two are used to produce gears for grinding equipment and one is used to produce gears for maintenance.

   The total machine production hours of our gear hobbing machines is calculated by multiplying (i) the number of gear hobbing machines (i.e. two); (ii) the number of production days of the gear hobbing machines per annum (i.e. 360 days);

(iii) the number of shift of our employees (i.e. two shifts) and (iv) the number of hours per shift (i.e. 12 hours), without taking into account any unforeseen circumstances. Hence, the total machine production hours of the two gear hobbing machines are 17,280 hours which is then divided by the time needed for further processing of the large gear (i.e. approximately 11 days, about 264 hours). The total production capacity of rotary kiln is determined based on the annual machine hours of our gear hobbing machines i.e. 66 units of rotary kiln per annum.

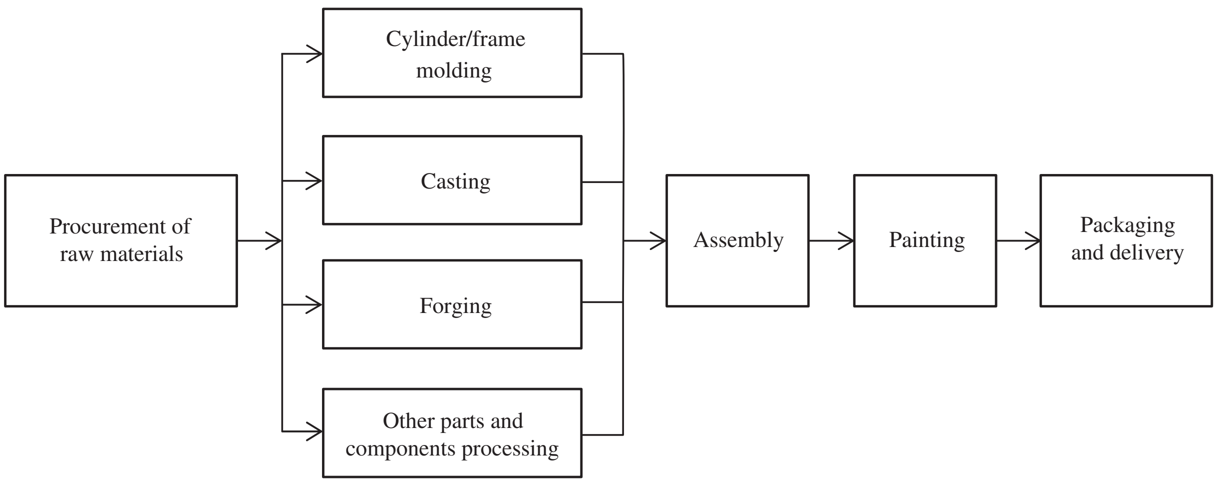
5. The key products of a grinding equipment system include (i) vertical mill; (ii) roller press and (iii) tube mill (For further details, please see the section headed "Grinding equipment system" in this section). Therefore, the production capacity of grinding equipment is calculated based on the total machine hours of (a) the gear hobbing machine which produces gears crucial for tube mills as each tube mill needs to be equipped with one large gear; and (b) the boring and milling machine which is essential for processing vertical mill and roller press. Two of our gear hobbing machines are used to produce gears for tube mills. We also have two boring and milling machines with rods of 200 millimeters diameter: one for processing vertical mill and the other for processing roller press.

The total machine production hours of our gear hobbing machines is calculated by multiplying (i) the number of gear hobbing machines (i.e. two); (ii) the number of production days of the gear hobbing machines per annum (i.e. 360 days); (iii) the number of shift of our employees (i.e. two shifts) and (iv) the number of hours per shift (i.e. 12 hours), without taking into account any unforeseen circumstances. Hence, the total production hours of the two gear hobbing machines are 17,280 hours which is then divided by the time needed for further processing of the large gear (i.e. approximately 11 days, about 264 hours). The total production capacity of tube mills is determined based on the annual machine hours of two gear hobbing machines i.e. 66 units of tube mills per annum.

The total machine production hours of our boring and milling machines is calculated by multiplying (i) the number of boring and milling machines (i.e. two); (ii) the number of production days of the boring and milling machines (i.e. 300 days); (iii) the number of shift of our employees (i.e. two shifts) and (iv) the number of hours per shift (i.e. 12 hours), without taking into account any unforeseen circumstances. Hence, the total production hours of the two boring and milling machines are 7,200 hours which is then divided by the time needed for further processing of the vertical mill and roller press, which is 360 hours. The production capacity of the boring and milling machines is 40 units per year which are used to produce 20 vertical mills and 20 roller presses, respectively. The total production capacity of vertical mills and roller presses is determined based on the annual machine production hours of two boring and milling machines i.e. 106 units (i.e. the sum of 66 units of tube mills, 20 units of vertical mills and 20 units of roller presses).

Production process

The following diagram illustrates the production process of our core products in the rotary kiln system and grinding equipment system:



The production process of our core products mainly include the following steps: (a) cylinder/frame molding; (b) casting; (c) forging; (d) other parts and components processing; (e) assembly; (f) painting and (g) packaging and delivery. The production process generally requires 140 to 160 days.

The specific process is as follows:

Cylinder/frame molding

(a) **Feeding material** — steel materials are cut into required shapes and sizes according to the drawing specifications;

(b) **Coiling** — (with respect to rotary kiln, vertical mill and tube mill only) after cutting, steel materials are rolled into circular cylinders by the coiling machine;

(c) **Welding** — materials are welded according to various process requirements;

(d) **Rounding** — (with respect to rotary kiln, vertical mill and tube mill only) after the cylinder is formed, it is fixed on a special rounding tool in order to ensure its roundness;

(e) **Peening** — steel shots are thrown to the surface of the workpiece by a motor-driven rotating impeller to make the workpiece surface reach a certain level of roughness so as to improve its service life and adhesion to paint;

(f) **Welding connection** — (with respect to rotary kiln, vertical mill and tube mill only) cut the V-shape grooves on two sections of the cylinder that needs to be docked, and place them on the roller frame. Then the submerged arc welding machine is used for specification welding;

(g) **Annealing** — (with respect to vertical mill, roller press and tube mill only) the molded cylinder/frame is heated in annealing furnace up to required temperature then cool down by itself to eliminate the stress of materials;

(h) **Processing** — certain operation surfaces of the cylinder/frame are processed using machine tools in preparation for assembling other accessories;

(i) **Boring hole** — (with respect to roller press only) holes on the frame are further processed by increasing the diameter and precision, reducing the roughness on the surface and rectifying the tilted axis in order to improve the precision and lifespan of equipment;

(j) **Supporting** — (with respect to rotary kiln requiring transportation only) to prevent the cylinder from deformation or damage during transportation, H-bar brackets are set inside the cylinder to fix and support the cylinder.

Casting

Casting of rotary kiln, vertical mill, roller press and tube mill involves processing of different types of castings with different machineries.

For rotary kiln and tube mill, we use gear hobbing machine to hob large parts such as large gear, use vertical lathe to process support liner (輪帶) and supporting roller (托輪), use boring machine to bore holes, and the other small castings are processed by using lathe.

With respect to casting of vertical mill and roller press, vertical lathe and boring machine are used to process grinder, rocker arm and roller sleeve and to bore holes, respectively.

Forging

Forging of rotary kiln and tube mill involve processing and tempering, where the forging of vertical mill and roller press involves additional process of roller surface welding after tempering.

(a) **Processing** — the forgings are cut and processed into required shapes and sizes;

(b) **Tempering** — the forgings are quenched and tempered in high temperature to obtain relatively good overall strength and plasticity;

(c) **Roller surface welding** — (with respect to forging of vertical mill and roller press) the roller surface is welded with a layer of abrasion-resistant material in order to enhance its durability. After the roller is worn, it can be re-welded with the layer of abrasion-resistant material to extend its service life.

Other parts and components processing

This process involves the processing of parts and components including bolt (螺栓), axle (軸) and dowel pin (定位銷) etc. by using small lathe.

Assembly

After the cylinder/frame being molded and castings and forgings being processed, all parts and components are to be assembled according to the drawings of the final products.

Painting

After the parts and components are assembled, they are painted with coating as final products.

Packaging and delivery

After the products are painted, they will be packed and ready to be delivered.

CUSTOMERS, SALES AND MARKETING

Marketing and promotional activities

Most of our products are sold directly to our customers under our own brand name. Our sales and marketing team market our products through various marketing channels and methods, which include, among others: (i) advertisements in paper media such as magazines and newspapers; (ii) advertisements on Internet (i.e. our Group's website and other websites); (iii) attending events and/or exhibitions relating to the building materials and machineries industry both in the PRC and overseas (i.e. Canton Fair (廣交會), bauma CHINA (中國國際工程機械、建材機械、礦山機械、工程車輛及設備博覽會), Arab International Cement Conference and Exhibition with other industry professionals, potential customers and suppliers; and (iv) customer visits.

During the Track Record Period, our marketing and promotion expenses relating to exhibition, advertising and business promotion activities amounted to approximately RMB1.2 million, RMB1.6 million, RMB2.0 million and RMB1.3 million, respectively.

Sales

Pricing policy

We normally set the prices for our products and/or our services on a cost-plus basis and take into account a variety of factors, including cost of raw materials, overhead, labour costs, processing complexity, scale of production line (in the case of our construction of production line business) and sub-contracting costs. We determine the price of each order or contract value of each contract on a standalone basis, all of which are negotiated on an individual basis with each customer. Generally any increase in the price of raw materials and any appreciation or depreciation in Renminbi are factored into the pricing consideration for the orders.

We set the prices for our products and/or our services on a cost-plus basis as we normally reach agreement with our suppliers on the price of the required materials, parts and components around the same time when we sign the sales contracts with our customers. Once our customers pay the advance payment under the contracts with us, we will then enter into procurement contracts with our suppliers which are also fixed-price contracts. As the time interval between the sales contract with our customers and the procurement contract is relatively short, we are able to reflect the terms of the fixed-price procurement contracts in the sales contracts with our customers.

Our Group's sales are mainly settled in USD and Renminbi. Most of our customers settle their payment by way of bank transfer, acceptance draft or letter of credit. We do not grant any credit period to our customers.

Tender process and tender success rate

The number of projects tendered and won by us during the Track Record Period is as follows:

	For the year ended 31 December			Four months ended 30 April
	2016	2017	2018	2019
Number of tenders submitted	75	69	128	34
Number of contracts awarded to our Group	25	18	42	13
Success rate (%)	33	26	33	38.2

Note: *Tender success rate is calculated by dividing the number of contracts awarded in respect of the tenders submitted during a financial year or a period by the total number of tenders submitted during the financial year or the period (as the case may be).*

We recorded a relatively low tender success rate as (i) we usually submit tender to keep our presence in the market and keep us abreast of the market requirements and price; (ii) we were preoccupied with a few sizeable projects especially for the year ended 31 December 2017 and were relatively cautious in submitting tenders in that year; and (iii) we adopt a relatively prudent approach in cost estimation which might have caused our tender price to be less competitive.

Manufacturing of equipment business

During the Track Record Period, we mainly sold products from our manufacturing of equipment business in respect of rotary kiln system and grinding equipment system to customers in building materials, metallurgy, chemical and environmental protection industries.

The table below sets out the breakdown of our revenue generated by our manufacturing of equipment business attributable to our customers in the building materials industry and other industries for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
Customer category	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Building materials industry	263,827	45.8	362,782	55.5	293,066	37.6	104,502	51.2	67,163	23.7
Other industries[(Note)]	311,798	54.2	290,919	44.5	487,344	62.4	99,409	48.8	215,843	76.3
Total	575,625	100.0	653,701	100.0	780,410	100.0	203,911	100.0	283,006	100.0

Note: *Other industries refer to metallurgy, chemical and environmental protection industries.*

The typical salient terms of a sales contract entered into with customers under our manufacturing of equipment business in respect of our rotary kiln system and grinding equipment system are set out below:

Quality requirements	:	our products are required to be in compliance with the national or industrial standards of the PRC unless our customers require us to comply with any other specific standards or requirements. A certificate of conformity (合格証) will be issued to our customers upon delivery of products.
Payment terms	:	our contract generally provides for payment by four to five instalments. The advance payment generally represents an amount of no more than 30% of the total contract value which is payable within a certain period after signing of the contract. Generally, an amount of approximately 90% of the total contract value will be paid before delivery of our products and each installment will be paid subject to the project progress, delivery progress and (if applicable) completion of commissioning work.
Delivery	:	our products are either collected by our customers at our site or delivered to venues or ports (majority of which are on FOB terms) designated by our customers.
Warranty period	:	a warranty period of 12 months from the test run report or 18 months from the date of delivery of our products, whichever is earlier.
Retention money	:	retention money is typically equal to approximately 10% of the total contract value. Typically, if full payment of the total contract value has been received by us, which is usually the case for our overseas customers, a bank guarantee, equivalent to approximately 5% to 10% of the total contract value as retention money, will be issued to our customers. In the absence of warranty claim after the warranty period, the bank guarantee will be released. Alternatively, if full payment of the total contract value has not been received by us, a retention money of approximately 5% to 10% of the total contract value will be paid to us in the absence of warranty claim after the warranty period.

Installation services

During the Track Record Period, installation services are provided to our customers under our manufacturing of equipment business and our construction of production line business.

In the event that any of our customers in the manufacturing of equipment business and our construction of production line business require us to provide installation services for the products manufactured by us, we normally do not enter into a separate installation contract with our customers as the terms regarding installation services are included in the main contract. The salient terms of our installation services are fairly straight-forward which usually set out that the installation services and/or the parts and components for the installation services are to be provided by our Group and that the fees incurred during installation such as electricity fee and lifting fee are to be borne by our Group. In addition, the main contract for our construction of production line business may also set out in detail the scope of installation work, for example, mechanical erection work or electrical erection work, to be carried out by our Group. As we engage sub-contractors to provide installation services to our customers, we will enter separate agreements with sub-contractors for installation services to be provided to our customers. For details of the terms of our agreements with our sub-contractors, please refer to the section headed "Business — Suppliers, procurement and inventory management — Sub-contractors" of this prospectus.

Construction of production line business

During the Track Record Period, majority of our customers in the construction of production line business were in the building materials industry.

The typical salient terms of our contract entered into with customers under our construction of production line business are similar to our contracts in the manufacturing of equipment business save for the following:

Contracting model	:	we undertake construction of production line projects based on EPC contracting model.
Payment terms	:	our contract provides for payment by instalments based on milestones of the project. The advance payment generally represents an amount of no more than 30% of the total contract value which is payable within a certain period after signing of the contract. Generally, an amount of around 90% of the total contract value before delivery of products will be paid by installment subject to the project progress, delivery progress, commissioning of the production line and/or issuance of final acceptance certificate. In some cases, once the acceptance certificate has been issued, our customers may be required to pay us an amount of approximately 5% to 10% of the total contract value. Most of our overseas customers settle their payment by way of letter of credit.

Technical support : we provide technical support, installation supervision, commissioning and test run services to our customers.

Warranty period : a warranty period of 12 months after the operation of production line and the issuance of the final acceptance certificate.

Retention money : in some of our contracts, if full payment of the total contract value has been received by us, which is usually the case for our overseas customers, a bank guarantee, equivalent to approximately 5% to 10% of the total contract value as retention money, will be issued to our customers. In the absence of warranty claim after the warranty period, the bank guarantee will be released. Alternatively, if full payment of the total contract value has not been received by us, a retention money of approximately 5% to 10% of the total contract value will be paid to us in the absence of warranty claim after the warranty period.

Information on our top-five customers

The table below sets out the details of our top five customers for the year ended 31 December 2016:

Rank	Name of customer	Business operations	Location	Product/services sold/provided to customer	Length of business relationship as at the Latest Practicable Date *(Note 1)*	Payment method	Revenue amount (RMB'000)	Percentage of total revenue of our Group (%)
1.	Customer A (Note 2)	Production and sales of nickel alloys; sales of mechanical parts	PRC	Rotary kilns, dryers, tube mills, parts and components	7	Bank transfer	123,304	15.9
2.	Customer B (Note 3)	Cement production	Uzbekistan	Cement production line service	5	Bank transfer or letter of credit	76,247	9.8
3.	Customer C (Note 4)	Manufacturing and sales of metallurgical machinery, equipment and accessories	PRC	Rotary kiln wheel support equipment	5	Bank transfer	49,668	6.4
4.	Customer D (Note 5)	Wholesale of coal, mineral products and metallurgical charge, import and export	PRC	Rotary kilns, dryers, parts and components	4	Bank transfer	35,327	4.5
5.	Customer E (Note 6)	Cement production	Bangladesh	Cement grinding station	3	Letter of credit	25,992	3.3
Total							310,538	40.0

Note:

1. *The length of business relationship was determined based on the year when we first commenced business relationship with such customer.*

2. *Customer A was established on 2 August 2010 as a limited liability company in the PRC. As at the Latest Practicable Date, it had a registered capital of RMB 200 million engaging in the production and sales of nickel alloys and sales of mechanical parts with more than 10,000 employees.*

3. *Customer B is a joint venture company established in Uzbekistan in 2012. As at the Latest Practicable Date, it had a registered capital of UZS14,500 million (approximately RMB 11.6 million).*

4. *Customer C was established on 31 August 2000 as a limited liability company in the PRC. As at the Latest Practicable Date, it had a registered capital of RMB 20 million engaging in manufacturing and sales of metallurgical machinery, equipment and accessories with more than 100 subsidiaries. Customer N is a substantial shareholder of Customer C holding 12% of its equity interest, while Customer N is held as to 23.7% by Customer M. Customer C, Customer M and Customer N are independent from our Group.*

5. *Customer D was established on 6 September 2010 as a limited liability company in the PRC. As at the Latest Practicable Date, it had a registered capital of USD 22.1 million engaging in the wholesale of coal, mineral products, metallurgical charge, ferroalloys, refractory materials, water slag, steel products, metal materials (except precious metals, rare metals), building materials (steel and cement), welding materials etc. and import and export and other related supporting business.*

6. *Customer E was registered on 20 June 1999 in Bangladesh. As at the Latest Practicable Date and based on the information available to us, it had a nominal share capital of BDT 500 million (approximately RMB 39.8 million) and an issued share capital of BDT 14 million (approximately RMB 1.1 million). It is one of the leading cement production companies in Bangladesh.*

The table below sets out the details of our top five customers for the year ended 31 December 2017:

Rank	Name of customer	Business operations	Location	Product/services sold/provided to customer	Length of business relationship as at the Latest Practicable Date *(note 1)*	Payment method	Revenue amount (RMB'000)	Percentage of total revenue of our Group (%)
1.	Customer F *(Note 2)*	Mining and energy	Turkey	Cement production line service	3	Bank transfer	256,131	27.1
2.	Customer G *(Note 3)*	Coal and other minerals and ores	Hong Kong	Rotary kilns, vertical mills, parts and components	3	Bank transfer	81,423	8.6
3.	Customer H *(Note 4)*	Manufacturing of equipment, importing and exporting of goods and technology	PRC	Rotary kiln, vertical mill, parts and components	6	Bank transfer	54,024	5.7
4.	Customer I *(Note 5)*	Cement production	Bangladesh	Tube mill, ancillary machineries	2	Letter of credit	31,447	3.3
5.	Customer J *(Note 6)*	Production and sales of prestressed concrete steel rods and other raw materials	PRC	Rotary kilns, preheaters, coolers	2	Bank transfer	25,422	2.7
Total							448,447	47.4

Notes:

1. *The length of business relationship was determined based on the year when we first commenced business relationship with such customer.*

2. *Customer F was registered on 25 June 2014 as a joint-stock company in Turkey engaging in mining and energy business. As at the Latest Practicable Date and based on the information available to us, it had a paid-up capital of TRY 24 million (approximately RMB 27.4 million).*

3. *Customer G was incorporated on 22 October 2013 as a private company limited by shares in Hong Kong. As at the Latest Practicable Date, it had an issued share capital of HK$ 14,000 engaging in the business of coal and other minerals and ores. For the year ended 31 December 2017, Customer G, in its capacity as the general contractor of an engineering and construction project in Indonesia, purchased rotary kilns, vertical mills, parts and components from our Group on behalf of the owner of that project.*

4. *Customer H was established on 26 August 2008 and is a branch office of a building materials and industrial design and research company in the PRC, which is ultimately owned by a state-owned enterprise. As at the Latest Practicable Date, it had a registered capital of RMB60.0 million.*

5. *Customer I was registered on 26 January 2000 in Bangladesh. As at the Latest Practicable Date and based on the information available to us, it had a registered capital of BTD100 million (approximately RMB 7.96 million). It is one of the leading cement production companies in Bangladesh.*

6. *Customer J was established on 30 January 2002 as a limited liability company in the PRC. As at the Latest Practicable Date, it had a registered capital of USD58 million engaging in the production and sales of prestressed concrete steel rods, carbon steel, spring steel, sheet, cold-rolled silicon steel and other high-calcium ash, slag powder and thin sheet of raw materials.*

The table below sets out the details of our top five customers for the year ended 31 December 2018:

Rank	Name of customer	Business operations	Location	Product/services sold/provided to customer	Length of business relationship as at the Latest Practicable Date (Note 1)	Payment methods	Revenue amount (RMB'000)	Percentage of total revenue of our Group (%)
1	Customer K (Note 2)	Production of cement, including clinkers	Kazakhstan	Cement production line service	2	Bank transfer	138,531	13.6
2	Customer L (Note 3)	General contracting	PRC	Rotary kilns, dryers	2	Bank transfer	88,897	8.7
3	Customer F (Note 4)	Mining and energy	Turkey	Cement production line service	2	Bank transfer	65,065	6.4
4	Customer M (Note 5)	Import and export of goods and technology	PRC	Rotary kilns	3	Bank transfer	57,515	5.7
5	Customer N (Note 6)	Manufacturing, sales of metal materials	PRC	Rotary kilns	1	Bank transfer	38,344	3.8
							388,352	38.2

Notes:

1. *The length of business relationship was determined based on the year when we first commenced business relationship with such customer.*

2. *Customer K was incorporated on 2 July 2015 as a limited liability partnership in Kazakhstan. As at the Latest Practicable Date and based on the information available to us, it had a registered capital of KZT 1 million (approximately RMB17,700) engaging in the production of cement which includes clinkers. Customer K is a project company established for the cement production line project in Kazakhstan. Despite its relatively low registered capital, its majority shareholder, which holds as to 87.5% equity interests in Customer K, is an investment holding company incorporated in Singapore and is an indirect wholly-owned subsidiary of a company which was listed on the Mainboard of the Singapore Exchange that primarily engages in the manufacturing and marketing of aluminium windows and doors for residential properties and sale of aluminium extrusions and in recent years, expands into the cement business. According to the annual report 2018 of the above listed company, its total revenue for the year ended 31 December 2018 was S$114.1 million (approximately RMB592.2 million).*

3. *Customer L was established on 18 February 1993 as a limited company in the PRC. As at the Latest Practicable Date, it had a registered capital of RMB 1,931 million and paid-up capital of RMB 62.5 million engaging in the business of mechanical equipment design and manufacture, installation and finetuning, spare parts supply, metal structure manufacturing and metal surface treatment and heat treatment, etc.*

4. *Customer F was registered on 25 June 2014 as a joint-stock company in Turkey engaging in mining and energy business. As at the Latest Practicable Date and based on the information available to us, it had a paid-up capital of TRY 24 million (approximately RMB 27.4 million).*

5. *Customer M was established on 1 February 2007 as a limited liability company in the PRC. As at the Latest Practicable Date, it had a registered and paid-up capital of RMB 2,200 million engaging in industrial investment, management and consulting, import and export of goods and technology, third-party logistics services, sale of petroleum products and chemical raw materials and products, etc. Customer M is a substantial shareholder of Customer N holding 23.7% of its equity interest, while Customer N has become a substantial shareholder of Customer C since 2014, holding 12% of its equity interest. Customer C, Customer M and Customer N are independent from our Group.*

6. *Customer N was established on 12 June 2003 as a limited liability company in the PRC. As at the Latest Practicable Date, it had a registered and paid-up capital of RMB 2,800 million engaging in the manufacturing and sales of metal materials, hardware and electric, automobile parts, electronic products, medium and low pressure valves, hardware fittings and building materials. Customer N has become a substantial shareholder of Customer C since 2014, holding 12% of its equity interest. Customer N is held as to 23.7% by Customer M. Customer C, Customer M and Customer N are independent from our Group.*

The table below sets out the details of our top five customers for the four months ended 30 April 2019:

Rank	Name of customer	Business operations	Location	Product/services sold/provided to customer	Length of business relationship as at the Latest Practicable Date (Note 1)	Payment methods	Revenue amount (RMB'000)	Percentage of total revenue of our Group (%)
1.	Customer O (Note 2)	General contractor of engineering projects, production and sales of engineering machinery, etc.	PRC	Rotary kilns and dryers	1	Bank's acceptance bill	110,891	27.7
2.	Customer K (Note 3)	Production of cement, including clinker	Kazakhstan	Cement production line service	2	Bank transfer	108,541	27.1
3.	Customer N (Note 4)	Manufacturing and sales of metal materials	PRC	Rotary kilns	1	Bank transfer or bank's acceptance bill	38,269	9.6
4.	Customer P (Note 5)	Production and sales of lithium hydroxide monohydrate, lithium carbonate and other lithium salt products, import and export of goods and technologies	PRC	Rotary kilns and coolers	1	Bank transfer or bank's acceptance bill	11,738	2.9
5.	Customer Q (Note 6)	Nickel-cobalt smelting, import and export of various commodities and technologies	PRC	Dryers	1	Bank transfer or bank's acceptance bill	11,601	2.9
							281,040	70.3

Notes:

1. *The length of business relationship was determined based on the year when we first commenced business relationship with such customer.*

2. *Customer O was a company established in 1972 and focuses on, among others, industrial engineering and service. It is wholly owned by a company listed on the main board of Shenzhen Stock Exchange which engages in engineering and general contracting business.*

3. *For information on Customer K, please refer to note 2 on page 171 of this prospectus.*

4. *For information of Customer N, please refer to note 6 on page 172 of this prospectus.*

5. *Customer P was a company established on 14 September 2017 in the PRC and focuses on the production of lithium ore and lithium salt products. It is one of the leading enterprises in the PRC for the production of lithium salt and is a major supplier of lithium salt products worldwide.*

6. *Customer Q was a company established on 29 June 2015 in the PRC and engages in the business of non-ferrous metals (except aluminum) smelting and refining.*

During the Track Record Period:

(a) all of our top five customers were Independent Third Parties;

(b) none of our top five customers were also our suppliers;

(c) our top five customers collectively accounted for approximately 40.0%, 47.4%, 38.2% and 70.3% of our total revenue for the relevant periods, respectively; and

(d) our largest customer accounted for approximately 15.9%, 27.1%, 13.6% and 27.7% of our total revenue for the relevant periods, respectively.

To the best of our Directors' knowledge and belief, during the Track Record Period and up to the Latest Practicable Date, none of our Directors, their respective close associates or any of our Shareholders owned more than 5% of our share capital had any interest in any of our top five customers.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material litigation and claims from our customers.

Seasonality

Our business has no obvious cyclical or seasonal changes.

SUPPLIERS, PROCUREMENT AND INVENTORY MANAGEMENT

Procurement process and price fluctuations of raw materials

We formulate our procurement plan for raw materials, parts and components and other equipment mainly based on our current orders. Our supply department, consisting of 18 staff, is mainly responsible for the purchase of raw materials. As we produce our products and provide one-stop solution service on an individual purchase order basis, we generally formulate the procurement plan of corresponding raw materials only when we receive the advance payments from our customers.

We determine the procurement plan according to market conditions and purchase raw materials directly from suppliers we select through our established procurement process.

The principal raw materials procured by us are steel materials such as steel plates, castings and forgings, and the principal parts and components procured by us include motors, reducers and bearings. We purchase most of our raw materials, parts and components and other equipment from local suppliers in the PRC. During the Track Record Period, our total cost of raw materials amounted to approximately RMB461.3 million, RMB553.3 million, RMB543.4 million and RMB241.9 million, respectively, representing approximately 72.7%, 73.6%, 67.9% and 77.1%, respectively, of our total costs of sales. We also did not encounter any significant delays or shortages in the supply of our raw materials during the Track Record Period.

We monitor fluctuations in the prices of our raw materials closely and adjust our raw materials inventory policy in accordance with such price fluctuations as and when necessary. During the Track Record Period, we did not experience any significant price fluctuations in relation to our raw materials. Please refer to "Financial information — Discussion of selected items in consolidated statements of profit or loss and other comprehensive income — Cost of sales and services — Sensitivity analysis" for further details on the sensitivity analysis of the cost of raw materials of our products and service illustrating the impact of increases in the costs of our raw materials on our total operating costs. To minimise our exposure to price fluctuations of raw materials and to avoid delays and/or shortages in the supply of raw materials, we have implemented the following measures, including:

(a) analyse price trends of steel plates on an on-going basis and increase our inventory levels of steel plates in anticipation of price increase and vice versa; review and monitor our steel plates inventory levels on a periodical basis. The quantity of steel plates to be procured by us will take into account the current levels and prices of such steel plates; and

(b) maintain a list of readily available alternative suppliers for each type of raw materials to reduce reliance on any one supplier and to avoid having any disruptions to our supply of raw materials.

During the Track Record Period, save for an one-year purchase contract with one supplier for the supply of castings, we did not enter into any long-term purchase contract with our supplier. Please also refer to "Industry overview — Key Cost Components — Raw Materials" for further details on price trends of our raw materials in this prospectus.

Selection criteria for our suppliers

We have in place a set of selection criteria for suppliers of our raw materials, parts and components, and equipment including various factors such as: (i) quality of work; (ii) pricing; (iii) reputation in the industry; (iv) supplier's qualification and compliance record; (v) production capacity; and (vi) financial position. Potential suppliers that satisfy our selection criteria will be included in our list of qualified suppliers which will be reviewed and updated on an annual basis. We generally obtain price quotation from at least three potential suppliers.

During the Track Record Period and as at the Latest Practicable Date: (a) we did not experience any delays, shortages and/or material difficulties in obtaining any of our raw materials for our production needs; and (b) we did not have any material disputes with any of our suppliers.

Sub-contractors

We outsource certain design, civil construction and installation works to sub-contractors to ensure the progress and quality of the projects. We may also outsource the processing of certain raw materials to external parties in case we do not have enough production capacity and/or manpower to process such raw materials. We will provide the raw materials and the drawings of the parts and components that we require to our sub-contractors which will process the raw materials in accordance with our specifications. We believe it would be more cost effective and efficient if we outsource such manufacturing processes to external parties. Services to be provided by our sub-contractors will depend on the needs of individual projects. We will continue to engage such sub-contractors as and when the need arises as described above.

During the Track Record Period, we did not experience any difficulty in identifying and engaging sub-contractors for our design, civil construction and installation works.

Selection procedure and relationship with sub-contractors

We follow designated criteria in selecting sub-contractors similar to our selection procedures of suppliers and we keep a list of qualified sub-contractors to provide suitable sub-contracting services. As part of selection procedures for our sub-contractors, we will also consider their responsiveness to our requests and their understanding of the technical know-how of our machinery and equipment.

We require our sub-contractors to maintain high quality standards for their services, and to comply with the terms and conditions set out in our contracts with project owners or main contractors. If any of our sub-contractors encounter any non-compliance incidents, the relevant sub-contractors shall rectify and undertake the necessary remedial actions at their own costs. All losses caused or incurred by our Group as a result of such sub-contractors' failure to maintain proper quality control, occupational health, work safety and environmental protection standards shall be borne by such sub-contractors.

As at the Latest Practicable Date, we had approximately two to 12 years of business relationships with our sub-contractors. Our Directors believe that there are no associated risks with such outsourcing arrangements as there are substitute sub-contractors readily available in the market.

As at the Latest Practicable Date, we had 18 approved sub-contractors. The table sets out the breakdown of our sub-contracting costs incurred during the Track Record Period by business lines:

	Year ended 31 December						Four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Manufacturing of equipment	—	—	—	—	—	—	—	—	—	—
Installation services	30,786	45.0	17,140	18.0	21,985	14.2	3,035	11.5	7,290	23.3
Construction of production line	37,697	55.0	77,937	82.0	132,739	85.8	23,403	88.5	24,041	76.7
Total	68,483	100	95,077	100	154,724	100	26,438	100	31,331	100

The civil construction work outsourced to sub-contractors includes but not limited to (1) the construction of equipment of auxiliary buildings; (2) structures required for equipment installation (e.g. rotary kilns, foundation masonry of grinding equipment, platforms, etc.); and (3) other special engineering work.

Our Directors also confirmed that during the Track Record Period and up to the Latest Practicable Date, we did not encounter any material dispute with any of our sub-contractor.

Salient terms of contracts with our sub-contractors

For the design, civil construction and installation services to be provided to our customers under our construction of production line business, the design, civil construction and installation sub-contracts typically reflect the principal terms of our production line contracts with our project owners. For contracts with our design sub-contractors, it is often stipulated that if the production line achieves better performance and the design fee will be adjusted according to the contribution of sub-contractors. However, according to the standard contract generally adopted in the industry, no rewards have been given by our Group, and all the design fees were settled according to the fixed design fee set out in the contracts during the Track Record Period. For contracts with our installation sub-contractors, the price is either fixed or variable based on the actual volume of installation works. For the installation services to be provided to our customers under our manufacturing of equipment business, the installation fees set out in the contracts with our installation sub-contractors are fixed.

Information on our top five suppliers

We consider that it is commercially beneficial to maintain a stable and close business relationship with our suppliers. While it is our strategy to procure our raw materials, parts and components, and equipment from a few reliable suppliers so as to ensure the quality and reliability of our raw materials, we generally select our suppliers based on our list of qualified suppliers and compare the pricing and terms offered by such suppliers before we place our purchase orders for raw materials. The list of qualified suppliers includes multiple suppliers for each type of raw materials to reduce our reliance on any one supplier and to avoid having any disruptions to our supply of raw materials.

The table below sets out the details of our top five suppliers for the year ended 31 December 2016:

Rank	Name of supplier	Business operations	Location	Raw materials/ services purchased/ obtained from supplier	Length of business relationship as at the Latest Practicable Date (Note 1)	Payment method	Credit terms	Purchase Amount (RMB'000)	Percentage of total purchases of our Group (%)
1.	Supplier A(Note 2)	Production and sales of castings	PRC	Castings	7	Bank transfer	90% of total contract amount paid after acceptance and 10% total contract amount paid after retention period	72,108	15.4
2.	Supplier B	Equipment installation	PRC	Equipment installation service	4	Bank transfer	60 days	22,400	4.8
3.	南京高精傳動設備製造集團有限公司 (Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd.)*(Note 3)	Design and production of gear transmission equipment and industrial equipment	PRC	Reducer	11	Bank transfer or bank acceptance bill	20% of total contract amount prepaid and 80% of total contract amount paid after delivery of goods	22,220	4.8
4.	Supplier D	Ferrous metal smelting and steel processing	PRC	Steel	12	Bank transfer or bank acceptance bill	—	20,998	4.5
5.	Pei Long (including Pei Ming Ming and 東台市鵬飛機械安裝工程有限公司 (Dongtai City Pengfei Mechanical Installation Works Co., Ltd.)*)(Note 4)	Installation and processing of machinery and electrical equipment	PRC	Equipment installation service	8	Bank transfer or bank acceptance bill	60 days	17,766	3.8
Total								155,491	33.3

Notes:

1. The length of business relationship was determined based on the year when we first commenced business relationship with such supplier.

2. Supplier A was a joint venture established on 8 April 2011 in the PRC pursuant to a strategic co-operation agreement dated 13 March 2011 between our Group and a company established in the PRC, being an Independent Third Party, in view of the fact that such company lacked capital for manufacturing large steel castings while our Group had a relatively large demand for large steel castings. Under the strategic co-operation agreement, our Group and our joint venture partner each held 50% equity interest in Supplier A until our Group transferred our 50% equity interest to our joint venture partner under a share transfer agreement dated 10 July 2012. Under the strategic co-operation agreement, our joint venture partner was responsible for the daily management and operation of Supplier A while our Group would receive dividends. Since our Group did not participate in the operation and management of Supplier A, in order to reduce risks arising from being a passive investor, our Group transferred our 50% equity interest to our joint venture partner to recover our investment.

   Our joint venture partner specialises in the manufacturing of large steel castings. As at the Latest Practicable Date, it had a registered capital of RMB 80 million. Save for the investment in Supplier A by us and our joint venture partner, there is no past or present relationship between our joint venture partner, its shareholders and our Group, including our subsidiaries, shareholders, directors or senior management and their respective associates.

   Supplier A specialises in the manufacturing of carbon steel, steel castings, cement machinery, petroleum machinery and ship machinery. As at the Latest Practicable Date, it had a registered capital of RMB 80 million with approximately 270 employees in the PRC. Its customers are mostly in the building materials industry.

   The Directors confirm that the terms of transactions between Supplier A and our Group were comparable to the respective transactions between our Group and our other suppliers and the terms of which were normal commercial terms determined after arm's length negotiation.

   Supplier A was also a customer of our Group during the Track Record Period.

3. 南京高精傳動設備製造集團有限公司 (Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd.) is an indirect wholly-owned subsidiary of China High Speed Transmission Equipment Group Co., Ltd. which is one of our cornerstone investors. For further details, please refer to the section headed "Cornerstone Investment" in this prospectus.

4. Pei Long (裴龍) had been a director of Pengfei Equipment during the Track Record Period until 12 November 2018. Pei Mingming (裴明明) is the son of Pei Long (裴龍). 東台市鵬飛機械安裝工程有限公司 (Dongtai City Pengfei Mechanical Installation Works Co., Ltd.)* was owned as to more than 30% by Pei Long (裴龍).

The table below sets out the details of our top five suppliers for the year ended 31 December 2017:

Rank	Name of supplier	Business operations	Location	Raw materials/ services purchased/ obtained from supplier	Length of business relationship as at the Latest Practicable Date (Note 1)	Payment method	Credit terms	Purchase Amount (RMB'000)	Percentage of total purchases of our Group (%)
1.	Supplier A(Note 2)	Production and sales of castings	PRC	Castings	7	Bank transfer	90% of total contract amount paid after acceptance and 10% total contract amount paid after retention period	84,245	11.5
2.	Supplier D	Ferrous metal smelting and steel processing	PRC	Steel	12	Bank transfer	—	62,296	8.5
3.	Pei Long (including Pei Ming Ming and 東台市鵬飛機械安裝工程有限公司 (Dongtai City Pengfei Mechanical Installation Works Co., Ltd.)*)(Note 3)	Installation and processing of machinery and electrical equipment	PRC	Equipment installation service	8	Bank transfer or bank acceptance bill	60 days	33,557	4.6
4.	江蘇新業重工股份有限公司 (Jiangsu Xinye Heavy Industry Co., Ltd.)*	Production and sales of mechatronics equipment	PRC	Electrical equipment	6	Bank transfer	90% of total contract amount paid after acceptance and 10% total contract amount paid after retention period	31,075	4.2
5.	南京高精傳動設備製造集團有限公司 (Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd.)*(Note 4)	Design and production of gear transmission equipment and industrial equipment	PRC	Reducer	11	Bank transfer or bank acceptance bill	20% of total contract amount prepaid and 80% of total contract amount paid after delivery of goods	30,385	4.1
Total								241,558	32.9

Notes:

1. The length of business relationship was determined based on the year when we first commenced business relationship with such supplier.

2. For the description of Supplier A, please refer to page 178 of this prospectus.

3. Pei Long (裴龍) had been a director of Pengfei Equipment during the Track Record Period until 12 November 2018. Pei Mingming (裴明明) is the son of Pei Long (裴龍). 東台市鵬飛機械安裝工程有限公司 (Dongtai City Pengfei Mechanical Installation Works Co., Ltd.)* was owned as to more than 30% by Pei Long (裴龍).

4. 南京高精傳動設備製造集團有限公司 (Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd.) is an indirect wholly-owned subsidiary of China High Speed Transmission Equipment Group Co., Ltd. which is one of our cornerstone investors. For further details, please refer to the section headed "Cornerstone Investment" in this prospectus.

The table below sets out the details of our top five suppliers for the year ended 31 December 2018:

Rank	Name of supplier	Business operations	Location	Raw materials/ services purchased/ obtained from supplier	Length of business relationship as at the Latest Practicable Date (Note 1)	Payment method	Credit terms	Purchases Amount (RMB'000)	Percentage of total purchases of our Group (%)
1.	Supplier A (Note 2)	Production and sales of castings	PRC	Castings	7	Bank transfer	90% of total contract amount paid after acceptance and 10% total contract amount paid after retention period	143,112	16.2
2.	江蘇省蘇中建設集團股份有限公司 (Jiangsu Suzhong Construction Group Co., Ltd.)* (Note 3)	Industrial and civil projects construction	PRC	Civil construction service	Less than one year	Bank transfer	60 days	61,290	6.9
3.	Supplier D	Ferrous metal smelting and steel processing	PRC	Steel	12	Bank transfer or bank acceptance bill	—	48,558	5.5
4.	Supplier H	Production and sale of pressure processed steel	PRC	Steel	1	Bank transfer or bank acceptance bill	—	44,444	5.0
5.	Supplier I	Research and development of special steel products	PRC	Steel	6	Bank transfer	100% paid before production for material amount; 30 days credit period for immaterial amount	43,416	4.9
								340,820	38.5

Notes:

1. The length of business relationship was determined based on the year when we first commenced business relationship with such supplier including such supplier's holding company in the case of Supplier I.

2. For the description of Supplier A, please refer to page 178 of this prospectus.

3. Jiangsu Suzhong Construction Group Co., Ltd. is one of our Cornerstone Investors. Please refer to the section headed "Cornerstone Investment" in this prospectus.

The table below sets out the details of our top five suppliers for the four months ended 30 April 2019:

Rank	Name of supplier	Business operations	Location	Raw materials/ services purchased/ obtained from supplier	Length of business relationship as at the Latest Practicable Date (Note 1)	Payment method	Credit terms	Purchases Amount (RMB'000)	Percentage of total purchases of our Group (%)
1.	Supplier A (Note 1)	Production and sales of castings	PRC	Castings	7	Bank transfer	95% of total contract amount paid upon delivery and acceptance and 5% total contract amount paid after one year retention period	66,260	19.0
2.	Supplier D	Ferrous metal smelting and steel processing	PRC	Steel	12	Bank transfer or bank's acceptance bill	100% full paid before production	23,828	6.8
3.	Nantong Pengfei (Note 2)	General mechanical thermal processing	PRC	Castings	16	Bank transfer	90% of total contract amount paid after acceptance and 10% total contract amount paid after retention period	17,403	5.0
4.	江蘇省蘇中建設集團股份有限公司 (Jiangsu Suzhong Construction Group Co., Ltd.)* (Note 3)	Industrial and civil projects construction service provider	PRC	Civil construction service	less than one year	Bank transfer	60 days	16,741	4.8
5.	南京高精傳動設備製造集團有限公司 (Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd.)* (Note 4)	Design and production of gear transmission equipment and industrial equipment company	PRC	Reducer	11	Bank transfer or bank acceptance bill	20% of total contract amount paid after acceptance, 80% of total contract amount paid upon delivery	16,343	4.7
								140,575	40.4

Notes:

1. For the description of Supplier A, please refer to page 178 of this prospectus.

2. Nantong Pengfei was established in 2001 and was an associate of our Group until October 2015. Our Group held 23.75% equity interest in Nantong Pengfei and disposed of all our equity interest in Nantong Pengfei to Ding Zhengrong (丁正榮), the largest shareholder of Nantong Pengfei immediately prior to the disposal for a consideration of RMB0.76 million in October 2015 as our Group was only a minority shareholder in Nantong Pengfei and did not involve in its daily operation. The above consideration was determined based on a valuation conducted by independent valuer.

The revenue contribution of Nantong Pengfei as a customer of our Group was RMB3.25 million, RMB4.40 million, RMB6.17 million and RMB1.89 million, representing approximately 0.42%, 0.47%, 0.61% and 0.47% of the total revenue of our Group for the three years ended 31 December 2018 and the four months ended 30 April 2019, respectively.

During the Track Record Period, Nantong Pengfei was both a customer and a supplier of our Group as our Group sourced steel castings for our equipment manufacturing processes from different suppliers including Nantong Pengfei which is a supplier of steel castings, and our Group sold scrap steel produced during the course of our equipment production processes to different buyers including Nantong Pengfei. The prices and other key terms of the transaction between our Group and Nantong Pengfei were comparable to the transactions between our Group and other independent customers/suppliers for similar products.

Save as disclosed above, there is no past or present relationship between the purchasers (including its ultimate beneficial owners) of equity interests in Nantong Pengfei and our Group, including our subsidiaries, shareholders, directors, senior management or any of their respective associates.

3. Jiangsu Suzhong Construction Group Co., Ltd is one of our Cornerstone Investors. Please refer to the section headed "Cornerstone Investment" in this prospectus for further details.

4. 南京高精傳動設備製造集團有限公司 (Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd.) is an indirect wholly-owned subsidiary of China High Speed Transmission Equipment Group Co., Ltd. which is one of our cornerstone investors. For further details, please refer to the section headed "Cornerstone Investment" in this prospectus.

During the Track Record Period:

(a) all of our other top five suppliers were Independent Third Parties;

(b) save as Supplier A and Nantong Pengfei which were also our customers during Track Record Period, none of our top five suppliers were also our customers;

(c) our top five suppliers collectively accounted for approximately 33.3%, 32.9%, 38.5% and 40.4% of our total purchases, respectively;

(d) our largest supplier accounted for approximately 15.4%, 11.5%, 16.2% and 19.0% of our total purchases, respectively; and

(e) save as disclosed in "Business — Suppliers, procurement and inventory management", we did not enter into any long-term purchase contract exceeding one year with our suppliers.

During the Track Record Period and up to the Latest Practicable Date:

(a) we did not experience any material difficulties in obtaining any of our raw materials required for our business in a timely manner;

(b) we did not encounter any material disputes with any of our suppliers; and

(c) to the best of our Directors' knowledge and belief, none of our Directors, their respective close associates or any of our Shareholders owned more than 5% of our share capital had any interest in any of our top five suppliers.

Salient terms of purchase contracts

The typical salient terms of a purchase contract entered into with our suppliers are set out below:

Term	:	No fixed term save for our castings supply contract signed with one of our suppliers.
Quality requirements	:	It is normally specified that the goods supplied should comply with national standard or industry standard in China, and our suppliers will also issue certificate of approval to us upon delivery of the relevant raw materials, parts and components and equipment to us.
Delivery	:	Goods are normally delivered by road transportation where the supplier is responsible for delivering to our factories or designated ports or customers' sites, and the transportation and insurance costs are generally borne by our suppliers.
Payment terms	:	Save for steel plates where we are generally required to make advance payment in full, we generally make payments to our suppliers by installments which are in line with our contracts signed with our customers.

During the Track Record Period, we were not in breach of any material terms of our purchase contracts entered into with our suppliers.

Entities which are both our customers and suppliers

During the Track Record Period, to the best knowledge and belief of our Directors, an aggregate of five of our suppliers and/or their related companies were also our customers (the "**Customer(s) and Supplier(s)**") which comprised two suppliers for the four months ended 30 April 2019, three suppliers for the three years ended 31 December 2018, one supplier for the year ended 31 December 2017 and one supplier for the year ended 31 December 2016, respectively. During the Track Record Period, our Group sourced steel castings, slabs, crushers, feeding machines from the five Customers and Suppliers while we sold scrap steel (i.e. recyclable steel left over from steel castings during the manufacturing of our equipment), scrap materials (i.e. recyclable metal and non-metallic materials), and parts and components and provided roller processing service to them.

The table below sets forth the total sales and total purchases attributable to our Customers and Suppliers for the three years ended 31 December 2018 and four months ended 30 April 2018 and 30 April 2019:

	For the year ended 31 December			For the four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Sales to Customers and Suppliers					
Revenue	9,419	12,392	18,499	6,686	7,693
Percentage of our Company's total revenue	1.2%	1.3%	1.8%	2.73%	1.92%
Cost of goods sold	33	406	554	12	245
Percentage of our Company's total cost of goods sold	0.01%	0.05%	0.07%	0.01%	0.08%
Average gross profit	99.6%	96.7%	97%	99.8%	96.8%
Purchase from Customers and Suppliers					
Purchase	91,654	121,493	184,709	55,893	87,336
Percentage of our Company's total purchases	19.6%	16.6%	20.9%	28.4%	25.1%

Gross profit margins for the sale of scrap steel, scrap materials, parts and components and roller processing service to Customers and Suppliers for the three years ended 31 December 2018 and the four months ended 30 April 2019 are comparable to our overall gross profit margins for the sale of scrap steel, scrap materials, parts and components and roller processing service for the same period.

To the best knowledge and belief of our Directors after making all reasonable enquiries, the Customers and Suppliers and their respective ultimate beneficial owners are Independent Third Parties. Negotiations of the terms of our sales to and purchases from the Customers and Suppliers were conducted separately and the sales and purchases were neither related nor inter-conditional with each other. Our Directors confirmed that, during the Track Record Period, the products we purchased from the Customers and Suppliers, namely steel castings, slabs, crushers and feeding machines were not the same as those products or services we previously sold or provided to the Customers and Suppliers, namely scrap steel, scrap materials, parts and components and roller processing service. The terms of transactions with the Customers and Suppliers are on normal commercial terms similar to those transactions with our other customers and suppliers.

Inventory management

Our inventory comprises: (i) raw materials; (ii) work-in-progress; and (iii) finished products. Raw materials mainly comprise steel materials, such as steel, castings, and forgings. Work-in-progress mainly comprises cylinders, driving device and supporting device. Finished products mainly comprise our final products that are ready to be delivered to our customers and/or installed in the relevant production line.

As at 31 December 2016, 31 December 2017, 31 December 2018 and as at 30 April 2019, our inventory balance amounted to approximately RMB160.9 million, RMB248.7 million, RMB419.1 million and RMB495.4 million, respectively, representing approximately 11.9%, 15.4%, 24.8% and 24.7% of our total assets as at the respective year/period end dates. During the Track Record Period, the average inventory turnover days was approximately 112 days, 99 days, 152 days and 175 days for the relevant periods, respectively. The inventory turnover days were stable except for the year ended 31 December 2018 and the four months ended 30 April 2019. This was mainly due to the increased balance of work-in-progress maintained which was in line with our increased ending value of backlog of our manufacturing of equipment business as at 31 December 2018 and 30 April 2019.

Our Group has in place an inventory management system that tracks all incoming and outgoing inventory relating to each purchase/service order and/or the common-usage raw materials so as to ensure that an optimal inventory level is maintained at all times to satisfy the needs of our customers without over-stocking. We also carry out stock takes at least once a year. We set up different warehouses for all types of inventories according to the requirements of product storage, and configure different measures for inventories, with the relevant product identification. Our supply department will determine the minimum and maximum amount of certain commonly used ancillary parts and components, such as galvanized plates, medium plates, thin plates, steel channels and steel angles, in order to ensure the efficiency of our production process.

We manufactured equipment, provided installation services and constructed production line according to the delivery schedule subject to the installment payments under the sales contracts entered into with our customers. We normally procure the raw materials, schedule the production and deliver the products and services upon the arrival of the advance payment, progress payment and payment before delivery, respectively, and maintain the necessary inventory level for the timely delivery. In the event that our customers terminate or cancel the contracts, the pre-payments could duly cover and make up the costs and expenses we incurred thereof and thus avoid the over-stocking risk.

QUALITY ASSURANCE AND CONTROL

We believe that the reliability and quality of our products and services are crucial to the success of our Group. As such we have implemented quality control procedures covering all aspects and stages of our production process, from the procurement of raw materials to the delivery of products and/or the construction of production lines, so as to ensure the consistent production of products and/or services with quality.

As at the Latest Practicable Date, our quality control department comprised 28 employees, majority of whom have received secondary or higher education with an average of over 20 years of experience in related industries such as building materials and machineries.

During the Track Record Period and up to the Latest Practicable Date, we did not receive any material claims or complaints from our customers in respect of the quality of our products and/or services, and there was no incident of failure of our quality control systems that had a material and adverse impact on our business operations.

Quality assurance standards

We place great emphasis on our product quality and has established a sound quality system. All our products have to be in compliance with national and industrial standards in China.

In recognition of our quality control measures, we have received various certifications illustrating our ability to provide quality products and/or services that meet our customers' and regulatory requirements in a consistent manner. The table below sets out a summary of our material certifications obtained by our Group as at the Latest Practicable Date:

Certifications	Effective Date	Issuing Body/Authority	Expiry Date
Quality Management System Certification ISO9001: 2015	7 November 2016 (Note 1)	China Quality Certification Centre	3 November 2019
CE certified Ball Mill	16 May 2008	nqa global assurance	N.A.
CE certified Belt Conveyor Scale	16 May 2008	nqa global assurance	N.A.
CE certified Vertical Roller Mill	10 November 2016	Istituto Servizi Europei Tecnologici S.R.L	9 November 2021
CE certified Ball Mill	10 November 2016	Istituto Servizi Europei Tecnologici S.R.L	9 November 2021
CE certified Rotary Kiln	10 November 2016	Istituto Servizi Europei Tecnologici S.R.L	9 November 2021
CE certified Vertical Coal Mill	22 November 2016	Ente Certificazione Macchine	21 November 2021
Jiangsu Quality and Creditworthiness AA-rating Enterprise	1 June 2016	Jiangsu Provincial Administration of Quality and Technology Supervision	N.A.

Note:

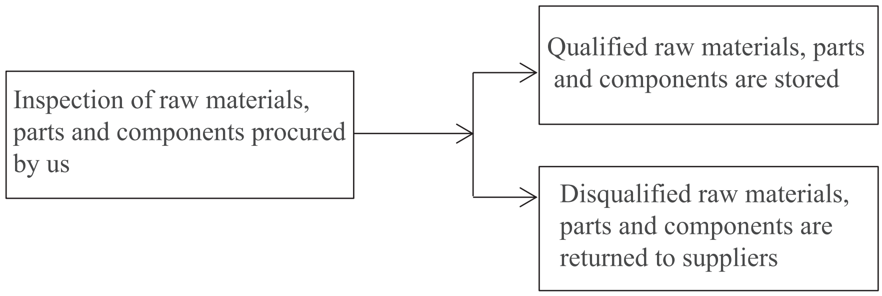
1. We have obtained such quality management system certification since November 2007.

Our quality control process

We have established a quality inspection management system to control product quality by conducting inspection from the pre-production phase to the production phase and the post-production phase.

Pre-production phase

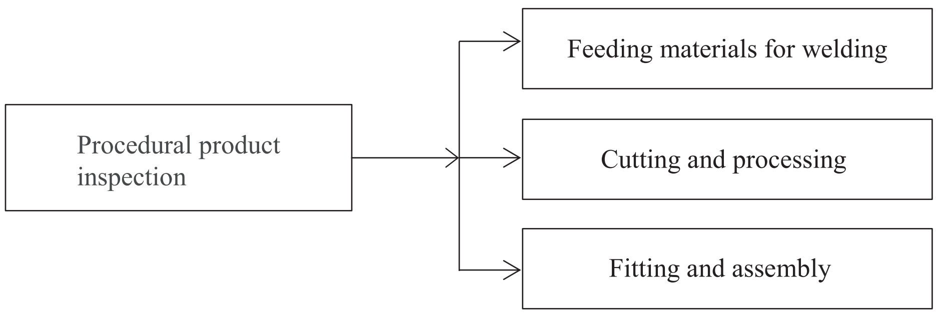
Our warehouse management personnel will send the raw materials, parts and components procured by us to the quality control department for inspection. For common-usage raw materials, we have formulated prescribed inspection requirements and methods and determined the corresponding qualification criteria to enable the raw materials, parts and components procured by us to comply with the relevant drawings, technical specifications or related standards.



Production phase

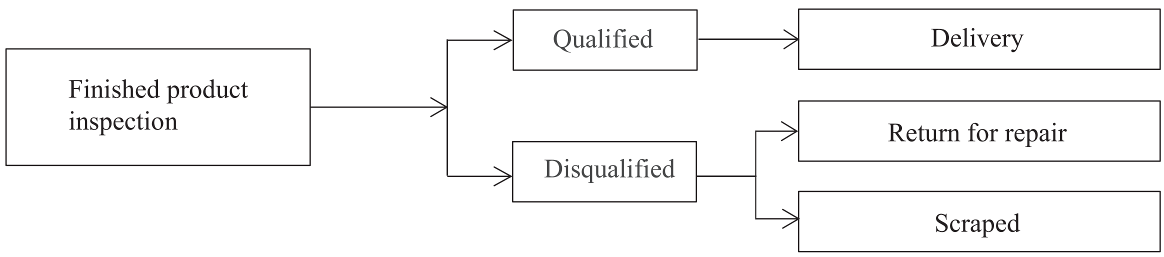
During the production process, our procedural inspection is carried out jointly by the quality control department and workshops by conducting initial on-site and completion inspections.

Our technical department together with the production department and the quality control department will jointly determine the key quality control measures for key production processes.



Post-production phase

Our quality control department is responsible for the inspection of finished product to determine whether such products satisfy our product quality requirements.



RESEARCH AND DEVELOPMENT

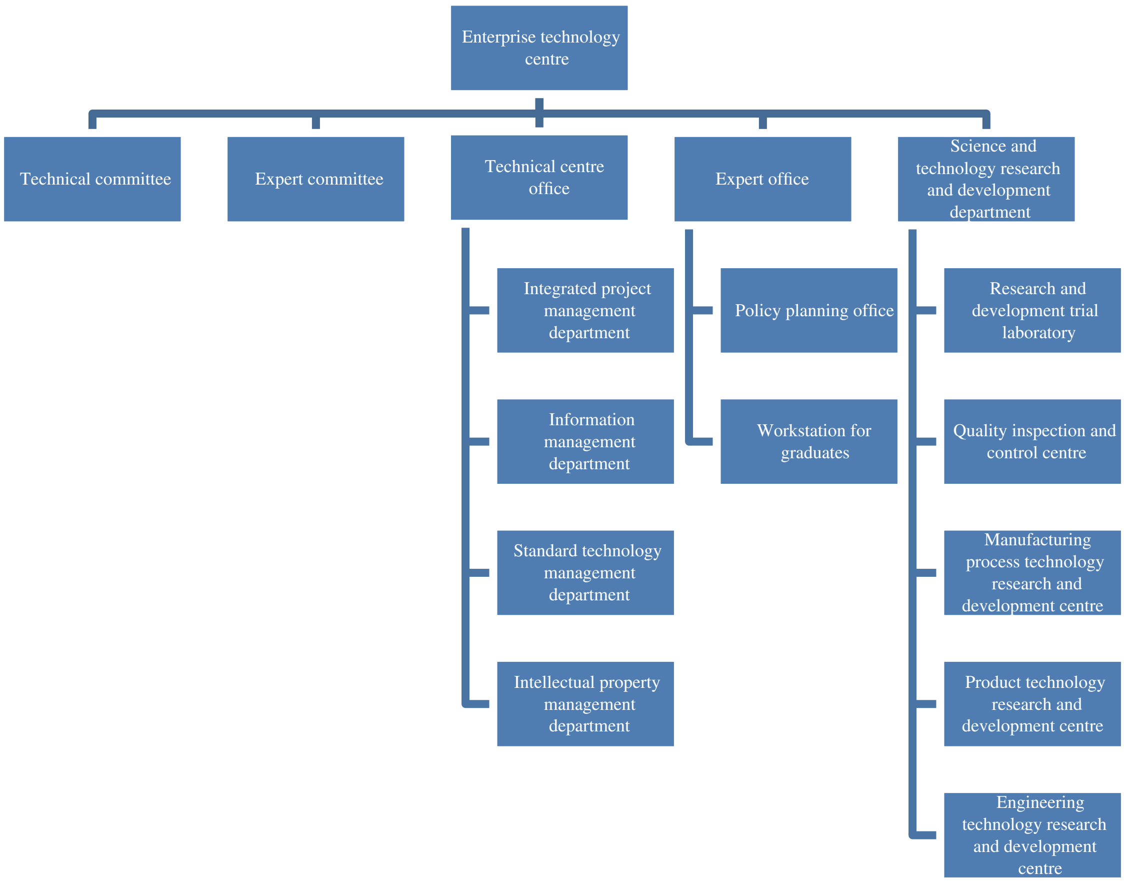
We place great emphasis on our research and development capabilities as we believe that it will enable us to maintain our market position and allow us to compete effectively with leading players in the rotary kiln and grinding equipment industries.

Research and development team

We have established the enterprise technology center which is a professional R&D institution especially responsible for enterprise technology development and transformation of achievements, playing an important role in areas such as promoting technological advancement, solving technical problems, promoting transformation and upgrading, and cultivating professional and technical personnel. In 2016, our technology centre obtained the certification of the National Enterprise Technology Centre.

Our enterprise technology centre is chaired by a director of our Company. The technical committee and expert committee under the centre serve as the centre's decision-making and advisory bodies. The expert committee comprises of internal and external experts and scholars from technical institutes according to the nature of work and necessity in the centre.

The following chart illustrates the structure of our enterprise technology centre:



The core responsibilities of our enterprise technology centre and other committees, offices and departments are as follows:

Enterprise technology centre: It is responsible for the overall coordination and the effective allocation of resources among different committees, offices and departments.

Technical committee: It is a decision-making and advisory body which is responsible for formulating and reviewing our research and development strategy and funding and providing technical solutions for scientific research projects.

Expert committee: It is also a decision-making and advisory body that comprises of internal and external technical experts, economic experts and financial experts. It is responsible for technical development strategy planning, providing technical solutions and consultation for major scientific research projects, analysing the feasibility of the projects and providing guidance.

Technical centre office: It is responsible for the establishment and maintenance of technological innovation system and coordinating the day-to-day operations of all departments of the enterprise technology centre.

Expert office: It is responsible for managing and assessing internal and external experts.

Science and technology research and development department: It is responsible for the centralised management of new product and technology development projects, preparation and implementation of projects, reviewing the standards and effectiveness of new products, obtaining and filing patents, etc.

Since 2008, our Group has established a project research and development committee for the research and development of widening the application of rotary kiln technology to metallurgy, chemical and environmental protection industries based on our rotary kiln system and our 10 patented technologies relating to rotary kiln. One of the technologies using rotary kiln that we have preliminarily researched is rotary kiln pyrolysis for the treatment of various types of municipal solid waste. We have in the past successfully developed and manufactured trial rotary kiln with pyrolysis technology for the treatment of solid waste which was certified by different authorities such as the Jiangsu Mechanic Engineering Association (江蘇省機械工業協會) and the Jiangsu Science and Technology Institute (江蘇省科學科技廳). In March 2018, we have completed novelty search regarding the research and development of efficient rotary kiln pyrolysis for the treatment of co-processing solid waste and we will further research, develop and utilise rotary kiln pyrolysis technology making use of the net proceeds from the Share Offer. The Directors consider that the development of the rotary kiln pyrolysis for the treatment of co-processing solid waste technology is cricial to maintain our competitiveness in the market as we have only applied our existing rotary kiln with pyrolysis technology in small trials and have only achieved preliminary results which can yet be applied for mass production of our products. We aim to improve our existing pyrolysis technology through joint-research, so as to achieve the followings and apply the technology to a larger extent:

(1) developing and manufacturing pyrolysis rotary kiln with greater scale and capacity of diameter of 4.0, 4.5 and 5.0 meters, respectively;

(2) designing a pyrolysis rotary kiln sealing device with a relatively large diameter of 4.0, 4.5 and 5.0 meters to improve the safety and stability of the production process;

(3) improving the traditional design of low-speed heavy-duty gears for rotary kiln, researching technology for forming gears, improving transmission efficiency and extending gear life;

(4) developing intelligent online monitoring technology for pyrolysis temperature and oxygen concentration, optimising the operating parameters of rotary kiln, and realising the degree of pyrolysis and flexible control of products under variable working conditions; and

(5) applying the newly developed technology in non-ferrous metal roasting and smelting industries by improving the quality of low-cost coal.

For further details, please see the section headed "Future plans and use of proceeds" in this prospectus.

As at the Latest Practicable Date, our research and development team comprised 128 personnel under several departments including production department, technical department and quality control department. Majority of our research and development team personnel have received tertiary or higher education with diplomas in professions such as machinery, engineering and materials, and have at least 10 years of experience in related industries. Our research and development team is led by Ben Daochun, who has over 25 years of experience in the rotary kiln and grinding equipment industries. He has obtained many awards in building materials and machinery industries, and invention patents relating to rotary kiln industry.

During the Track Record Period, our research and development expenses amounted to approximately RMB32.6 million, RMB31.5 million, RMB32.4 million and RMB11.7 million, respectively. Our research and development expenses incurred mainly represented: (i) the salaries and other benefits paid to our research and development personnel; (ii) the depreciation and amortisation of the research facilities; (iii) the technical consultancy fee paid to external research partners and design sub-contractors; (iv) the materials and supplies used for our research and development activities; and (v) other costs.

Collaborations with external institutions

In order to enhance our research and development capabilities, we actively carry out external technical exchange and cooperation, and have established long-term and stable cooperative relations with universities and research institutes in the PRC.

The table below sets forth the details of the major research and development projects we carried out jointly with our research partners during the Track Record Period:

Time	Research Partner	Project	Research topic	Role and responsibilities of our Group and research partner in the project	Intellectual property rights	Investment amount	Status
April 2018 - December 2021	Institute of Process Engineering of the Chinese Academy of Sciences (中國科學院過程工程研究所)	Research and development of efficient rotary kiln technology for the treatment of co-processing solid waste (適用於協同處理廢棄物的高效回轉窰技術研究與開發)	Research on pyrolysis kinetics characteristics of solid waste; theoretical and experimental research on material transportation and heat transfer process in rotary kiln; economy and energy consumption analysis of rotary kiln operation and development of new processes and technologies (固體廢棄物熱解動力學特性研究；回轉窰內物料運輸和傳熱過程理論和試驗研究；回轉窰運行經濟性和能耗分析以及新型工藝技術開發)	Our Group is responsible for the research fees, coordinating with our research partner and responding to their queries throughout the research process, and providing necessity for our research partner during the research process at our Group's research centre. Our research partner is responsible for implementing the research, providing our Group with the research results and reports and ensuring the completeness and accuracy of the research results, responding to our queries regarding the research, conducting site visits to our Group and organizing and analyzing data regarding energy consumption.	Jointly owned by the partners	RMB1,400,000	Ongoing

Time	Research Partner	Project	Research topic	Role and responsibilities of our Group and research partner in the project	Intellectual property rights	Investment amount	Status
August 2015 - December 2018	Anhui University of Science and Technology (安徽理工大學)	Flip-flop sieve with multi-degree-of-freedom (多自由度弛張篩)	Technical solutions for energy saving and emission reduction during the production process of large equipment for building materials	Our Group is responsible for the research fees, conducting market research related to the research project, assisting our research partner to set project implementation plan and routing, designing and producing product prototype and onsite installation, and providing technical support. Our research partner is responsible for outlining the research scope and technical standard, setting out testing and research plan, numerical simulation, principle anaylsis, issuing research reports and project acceptance.	Jointly owned by the partners	RMB120,000	Concluded

Time	Research Partner	Project	Research topic	Role and responsibilities of our Group and research partner in the project	Intellectual property rights	Investment amount	Status
August 2014 - July 2016	Institute of Process Engineering of the Chinese Academy of Sciences (中國科學院過程工程研究所)	Development of Key Technologies and Equipment for Modular Energy Storage and Utilization of High-temperature Flue Gas Emissions (高溫煙氣排放模塊化能量儲存利用關鍵技術及裝備開發)	Industry-university-research cooperation on the joint study of key technologies as well as the design and development of new products	Our Group is responsible for the research fees, coordinating with our research partner and responding to their queries throughout the research process, and providing necessity for our research partner during the research process at our Group's research centre. Our research partner is responsible for implementing the research, providing our Group with the research results and reports and ensuring the completeness and accuracy of the research results, responding to their queries regarding the research, conducting field trips to our Group and organizing and analyzing data regarding energy consumption.	Jointly owned by the partners	RMB1,000,000	Concluded

INTELLECTUAL PROPERTY RIGHTS

In order to protect our intellectual property rights, as at the Latest Practicable Date, we have obtained 55 authorised patents, of which 31 are invention patents, meanwhile, we have 26 patent applications pending approval. The patents are primary relating to the manufacture of products of our rotary kiln system and grinding equipment system.

As at the Latest Practicable Date, we have applied for and obtained registration of 6 trademarks, which, in the opinion of our Directors are material to our business. Our "PENGFEI" brand —, has been recognised as China Well-known Trademark since 2010. Please refer to "Statutory and General Information" in Appendix V to this prospectus for details of our Group's intellectual property rights.

To the best of our Directors' knowledge, during the Track Record Period and as at the Latest Practicable Date, we were not involved in any disputes or litigation relating to the infringement of intellectual property rights, nor are we aware of any such claim either pending or threatened against us.

AWARDS, HONORS AND RECOGNITIONS

In recognition of our products and services, we have received various awards, honors and recognitions since our incorporation. The following table sets forth the major awards, honors and recognitions that we have received in recent years.

Award/Honor/Recognition	Awarding year	Awarding body/authority
AEO Certificate (認證企業證書)	2018	Nanjing Customs, the People's Republic of China (中華人民共和國南京海關)
Outstanding Enterprise in Building Materials and Machinery Industry for 40 Years since China's Reform and Opening-up (中國改革開放40年建材機械行業優秀企業)	2018	China Building Materials Machinery Industry Association (中國建材機械工業協會)
Advanced Unit of Development and Building Materials Service Industry (發展建材服務業先進單位)	2018	China Building Materials Federation (中國建築材料聯合會)
Single Champion Demonstration Enterprise of Manufacturing Industry (cement rotary kiln) (製造業單項冠軍示範企業(水泥回轉窰))	2017	MIIT China Federation of Industrial Economics (中國工業經濟聯合會)
Jiangsu Famous Export Brand (江蘇省重點培育和發展的國際知名品牌)	2017	Department of Commerce, Jiangsu Province (江蘇省商務廳)

Award/Honor/Recognition	Awarding year	Awarding body/authority
Top 50 Original Industrial Brand Names in Jiangsu Province (江蘇省自主工業品牌五十強)	2017	Information Office of Jiangsu Provincial People's Government (江蘇省人民政府新聞辦公室) Jiangsu Economic and Information Technology Commission (江蘇省經濟和信息化委員會) Jiangsu Provincial Administration of Industry and Commerce (江蘇省工商行政管理局) Jiangsu Provincial Administration of Quality and Technology Supervision (江蘇省質量技術監督局)
2016 Advanced Collectives of Building Materials Machinery Industry Standardization (2016年度建材機械行業標準化工作先進集體)	2017	National Technical Committee for Building Materials Industrial Machinery Standardization (國家建築材料工業機械標準化技術委員會)
National Center for Enterprise Technology (國家企業技術中心)	2016	NDRC Ministry of Science and Technology (科技部) Ministry of Finance (財政部) General Administration of Customs (海關總局) SAT
Vice Chairman Unit of China Building Materials Alliance for Global Production Capacity Cooperation (中國建材國際產能合作企業聯盟副主席單位).	2016	China Building Materials Alliance for Global Production Capacity Cooperation (中國建材國際產能合作企業聯盟)
State Intellectual Property Outstanding Enterprise (國家知識產權優勢企業) . .	2016	NIPA
China Patent Excellence Award (secondary extrusion roller press) (中國專利優秀獎(二次擠壓輥壓機)) . .	2016	NIPA
Jiangsu Famous Trademark (江蘇省著名商標)	2016	Jiangsu Provincial Administration of Industry and Commerce (江蘇省工商行政管理局)
Export Brand of Year 2016 (2016年度推薦出口品牌)	2016	China Chamber of Commerce for Import and Export of Machinery and Electronic Products (中國機電產品進出口商會)

Award/Honor/Recognition	Awarding year	Awarding body/authority
High and New Technology Enterprise (高新技術企業)	2015	Jiangsu Provincial Department of Science and Technology (江蘇省科學技術廳) Finance Bureau of Jiangsu Province (江蘇省財政廳) State Tax Bureau of Jiangsu Province (江蘇省國家税務局) Local Tax Bureau of Jiangsu Province (江蘇省地方税務局)
Top 20 in China's Building Materials Machinery Industry and Professional Leading Enterprise (中國建材機械行業20強及專業龍頭企業)	2015	China Building Materials Machinery Industry Association (中國建材機械工業協會)

MARKET COMPETITION

Rotary kiln industry

According to the F&S Report, the rotary kiln industry in the PRC was concentrated with the top five players accounting for 58.1% of the market share in 2018 and there were over 500 players in the rotary kiln industry in the PRC. In 2018, the market was led by our Company which occupied 22.0% of the total market share of rotary kiln industry in the PRC in terms of revenue. Globally, the market size by revenue of rotary kiln industry in 2018 was RMB3,605.0 million, with the top five players taking up approximately 39.9% of the overall market and there were over 1,000 players in the rotary kiln industry in the world. In 2018, our company ranked first and accounted for approximately 13.3% of the total market of the rotary kiln industry in the world in terms of revenue.

Grinding equipment industry

Our Company also ranked the second largest company by revenue in the PRC's grinding equipment industry in 2018, with a market share of 13.1% in terms of revenue in 2018. According to the F&S Report, the grinding equipment industry in the PRC was concentrated with the top five players accounting for approximately 58.3% of the market share and there were over 500 players in the PRC's grinding equipment industry in 2018. Globally, the market size by revenue of grinding equipment industry in 2018 was RMB3,525.0 million, with the top five players taking up approximately 40.3% of the overall market and there were over 1,200 players in the grinding equipment industry in the world. In 2018, Our Company ranked second with 7.9% of the total market of the grinding equipment industry in the world in terms of revenue.

Our competitive strength

Although there are various market players in the rotary kiln industry and grinding equipment industry in the PRC and globally, it is not easy for new entrants to enter the industry due to high technical barrier, regulatory barrier and capital barrier, according to the F&S Report. As a leading market player in both the rotary kiln industry and grinding equipment industry in the PRC, our

Company benefits from the initiative of "One Belt One Road" over the past few years with the demand for rotary kiln system and grinding equipment system grew rapidly in oversea markets. Furthermore, we have a research and development team composed of technical experts and technical personnel. We have established a national technology centre and are committed to research and development of new technology such as energy-saving and comprehensive utilization of resources.

Please refer to "Industry overview — Competitive Landscape Analysis" in this prospectus for further details on the competitive landscape of the rotary kiln industry and grinding equipment industry in the PRC.

INSURANCE

We maintain pension insurance, medical insurance, unemployment insurance, occupational injury insurance, and maternity insurance for our employees in accordance with the relevant PRC laws and regulations. In addition, we maintain accident insurance for production workers and personnel who provide guidance, installation supervision and commissioning services for domestic and overseas projects. As confirmed by our PRC Legal Advisor, we are not required to maintain any production liability insurance. During the Track Record Period, our Group incurred approximately RMB189,000, RMB232,000, RMB364,000 and RMB85,000 for the relevant periods, respectively, for insurance premium payments (excluding social insurance and housing provident fund contributions).

Our Directors consider our existing insurance coverage to be in line with industry practice and is generally sufficient for businesses of our scale and type. During the Track Record Period and up to the Latest Practicable Date, we did not experience any business interruption or product liability, and we also did not make any material insurance liability claims and/or receive any material claims from third parties in relation to our products and/or services or third party liability. For our risks associated with lack of business insurance coverage, please refer to the section headed "Risk Factors — Risks relating to our business — Our insurance coverage may not be sufficient to cover the risks associated with our business operations and we are subject to financial and reputational risks due to product quality and liability issues" in this prospectus.

EMPLOYEES

As at the Latest Practicable Date, our Group employed a total of 922 employees in the PRC. Our research and development team comprised of 128 employees consisting of mainly employees from our production department, technical department and quality control department who involve in the research and development of our rotary kilns, grinding equipment and their related equipment. The table below sets out the breakdown of all our employees according to their function and/or departments as at the Latest Practicable Date:

Function/Department	Number of employees
Administrative	35
Finance	23
Sales	58
Supply	18
Technical	57
Quality Control	28
Production	673
Others	30
Total	**922**

Recruitment and remuneration policy

We recruit our employees based on a number of factors, including but not limited to, their experience in related industries, qualifications, education background, our operational needs and vacancies available. Apart from employment contracts which we enter into with our employees, we also enter into confidentiality and non-compete agreements with our key technicians.

We generally pay our employees a fixed salary, discretionary annual bonus and other allowances based on various factors including their respective responsibilities and performance in the Group. During the Track Record Period, we incurred employee costs of approximately RMB68.8 million, RMB78.8 million, RMB94.9 million and RMB43.7 million, respectively, representing mainly salaries and other benefits, retirement benefit scheme contributions and discretionary performance related bonus.

Training

We believe that our employees are valuable assets that are crucial to the growth and success of our Group. Our employees undergo training covering various aspects of our business operation, including work safety, sales and marketing, compliance with applicable laws and regulations, technical skills, management and production quality. These training sessions are conducted by us on a regular basis and when our Group deems necessary.

Employee relationship

We believe that we have maintained a good working relationship with our employees. During the Track Record Period and up to the Latest Practicable Date, we did not experience any major labour disputes, work stoppages or labour strikes that led to disruptions in our Group's operations.

Social insurance and housing provident fund contributions

Under the relevant PRC laws and regulations, we are required to contribute to a number of employee social welfare schemes in respect of our employees. Such schemes include social insurance contributions and housing provident fund contributions.

Under the PRC's social insurance system, we are required to make contributions for our employees towards five categories of insurance, including the basic pension insurance, basic medical insurance, work-related injury insurance, unemployment, insurance and maternity insurance. We are also required to make housing provident fund contributions for our employees.

Save for the non-compliance incidents relating to social insurance and housing provident fund during the Track Record Period as disclosed in "Business — Licences and regulatory compliance — Legal compliance", we have complied with the applicable labour laws and regulations in all material aspects during the Track Record Period and up to the Latest Practicable Date.

OCCUPATIONAL HEALTH AND WORKPLACE SAFETY

Our business operations are subject to certain PRC laws and regulations relating to occupational health, workplace safety and environmental protection, including the Law of the PRC on Work Safety (中華人民共和國安全生產法), the Law of the PRC on Fire Service (中華人民共和國消防法) and the Law of the PRC on Prevention of Occupational Diseases (中華人民共和國職業病防治法).

We have designated personnel responsible for monitoring the occupation health and safety of our business operations and have developed a set of occupational health and work safety procedures covering various aspects of our business. In order to avoid any potential occupational health issues and/or workplace accidents, we have implemented certain measures, including:

(a) conducting work safety educations and trainings for corporate management and employees of various departments, and providing professional trainings, education and examinations on safety for special operation personnel as required by national standards;

(b) purchase and installation of occupational disease prevention facilities such as ventilation and purification systems, equipping production personnel with necessary safety protection articles, and establishing archives for monitoring and protection of occupational health of employees;

(c) conducting regular accident hazard investigation and control, setting up warnings and protections for equipment and places with major risks, and strictly approving dangerous operations;

(d) establishing an emergency plan for work safety accident and preparing emergency disposal procedure for possible production accidents.

As confirmed by our PRC Legal Advisers, during the Track Record Period, we did not have any material violation of occupational health and workplace safety laws and regulations and we were not imposed any penalty by the relevant occupational health and workplace safety authorities.

Save for the non-compliance incident relating to fire safety during the Track Record Period as disclosed in "Business-licences and regulatory compliance-legal compliance", we did not encounter any major occupational health issue and/or work-related accident in the PRC that had a material adverse impact on our business operations during the Track Record Period and up to the Latest Practical Date.

ENVIRONMENTAL MATTERS

Our business is subject to provisions under PRC environmental laws and regulations on noise, waste water, air emission and other industrial waste, including Environmental Protection Law of the PRC* (中華人民共和國環境保護法), the Law of the PRC on the Prevention and Control of Water Pollution* (中華人民共和國水污染防治法), the Law of the PRC on the Prevention and Control of Air Pollution* (中華人民共和國大氣污染防治法), the Law of the PRC on the Prevention and Control of Solid Waste Pollution* (中華人民共和國固體廢物污染環境防治法), the Law of the PRC on the Prevention and Control of Noise Pollution* (中華人民共和國環境噪聲污染防治法), the Law of the PRC on Evaluation of Environment Effects* (中華人民共和國環境影響評價法), etc. Please refer to "Regulatory overview" section in this prospectus for details of the PRC laws and regulations in relation to environment matters applicable to our business operations in the PRC.

In order to avoid any potential environmental issue, we have also implemented certain measures, including:

(i) emitting pollutants generated in the course of production, such as sulfur dioxide, smoke and industrial solid waste, according to standards; and

(ii) conducting environmental impact assessment and completing environmental approval procedures as required before production.

As confirmed by our PRC Legal Advisers, during the Track Record Period, we did not have any material violation of the relevant environmental protection laws and regulation and we were not imposed any penalty by the environmental protection authorities.

PROPERTIES

As at the Latest Practicable Date, we owned and occupied eight properties and leased certain properties to third parties in the PRC. Please refer to "Property Valuation Report" in Appendix III to this prospectus for further details.

The table below sets out the properties that we owned and occupied or leased to third parties for production and ancillary uses as at the Latest Practicable Date:

Location	Approximate total site area (sq.m.)	Usage
No. 99 West Renmin Road Dagong Town Haian City Jiangsu Province The PRC	194,856.46	Production and ancillary office purposes
No. 5 Benbei Road Dagong Town Haian City Jiangsu Province The PRC	55,825	Production and ancillary office purposes
No. 5 Renmin Middle Road Dagong Town Haian City Jiangsu Province The PRC	43,406	Production and ancillary office purposes *(Note)*
Block No. 23, 30 and 31 of Wangyuan Village Dagong Town Haian City Jiangsu Province The PRC	40,749	Industrial purpose
No. 288 North Tongyu Road Dagong Town Haian City Jiangsu Province The PRC	37,260	Production and ancillary purposes

Location	Approximate total site area (sq.m.)	Usage
Block No. 22 Wangyuan Village Dagong Town Haian City Jiangsu Province The PRC	33,333	Production and ancillary purposes
Block Nos. 23 and 31 Wangyuan Village Dagong Town Haian City Jiangsu Province The PRC	18,347	Industrial purposes
Block No. 28 Benji Village Dagong Town Haian City Jiangsu Province The PRC	908	Storage purpose

Note: As at the Latest Practicable Date, except for portions of the property which were rented to various independent third parties for industrial purpose, the remaining portions of the property were occupied by our Group for production and ancillary office purposes.

According to our PRC Legal Advisers, we legally own the land use rights and building ownership rights of the property above.

As at the Latest Practicable Date, we leased certain properties to third parties including some of our suppliers from which we source castings but are not our top five suppliers, for commercial and industrial use.

According to our PRC Legal Advisers, except for the lack of registration of our property leases, which does not affect the validity of the lease agreements under the relevant PRC laws and regulations, or our rights or entitlements to lease out the properties to tenants, we do not have any record for materially violating any laws and regulations on owning, using and leasing our properties.

LICENCES AND REGULATORY COMPLIANCE

Licences, permits and approvals

The table below sets out information relating to our material licences, permits and approvals:

License/permit/approval	Issuing body/authority	Holder	Issue Date	Expiry date
Registration Form for Customs Declaration Entities (報關單位註冊登記證書)	Nantong Customs District (南通海關)	Jiangsu Pengfei	25 June 2015	N.A.
	Nantong Customs District (南通海關)	Pengfei Equipment	11 March 2015	N.A.
Certificate of record for Manufacturers' Self-declaration (自理報檢單位備案登記證書)	Nantong Entry-Exit Inspection and Quarantine Bureau (南通出入境檢驗檢疫局)	Jiangsu Pengfei	10 July 2006	N.A.
Road Transport Business Operation License (道路運輸經營許可證)	Haian Transportation Administrative Department (海安市運輸管理處)	Jiangsu Pengfei	31 January 2019	30 January 2023
Foreign Trade Operator Registration Form (對外貿易經營者備案登記表)	Bureau of Foreign Trade and Economic Cooperation of Haian County (海安縣外經貿局)	Jiangsu Pengfei	23 September 2016	N.A.
	Bureau of Foreign Trade and Economic Cooperation of Haian County (海安縣外經貿局)	Pengfei Equipment	28 March 2007	N.A.

As confirmed by our PRC Legal Advisers and save as disclosed in "Business — Licences and regulatory compliance — Legal compliance", we had obtained all material licences, permits and approvals from the relevant PRC authorities for our operations in the PRC as at the Latest Practicable Date. We did not experience any material difficulty in obtaining or renewing our required permits and licences for our business operations during the Track Record Period and up to the Latest Practicable date. Our PRC Legal Advisers have also confirmed that there is no material legal impediment expected in respect of renewal of our material permits and licences when they expire in the future provided that we meet all renewal requirements.

Legal compliance

The table below sets out a summary of our Group's historical systemic non-compliance incidents during the Track Record Period and up to the Latest Practicable Date, as well as rectification actions and preventive measures that we have taken in respect of such matter:

1. Jiangsu Pengfei had not made full contributions to the social insurance in a timely manner as prescribed by the relevant PRC laws and regulations.

Reason(s) for non-compliance incident and person(s) involved	Legal consequences, potential maximum penalties and other financial liabilities (if any)	Rectification actions taken/ to be taken	Latest status	Potential operational and financial impact	Internal control measures adopted/ enhanced to prevent recurrence of non-compliance incident
The non-compliance was primarily caused by administrative oversight and our then human resources personnel being unfamiliar with relevant regulatory requirements, different levels of acceptance of the social insurance scheme by our employees.	Our PRC Legal Advisers have advised us that, under the Social Insurance Law of the PRC, if an employer fails to settle the full amount of social insurance payments in a timely manner, the social insurance payment collection institution shall order the employer to make payment or make up the difference within a stipulated period and impose a daily fine equivalent to 0.05% of the overdue payment from the date on which the payment is overdue; if the overdue payment is not made within the stipulated period, a fine shall be imposed by relevant administration department on the employer in an amount of one to three times the amount of overdue payment. Regarding the issue that the Jiangsu Pengfei had not settled the social insurance payments for a few employees, due to the social insurance payment collection institution has not yet issued any order and requested.	Since 25 July 2018, our Group has paid social insurance for all employees who meet the conditions of the relevant PRC laws and regulations. Haian City Human Resources and Social Security Bureau* (海安市人力資源和社會保障局) has issued a certification on 18 January 2019, clarifying that (i) it will not require Jiangsu Pengfei to settle the unpaid social insurance payments and will not impose any penalty in this regard upon Jiangsu Pengfei as a result of this non-compliance; (ii) except for failing to settle the social insurance payments for a few employees, Jiangsu Pengfei is in compliance with the laws, regulations and policies relating to labour and social security administration and does not violate or have any record for violating any labour and social security laws and regulations. No provision has been made by our Group as our Group has obtained written confirmation from Haian City Human Resources and Social Security Bureau* (海安市人力資源和社會保障局) confirming that: (a) they would not require our Group to pay the outstanding balance during the	As at the Latest Practicable Date, the non-compliance has been rectified and there has not been any non-compliance of our Group in relation to social insurance payments of our employees.	Our Group has rectified the non-compliance since 25 July 2018 and written confirmation# has been obtained from Haian City Human Resources and Social Security Bureau* (海安市人力資源和社會保障局) confirming that: (a) they would not require our Group to pay the outstanding balance during the Track Record Period; and (b) it is unlikely that our Group will be penalized by Haian City Human Resources and Social Security Bureau* (海安市人力資源和社會保障局). Our PRC Legal Advisers are of the view that the risk for us being fined or penalised by Haian City Human Resources and Social Security Bureau* (海安市人力資源和社會保障局) is remote.	The management has established "Social and Provident Fund Management System", which indicates that our administration department is responsible for reporting any employee's entry and exit information to the Social Security Bureau. The accounting department is responsible for calculating contributed amounts to the social insurance plan and housing provident fund in respect of the monthly salary of employees for the month according to the number of employees and compensation in China. The contributions are reviewed by the financial manager and the chief financial officer before contributions are made to ensure that our Group complies with the relevant social insurance and housing provident fund regulations. If an employee does

Reason(s) for non-compliance incident and person(s) involved	Legal consequences, potential maximum penalties and other financial liabilities (if any)	Rectification actions taken/ to be taken	Latest status	Potential operational and financial impact	Internal control measures adopted/ enhanced to prevent recurrence of non-compliance incident
		Track Record Period; and (b) it is unlikely that our Group will be penalized by Haian City Human Resources and Social Security Bureau* (海安市人力資源和社會保障局). Furthermore, our PRC Legal Advisers are of the view that the risk for us being fined or penalised by Haian City Human Resources and Social Security Bureau* (海安市人力資源和社會保障局) is remote.			

Reason(s) for non-compliance incident and person(s) involved	Legal consequences, potential maximum penalties and other financial liabilities (if any)	Rectification actions taken/ to be taken	Latest status	Potential operational and financial impact	Internal control measures adopted/ enhanced to prevent recurrence of non-compliance incident
	Jiangsu Pengfei to settle within a prescribed time limit, the regulation imposing a daily fine equivalent to 0.05% of the overdue payment from the date on which the payment is overdue shall be applicable to the calculation of the potential penalty amount of Jiangsu Pengfei. The amount of social insurance fund which remained outstanding and payable by the relevant Group company for the three years ended 31 December 2018 and the four months ended 30 April 2019 was around RMB19,000, RMB21,000, RMB50,000 and nil, respectively. The amount of potential penalty according to the Social Insurance Law of the PRC as of 31 December 2018 was approximately RMB19,000.	As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant PRC government. Authorities with respect to this non-compliance incident, nor has any order been received by our Group to settle the outstanding amount of social insurance payments. Controlling Shareholders have undertaken to, pursuant to the terms and condition of the Deed of Indemnity, indemnify our Group against any losses and penalties which our Group may suffer as a result of the failure of our Group to comply with relevant laws, rules or regulations concerning social insurance payments, to the extent that such amount has not been reflected from the provision made in the audited consolidated accounts of our Group.		In light of the foregoing, and given the remedies and rectification measures taken, our Directors are of the view that this non-compliance incident has no material impact on our operations and is not material to our business operation and does not reflect negatively on the ability or tendency of our Group, our Directors or our senior management, to operate in a compliant manner.	not participate in social insurance contributions and housing provident fund, it must be confirmed in writing to our Group. We checked certain process documents for social insurance and housing provident fund during the follow-up review period, and found that our Group had made the relevant declaration, review and payment in accordance with the management system. Our Group has established an internal audit department responsible for regularly reviewing the adequacy of our Group's compliance internal control procedures and reporting the audit results to our Group's management and audit committee. Our Group will engage a PRC legal adviser to assist our Group in providing future legal advice and provide management and staff with additional and regular trainings in compliance with the applicable PRC laws and regulations.

2. **Jiangsu Pengfei had not made full contributions to the housing provident fund in a timely manner as prescribed by the relevant PRC laws and regulations.**

Reason(s) for non-compliance incident and person(s) involved	Legal consequences, potential maximum penalties and other financial liabilities (if any)	Rectification actions taken/ to be taken	Latest status	Potential operational and financial impact	Internal control measures adopted/ enhanced to prevent recurrence of non-compliance incident
The non-compliance was primarily due to the oversight of administrative and our then human resources personnel being unfamilar with the relevant regulatory requirements in relation to housing provident fund.	Our PRC Legal Advisers have advised our Group that, under the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》, if an employer fails to make the housing provident fund contributions or fails to make such contributions in full, the housing provident fund management centre shall order the employer to pay the outstanding housing fund contributions within a prescribed time limit. In case the employer fails to make the relevant payment within the specified timeframe, the employer may be subject to an order from the relevant people's court to make such payment. Regarding the issue that Jiangsu Pengfei failed to make the housing provident fund contributions for a few employees, due to the housing provident fund management centre had not issued an order and requested Jiangsu Pengfei to pay the outstanding housing fund contributions within a prescribed time limit, Jiangsu Pengfei has no relevant financial liability	Since 25 July 2018, our Group has paid housing fund contributions for all employees who met the conditions of the relevant PRC laws and regulations. Haian Management Division of the Nantong City Housing Provident Fund Management Centre* (南通市住房公積金管理中心海安管理部) has issued a certification on 18 January 2019, certifying that Jiangsu Pengfei did not violate or have any record for violating any laws and regulations relating to national and local housing provident funds and has never been required to pay up any outstanding housing provident funds or punished by relevant government authorities by reason of the payment of housing provident funds from 1 January 2016 to 18 January 2019. No provision has been made by our Group as our Group has obtained written confirmation from Haian Management Division of the Nantong City Housing Provident Fund Management Centre* (南通市住公積金管理中心海安管理部) confirming that it did not violate or have any record for violating any laws and regulations relating to national and local housing provident funds and has never been required to pay up	As at the Latest Practicable Date, the non-compliance has been rectified and there has not been any non-compliance of our Group in relation to housing provident fund of our employees.	Our Group has rectified the non-compliance since 25 July 2018 and also, written confirmation# has been obtained from Haian Management Division of the Nantong City Housing Provident Fund Management Centre* (南通市住房公積金管理中心海安管理部) confirming that it did not violate or have any record for violating any laws and regulations relating to national and local housing provident funds and has never been required to pay up any outstanding housing provident funds or punished by relevant government authorities by reason of the payment of housing provident funds from 1 January 2016 to 18 January 2019. Our PRC Legal Advisers are of the view that the risk for us being fined or penalised by Haian Management Division of the Nantong City Housing Provident Fund Management Centre is remote.	The management has established "Social and Provident Fund Management System", which indicates that our administration department is responsible for reporting any employee's entry and exit information to the Social Security Bureau. The accounting department is responsible for calculating contributed amounts to the social insurance plan and housing provident fund in respect of the monthly salary of employees for the month according to the number of employees and compensation in China. The contributions are reviewed by the financial manager and the chief financial officer before contributions are made to ensure that our Group complies with the relevant social insurance and housing provident fund regulations. If an employee does

Reason(s) for non-compliance incident and person(s) involved	Legal consequences, potential maximum penalties and other financial liabilities (if any)	Rectification actions taken/ to be taken	Latest status	Potential operational and financial impact	Internal control measures adopted/ enhanced to prevent recurrence of non-compliance incident
		any outstanding housing provident funds or punished by relevant government authorities by reason of the payment of housing provident funds from 1 January 2016 to 18 January 2019. Furthermore, our PRC Legal Advisers are of the view that the risk for us being fined or penalised by Haian Management Division of the Nantong City Housing Provident Fund Management Centre is remote.			

Reason(s) for non-compliance incident and person(s) involved	Legal consequences, potential maximum penalties and other financial liabilities (if any)	Rectification actions taken/ to be taken	Latest status	Potential operational and financial impact	Internal control measures adopted/ enhanced to prevent recurrence of non-compliance incident
	for the time being; in case the housing provident fund management centre order Jiangsu Pengfei to pay within a prescribed time limit in the future, the Jiangsu Pengfei shall pay the outstanding housing fund contributions for the aforesaid employees. For the three years ended 31 December 2018 and the four months ended 30 April 2019, the total outstanding amount of the housing provident fund contributions payable by Jiangsu Pengfei was owed RMB725,000, RMB514,000, RMB113,000 and nil, respectively.	As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant PRC government authorities with respect to this non-compliance incident, nor has any order been received by our Group to settle the outstanding amount of housing provident fund. In addition, our Controlling Shareholders have undertaken to, pursuant to the terms and condition of the Deed of Indemnity, indemnify our Group against any losses and penalties which our Group may suffer as a result of the failure of our Group to comply with relevant PRC laws, rules or regulations concerning housing provident fund, to the extent that such amount has not been reflected from the provision made in the audited consolidated accounts of our Group.		In light of the foregoing, and given the remedies and rectification measures taken, our Directors are of the view that this non-compliance incident has no material impact on our operations and is not material to our business operation and does not reflect negatively on the ability or tendency of our Group, our Directors or our senior management, to operate in a compliant manner.	not participate in social insurance contributions and housing provident fund, it must be confirmed in writing to our Group. We checked certain process documents for social insurance and housing provident fund during the follow-up review period, and found that our Group had made the relevant declaration, review and payment in accordance with the management system. Our Group has established an internal audit department responsible for regularly reviewing the adequacy of our Group's compliance internal control procedures and reporting the audit results to our Group's management and audit committee. Our Group will engage a PRC legal adviser to assist our Group in providing future legal advice and provide management and staff with additional and regular trainings in compliance with the applicable PRC laws and regulations.

3. Jiangsu Pengfei was once evaluated as "unqualified" in the fire protection supervision and inspection conducted by Haian City Fire Fighting Superintendent* (海安市公安消防大隊) ("Haian City FFS").

Reason(s) for non-compliance incident and person(s) involved	Legal consequences, potential maximum penalties and other financial liabilities (if any)	Rectification actions taken/ to be taken	Latest status	Potential operational and financial impact	Internal control measures adopted/ enhanced to prevent recurrence of non-compliance incident
The non-compliance happened because one of the workshops of Jiangsu Pengfei failed to meet the fire safety requirement to install four fire extinguishers.	Our PRC Legal Advisers have advised our Group that, in accordance with Provisions on the Supervision and Inspection over Fire Protection, if any non-compliance found in a fire protection supervision and inspection shall be ordered to get rectified within a specified period of time with fire safety laws, the fire fighting department of the public security authority shall produce a written rectification order on site and impose punishment according to law. Where the non-compliance is immaterial, on-site rectification is completed and administrative punishment could not be imposed according to law, the fire fighting department may verbally order the non-compliance to be rectified and mark the inspection record. Due to the rectification of the non-compliance of the fire protection by the Pengfei Group in accordance with the requirements of the	Jiangsu Pengfei has rectified the fire fighting loophole on a timely basis by installing the required four fire extinguishers in the workshop. The Certification issued by Haian City FFS on 22 January 2019 confirmed and certified that the non-compliance incident of "unqualified" evaluation has already been rectified and Jiangsu Pengfei had no administrative punishment imposed by Haian City FFS from 1 January 2016 to 22 January 2019.	As at the Latest Practicable Date, the non-compliance has been rectified and there has not been any non-compliance of our Group in relation to fire safety.	As advised by our PRC Legal Advisers, our Group has rectified the non-compliance promptly and also, written confirmation# has been obtained from Haian City Fire FFS on 22 January 2019 that our Group has met the fire safety requirement and no penalty would be imposed. In light of the foregoing, and given the remedies and rectification measures taken, our Directors are of the view that this non-compliance incident has no material impact on our operations and is not material to our business operation and does not reflect negatively on the ability or tendency of our Group, our Directors or our senior management, to operate in a compliant manner.	The management has established "Fire Safety Management System", which indicates that our Group's security department is responsible for regular checks on the fire safety facilities to ensure that they are sufficient to comply with the relevant fire safety laws and regulations in the PRC. Our Group has established an internal audit department responsible for regularly reviewing the adequacy of our Group's compliance internal control procedures and reporting the audit results to our Group's management and audit committee. Our Group will engage a PRC legal adviser to assist our Group in providing future legal advice and provide management and staff with additional and regular trainings in compliance with the applicable PRC laws and regulations.

Reason(s) for non-compliance incident and person(s) involved	Legal consequences, potential maximum penalties and other financial liabilities (if any)	Rectification actions taken/ to be taken	Latest status	Potential operational and financial impact	Internal control measures adopted/ enhanced to prevent recurrence of non-compliance incident
	competent authority, the disclosed non-compliance matters, shall no longer bear the penalty risk in accordance with the principle of double jeopardy prescribed in the PRC Administrative Penalty law.	As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by Haian City FFS or the relevant PRC government authorities with respect to this non-compliance incident. In addition, our Controlling Shareholders have undertaken to, pursuant to the terms and condition of the Deed of Indemnity, indemnify our Group against any losses and penalties which our Group may suffer as a result of the failure of our Group to comply with relevant laws, rules or regulations concerning fire safety, to the extent that such amount has not been reflected from the provision made in the audited consolidated accounts of our Group.			

Note:

* The English names of the entities marked "*" are translations from their Chinese names and are for identification purposes only. If there is any inconsistency between the Chinese names and their English translations, the Chinese names shall prevail.

\# The written confirmations which set out no penalty will be imposed against the non-compliance of our Group are only in respect of the Track Record Period. According to the Law of the PRC on Administrative Penalty, if the illegal act is not discovered within two years, no administrative penalty will be given, except otherwise provided by the law. The foregoing period shall be counted from the date on which the illegal act occurs. If the illegal act is continuous, it shall be counted from the date when such illegal act ceases. Non-compliance matters that occurred before or during the Track Record Period and continued up to the Track Record Period have been disclosed in the Prospectus and have been rectified during the Track Record Period. The relevant authorities have also issued confirmations setting out that no penalty will be imposed against the non-compliance incidents. For the non-compliance issues that occurred before the Track Record Period but not continued up to the Track Record Period, except otherwise provided by relevant laws and regulations, these non-compliance matters are time barred from administrative penalty. Hence, the risk of administrative penalty is small.

Save as disclosed above, we are not aware of any other material impact or systemic non-compliance incidents in respect of applicable laws and regulations during the Track Record Period and up to the Latest Practicable Date. We have also engaged an independent internal control consultant to conduct a review of our internal control policies and rectification measures and to put forward recommendations and suggestions for improvement, where applicable.

Having taken into account the nature of and all the facts and circumstances leading to the non-compliance incidents, the rectifications actions already taken or to be taken and the internal control measures adopted and/or enhanced to minimise the recurrence of the historical non-compliance incidents, our Directors: (a) are satisfied that our internal control measures are adequate and effective for the purpose of Rule 3A.15(5) of the Listing Rules; and (b) of the view that the historical non-compliance incidents disclosed above do not have any material impact on: (i) the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules; and (ii) our suitability for Listing under Rule 8.04 of the Listing Rules.

Our Sole Sponsor, having taken into account the same matters above, also concur with our Directors' view in respect of the Listing Rules regarding: (a) the adequacy and effectiveness of our internal control measures; and (b) the suitability of our Directors and our suitability for Listing.

Controlling Shareholders indemnity for losses incurred due to historical non-compliance incidents

Pursuant to the Deed of Indemnity, our Controlling Shareholders have undertaken to indemnify our Group against all claims, damages, losses, costs, expenses, actions and proceedings (if any) arising out of or in connection with any non-compliance or alleged non-compliance by any member of our Group with any applicable laws, regulations and rules in the PRC and/or any jurisdictions where the Group has operations on or before the Listing Date. Please refer to "Statutory and general information — E. Other Information" in Appendix V to this prospectus for further details.

Material claims and/or litigation proceedings

To the best of our Directors' knowledge, as at the Latest Practicable Date, no member of our Group was a party to any claim, litigation, arbitration or administrative proceedings, and our Directors were not aware of any pending or threatened claim, litigation, arbitration or administrative proceedings against our Group that would have a material adverse effect on our business operation, financial condition and reputation.

BUSINESS ACTIVITIES IN COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

During the Track Record Period, we made sales of our heavy industrial equipment product and/or provided one-stop solution services to customers located in Egypt, Lebanon, Myanmar (Burma), Russia, Sudan, Syria and Yemen, generating revenues of approximately RMB0.2 million, RMB12.5 million, RMB10.1 million and nil, representing approximately 0.03%, 1.3%, 1.0% and 0% of our total revenue for the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019. Syria is subject to very comprehensive economic sanctions and Sudan was subject to OFAC's comprehensive sanctions program under the Sudanese Sanctions Regulations until 12 October

2017. While we had business transactions with Sudan during 2017 and with Syria in 2018, these transactions were invoiced and settled in Euros and did not involve any parties that were named on the SDN List. Our completed business transactions in Sudan and Syria amounted to approximately RMB1.54 million and RMB1.83 million, respectively, which attributed to an insignificant amount of our total revenue during the Track Record Period. Besides, our Company has established internal control system regarding Countries subject to International Sanctions. Hence, the cessation of all business activities in Syria and Sudan do not have any impact on our financial position and business operations. After review of thesupporting documentation for the Sudan and Syria transactions, our International Sanctions Legal Advisers have advised that these transactions did not violate any International Sanctions laws or Regulations. Egypt, Lebanon, Myanmar (Burma), Russia and Yemen were subject to targeted sanctions during the Track Record Period and as of the date of this prospectus. None of our transactions with customers located in Egypt, Lebanon, Myanmar (Burma), Russia and Yemen involved any parties on the SDN List.

Hogan Lovells, our International Sanctions Legal Advisers, performed the following procedures to evaluate our risk of exposure to penalties imposed under International Sanctions laws and regulations:

(a) reviewed documents provided by us about our Group, our business operations, revenues, sales contracts and counterparty list in Egypt, Lebanon, Myanmar (Burma), Russia, Sudan, Syria and Yemen, ownership structure and management;

(b) reviewed our list of counterparties in Egypt, Lebanon, Myanmar (Burma), Russia, Sudan, Syria and Yemen during the Track Record Period against the lists of persons and organisations subject to International Sanctions, and confirmed that they are not on such lists; and

(c) received written confirmation from us that except as otherwise disclosed in this prospectus, neither our Group nor any of our affiliates (including any representative office, branch, subsidiary or other entity which forms part of our Group) conducted during the Track Record Period any business dealings in or with any other countries or persons that are subject to International Sanctions.

As advised by our International Sanctions Legal Advisers after performing the procedures set out above, our activities during the Track Record Period do not appear to implicate restrictions under International Sanctions. Further, given the scope of our Share Offer and the expected use of proceeds as set out in the Prospectus, our International Sanctions Legal Advisers are of the view that the involvement by parties in the Share Offer will not implicate any applicable International Sanctions on such parties, including our Company, our Company's investors, shareholders, the Stock Exchange and its listing committee and group companies, or any person involved in the Share Offer and accordingly, the sanction risk exposure to our Company, its investors and shareholders, and persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of our Company's shares (including the Stock Exchange, its listing committee and related group companies) is very low.

Our Directors confirm that we have not been notified of that any International Sanctions will be imposed on us for our sales and/or deliveries to the Countries subject to International Sanctions during the Track Record Period. The customers located in Egypt, Lebanon, Myanmar (Burma), Russia, Sudan, Syria and Yemen are not specifically identified on the Specially Designated Nationals and Blocked Persons List maintained by OFAC or other restricted parties lists maintained by the European Union, Australia and the United Nations and therefore would not be deemed as sanctioned targets. Such sales and/or deliveries do not involve industries or sectors that are currently subject to International Sanctions and therefore are not deemed to be prohibited activities under the relevant International Sanctions.

Our internal control procedures

We will not use the proceeds from the Share Offer, as well as any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Countries subject to International Sanctions or any other government, individual or entity sanctioned by the U.S., the European Union, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions.

In addition, we will not enter into any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders and investors to violate or become a target of sanctions laws by the U.S., the European Union, the United Nations or Australia. We will also disclose on the respective websites of the Stock Exchange and our Group if we believe that the transactions our Group entered into in Countries subject to International Sanctions or with Sanctioned Persons would put our Group or our Shareholders and investors to risks of being sanctioned, and in our annual reports or interim reports our efforts on monitoring our business exposure to sanctions risk, the status of future business, if any, in Countries subject to International Sanctions and with Sanctioned Persons and our business intention relating to Countries subject to International Sanctions and with Sanctioned Persons. If we were in breach of such undertakings to the Stock Exchange, we would be subject to the risk of possible delisting of our Shares on the Stock Exchange.

We have adopted know your client and other internal control and risk management measures to help us continuously monitor and evaluate our business and take measures to protect the interest of our Group and our Shareholders from economic sanctions risks.

We have adopted enhanced internal control and risk management measures to help us continuously monitor and evaluate our business and take measures to protect the interest of our Group and our Shareholders from economic sanctions risks. The following measures have been implemented as at the Latest Practicable Date:

- we have set up and maintained a separate bank account, which is designated for the sole purpose of the deposit and deployment of the proceeds from the Share Offer or any other funds raised through the Stock Exchange;

- to further enhance our existing internal risk management functions, our Board has established a risk management committee. The members of such committee comprise Wang

Jiaan, Zhou Yinkiao, Dai Xianru and Ben Daolin, and their responsibilities include, among other things, monitoring our exposure to sanctions risks and our implementation of the related internal control procedures. Our risk management committee will hold at least two meetings each year to monitor our exposure to sanctions risks;

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

- our Directors will continuously monitor the use of proceeds from the Share Offer, as well as any other funds raised through the Stock Exchange, to ensure that such funds will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, Countries subject to International Sanctions or Sanctioned Persons where this would be in breach of International Sanctions;

- the risk management committee will periodically review our internal control policies and procedures with respect to sanctions matters. As and when the risk management committee considers necessary, we will retain external international legal counsel with necessary expertise and experience in sanctions matters for recommendations and advice; and

- if necessary, external international legal counsel will provide training programs relating to the sanctions to our Directors, our senior management and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations. Our external international legal counsel will provide current list of Countries subject to International Sanctions and Sanctioned Persons to our Directors, senior management and other relevant personnel, who will in turn disseminate such information throughout our domestic operations and overseas offices and branches.

Our International Sanctions Legal Advisers have reviewed and evaluated these internal control measures and are of the view that these measures are adequate and effective for the Company to comply with our undertaking to the Stock Exchange.

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

RISK MANAGEMENT AND INTERNAL CONTROL

Our Board of Directors is responsible for establishing our internal control system and assessing its effectiveness. In accordance with applicable laws and regulations, we have established procedures for developing and maintaining internal control systems. Such systems cover corporate governance, operations, management, connected transactions, anti-bribery and anti-corruption, legal matters, finance and auditing, as appropriate for the needs of our organization. We have established comprehensive risk management, primarily composed of departments specialized in auditing, finance, safety and quality, investment and legal matters and other functional management departments, through which we monitor, evaluate and manage risks related to work safety, financial matters, market development, capital management, human resources and other matters that we are exposed to in our business activities. We plan to review and refine our risk management system regularly, based on changes to our business. Our senior management oversees our risk management systems and reviews the results of our annual risk assessment. Our risk assessment is conducted by a number of risk management departments within our Group. These departments conduct annual risk evaluations and regular risk management and controls, and report to senior management about material findings, in a timely manner. We also run training programs for our risk management personnel each year in order to enhance their overall risk management ability and knowledge.

Our Group has established an anti-bribery and anti-corruption policy to mitigate the potential risk arising from the use of deceptive and other illegal means to seek illegitimate interests resulting in damaging our Group's interests; or to seek improper economic interests from our Group, as well as behaviours that may bring illegitimate benefits to any person.

The anti-bribery and anti-corruption policy of our Group sets out a number of measures to be implemented by our Group including the responsibilities, communications, assessment of anti-bribery and anti-corruption risk and establishment of control system, reporting channel and department, investigation and reporting results. Details are as below:

Responsibilities

- The senior management of the Company shall be responsible for monitoring any incident of fraud of the Group and establishing anti-bribery and anti-corruption procedures and controls for fraud risk assessment and fraud prevention and conducting self-assessment for members of the Group. The Company has established an administrative office headed by Mr. Ben Daolin (an executive Director) (the "**Administrative Office**") which is responsible for, among others, implementing cross-departmental, company-wide anti-bribery and anti-corruption procedures.

Communications

- The anti-bribery and anti-corruption policy and procedures and related measures of the Group should be effectively communicated within members of the Group in various forms (through employee handbooks, company rules and regulations, publicity or local area networks) and the human resources department should inform new employees of such policy and procedures.

Assessment of anti-bribery and anti-corruption risk and establishment of control system

- The Board of Directors should incorporate fraud risk assessment into the enterprise risk assessment conducted at the beginning of each year.

- The Board of Directors should establish and adopt measures to confirm, prevent and reduce false financial reports or abuse assets of the Group; anti-bribery and anti-corruption control measures should be established at all levels and departments of the Group.

- There may be corruption risks when a member of the Group selects its business partners (customers, suppliers, sub-contractors, agents, consultants, contractors, related parties, etc). It is therefore important for members of the Group to only engage business partners which have an anti-corruption commitment. The Company should inform all its business partners of its anti-bribery and anti-corruption policy. As far as practicable, members of the Group should take suitable anti-bribery and anti-corruption measures when entering into the agreements with their respective business partners, this will include:

  - prohibition against bribing of the Group's staff;

  - without the permission of a director of the relevant member of the Group, prohibiting the Group's staff against offering of advantages to any party who will or potentially will enter into business relationship with the Group;

  - prohibition against bribery of any form in carrying out business under the contract/partnership or on behalf of any member of the Group;

  - ensure that all the relevant personnel are made aware of the anti-corruption requirements, such as through a code of conduct, guidelines and trainings;

  - apply the same anti-corruption requirements to all business partners;

  - take proper action, such as reporting any corruption/fraud detected to the relevant law enforcement agency; and

  - the right for the relevant member of the Group to terminate the contract with the business partner if it or its staff member breaches the anti-corruption requirements.

- In order to prevent the directors and senior management of the Group from using their positions to harm the interests of the Group through the use of connected transactions (as defined under the Listing Rules) for personal gain, members of the Group should comply with the disclosure and/or Shareholders' approval requirements for connected transactions under the Listing Rules. A connected person with a material interest in the transaction shall abstain from voting at the meeting on the resolution approving the transaction in accordance with the requirements set out in Chapter 14A of the Listing Rules.

Reporting channel and department

- The Administrative Office is responsible for establishing a hotline for reporting ethics and fraud cases, etc., and publishing the hotline number and e-mail address to the employees at all levels and the parties with economic relations directly or indirectly with the Group in order to act as a reporting channel for any cases of violations of professional ethics by the Group company and its personnel, or any actual or suspected fraud cases.

Investigation and reporting results

- The Administrative Office is responsible for evaluation of the fraud cases reported and determines if investigation is required. If the report involves the management of the relevant member of the Group, the Directors and the relevant department management personnel may form a special investigation team to conduct a joint investigation. In the relevant investigations, external experts may be engaged to participate in the investigation if needed; the internal control of the affected business units should be evaluated and recommendations for improvement should be made.

- The Administrative Office should report to the Board of Directors at least once a year on the anti-bribery and anti-corruption work and maintain a written report.

The Board of Directors authorizes this policy to be implemented by the Administrative Office and the revision of which shall be subject to approval of the Board of Directors. The Board of Directors should review the policy on an annual basis in accordance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules and the requirements of the relevant anti-corruption laws and regulations in Hong Kong and the PRC.

During the Track Record Period and up to the Latest Practicable Date, we complied with all applicable PRC and overseas anti-bribery and anti-corruption laws and regulations to the extent applicable to our Group.

We have also adopted the following internal control measures recommended by our Internal Control Consultant:

- We will provide additional and regular trainings the management and relevant human resources personnel regarding to legal and regulatory requirements applicable to the business operations of our Group from time to time.

- To prevent future non-compliances with the relevant PRC laws and regulations relating to the social insurance and housing provident funds, our responsible management personnel will review and reconcile the amount of the social insurance and housing provident funds with the total number of employees in the PRC each time before making payment for contribution.

- To prevent future non-compliance with the relevant PRC laws and regulations relating to fire safety, we will review annually the fire safety measures to ensure that they meet the required standard by the relevant authorities in the PRC.

- We have adopted internal control measures governing our investment in financial products as part of our treasury measure, with details set out in the section headed "Financial Information — Discussion of selected items in consolidated statements of financial position — Financial assets at fair value through profit or loss ("FVTPL").

- Our internal audit department and compliance department will review the internal control system regularly to ensure compliance with applicable legal and regulatory requirements, and report the review results to our senior management and our Board.

- We will also seek advices, where necessary, from legal advisers on the latest requirements of applicable laws and regulations of the PRC.

In addition, for the purpose of preparing for the Listing, our Internal Control Consultant has reviewed our internal controls over financial reporting systems (the "**Internal Control Review**"). The Internal Control Consultant did not identify material internal control deficiency in the Internal Control Review under the agreed scope of review.

BOARD OF DIRECTORS

Our Board is responsible for and has general power over the management and conduct of our business. As at the Latest Practicable Date, it consists of 7 Directors, including 4 executive Directors and 3 independent non-executive Directors. Our Directors are supported by our senior management in the day-to-day management of our business.

The table below sets forth information regarding our Board of Directors.

Name	Age	Position	Date of joining the Group	Date of appointment as a Director	Principal responsibility	Relationship with other Directors and/or senior management of the Group
Executive Directors						
Mr. Wang Jiaan (王家安)	61	Executive Director and chairman of the Board	8 May 1994	31 July 2017	Overall management, corporate policy making and strategic planning of our Group's business operations	Father-in-law of Mr. Shi Pengyu (施鵬宇), a senior management of our Group
Mr. Zhou Yinbiao (周銀標)	59	Executive Director and vice-chairman of the Board	8 May 1994	7 November 2018	Overall management, production operation, internal management of the Group	Not applicable
Mr. Dai Xianru (戴賢如)	60	Executive Director and finance director	8 September 2001	7 November 2018	Overall management, financial operation, internal management of the Group	Not applicable
Mr. Ben Daolin (賁道林)	53	Executive Director	8 May 1994	7 November 2018	Overseeing the human resources and administrative management of the Group	Not applicable

Name	Age	Position	Date of joining the Group	Date of appointment as a Director	Principal responsibility	Relationship with other Directors and/or senior management of the Group
Independent non-executive Directors						
Ms. Zhang Lanrong (張嵐嶸)	62	Independent non-executive Director	25 October 2019	25 October 2019	Providing independent judgement on the Group's strategy, performance, resources and standard conduct	Not applicable
Mr. Ding Zaiguo (丁再國)	55	Independent non-executive Director	25 October 2019	25 October 2019	Providing independent judgement on the Group's strategy, performance, resources and standard conduct	Not applicable
Mr. Mak Hing Keung, Thomas (麥興強)	56	Independent non-executive Director	25 October 2019	25 October 2019	Providing independent judgement on the Group's strategy, performance, resources and financial operations	Not applicable

Executive Directors

Mr. Wang Jiaan

Mr. Wang Jiaan (王家安) ("**Mr. Wang**"), aged 61, is an executive Director and the chairman of the Board. Mr. Wang was appointed as our Director on 31 July 2017 and re-designated as our executive Director on 13 March 2019. Mr. Wang is primarily responsible for overall management, corporate policy making and strategic planning of our Group's business operations. Mr. Wang is the father-in-law of Mr. Shi Pengyu (施鵬宇), a senior management of our Group.

Mr. Wang has more than 40 years of experience in special equipment manufacturing business. Prior to joining our Group, Mr. Wang worked in Haian County Building Equipment Manufacturing Plant* (海安縣建材設備製造總廠) as a mechanical workshop technician and workshop manager from October 1977 to July 1984 and was promoted as the deputy plant manager and technical manager from July 1984 to May 1994. Since then, Mr. Wang joined Jiangsu Pengfei and served as the deputy general manager from May 1994 to October 2001 and was promoted as the general manager from October 2001 to October 2003. Since October 2003, Mr. Wang has served as the chairman and general manager of Jiangsu Pengfei.

Mr. Wang has completed the provincial level mechanical industry professional technical staff high-level transformation innovative upgrading senior training course at the Jiangsu Provincial Department of Human Resources and Social Security* (江蘇省人力資源和社會保障廳); and Jiangsu Province Mechanical Industry Association* (江蘇省機械行業協會) in August 2012. Mr. Wang has completed the Nantong City modern entrepreneur senior training course at Shanghai Jiaotong University in the PRC in April 2012. Mr. Wang was awarded with a certificate after completion of the 7th Jiangsu province technological entrepreneur (investment & financing strategy and capital operations) training course at Renmin University of China in the PRC in March 2011. Mr. Wang has completed the senior business administration executive training course at Tsinghua University in the PRC in July 2008. Mr. Wang was awarded with a certificate after completion of the building materials mechanical professional certificate at Yancheng Industrial Institute (鹽城工業專科學校) in February 1996.

Mr. Wang is a researcher-level senior engineer, recognised by the Jiangsu Provincial Department of Human Resources and Social Security* (江蘇省人力資源和社會保障廳) in November 2012, and is a first level / senior technician, recognised by the Ministry of Human Resources and Social Security, the PRC (中華人民共和國人力資源和社會保障部) in November 2012.

Mr. Wang participated in public services including, among others, acting as the Vice-chairman of the 5th Committee of the China Building Materials Machinery Industry Association* (中國建材機械工業協會) from December 2008 to December 2013, the Vice-chairman of the 5th Committee of the China Building Materials Federation (中國建築材料聯合會) from October 2016 to September 2021, the Chairman of Haian County Building Materials Machinery Business Association* (海安縣建材機械業商會) from October 2016 to September 2021, a member of the 16th Committee of the Chinese National People's Congress of Haian County* (中國海安縣第十六屆人民代表大會) from January 2017 to December 2021, the Chairman of the 4th Machinery Committee of Jiangsu Province Building Materials Industry Association* (江蘇省建材行業協會) from March 2017 to February 2022 and a member of the 14th Committee of the Chinese National People's Congress of Nantong City* (中國南通市第十四屆人民代表大會) from January 2012 to December 2016. Since August 2017, Mr. Wang has also held the position as the secretary of Jiangsu Pengfei branch of the Chinese Communist Party* (中國共產黨江蘇鵬飛集團股份有限公司黨委書記).

Mr. Wang has received awards from various organisations as follows:

Name of organisations	Award	Year of award
China Building Materials Federation (中國建築材料聯合會)	National Building Materials Industry Reform and Opening-up Thirty Years Representative* (全國建材行業改革開放三十年代表人物)	March 2009
Jiangsu Provincial People's Government (江蘇省人民政府)	Provincial Model Worker* (省勞動模範)	April 2011
China Building Materials Machinery Industry Association* (中國建材機械工業協會)	"Eleven-Five" Building Materials Machinery Enterprise Leader* (「十一五」建材機械企業領軍人物)	July 2011
Nantong City People's Government (南通市人民政府)	2013 Nantong Private Economy "Distinguished Enterprise, Brand and Leader"* Leader of the Year (2013年南通民營經濟「名企、名品、名人」年度人物)	March 2014
Haian County Chinese Communist Party Committee (中國共產黨海安縣委員會); and Haian County People's Government (海安縣人民政府)	2016 Five-Star Entrepreneur* (2016年度五星級企業家)	January 2017
All China Federation of Trade Unions (中華全國總工會)	National Labor Medal* (全國五一勞動獎章)	April 2017
China Building Materials Machinery Industry Association* (中國建材機械工業協會)	Outstanding Entrepreneur in Building Materials and Machinery Industry for 40 Years since China's Reform and Opening-up* (中國改革開放40年建材機械行業優秀企業家)	November 2018

Mr. Wang was a director and the legal representative of the following companies which were incorporated in the PRC and were dissolved by way of deregistration, and the relevant details are as follows:

Company name	Date of deregistration
Zhongpeng Energy	18 May 2016
Strength Machinery	20 May 2016
Pengfei Machinery Equipment Research Institute	20 May 2016

As confirmed by Mr. Wang, the aforementioned companies were solvent at the time when they were deregistered and he is not aware of any actual or potential claim that has been or will be made against him or these companies as a result of their respective deregistration. For further information, please refer to the paragraph headed "Disposal of or deregistration of subsidiaries and associated companies by our Group during the Track Record Period" in the section headed "History, development and Reorganisation" in this prospectus.

Mr. Zhou Yinbiao

Mr. Zhou Yinbiao (周銀標) ("**Mr. Zhou**"), aged 59, is an executive Director and vice-chairman of the Board. Mr. Zhou was appointed as our Director on 7 November 2018 and re-designated as our executive Director on 13 March 2019. Mr. Zhou is primarily responsible for overall management, production operation, internal management of the Group.

Mr. Zhou has more than 40 years experience in special equipment manufacturing industry. Prior to joining our Group, Mr. Zhou worked in Haian County Building Equipment Manufacturing Plant* (海安縣建材設備製造總廠) as a workshop deputy manager from July 1978 to March 1982 and subsequently the workshop manager from April 1982 to May 1994. Mr. Zhou then jointed our Group and served as the deputy plant manger from May 1994 to October 2001 and was later promoted as the deputy general manager from October 2001 to July 2002. Since August 2002, Mr. Zhou served as a director and the deputy general manager of our Group.

Mr. Zhou was awarded with the qualifications of senior economist and Mechanical Engineer by Jiangsu Provincial Department of Human Resources and Social Security* (江蘇省人力資源和社會保障廳) in November 2017 and Nantong City Department of Human Resources and Social Security* (南通市人力資源和社會保障局) in November 2016 respectively. Mr. Zhou has also completed the advanced master of business administration training course at East China University of Science and Technology (華東理工大學) in March 2013, the international project management course at Sing-China Management Centre, Republic of Singapore in December 2009 and the building materials mechanical professional certificate training course organised by Yancheng Industrial Specialist School* (鹽城工業專科學校) and Jiangsu Province Building Materials Industry Bureau* (江蘇省建築材料工業局) in February 1996.

Mr. Zhou participated in the creation of "Rapidly Improve General Contracting Capacity Realize a New Leap in Internationalization Strategy"* (《快速提升總承包能力 實現國際化戰略新跨越》) and was awarded with The 16th Provincial First-Class Enterprise Management Modernization Innovation Achievement* (第十六屆省級一等企業管理現代化創新成果) as accredited by Jiangsu Province Enterprise Management Modernization Innovation Achievements Review Committee* (江蘇省企業管理現代化創新成果審定委員會) in January 2010. In addition, Mr. Zhou was regarded as "Eleven-Five" Building Materials Machinery Enterprise Leader* (「十一五」建材機械企業領軍人物) by China Building Materials Machinery Industry Association* (中國建材機械工業協會) in July 2011.

Mr. Zhou was also a member of The 19th Committee of Chinese National People's Congress of Dagong Town* (中國大公鎮第十九屆人民代表大會).

Mr. Zhou was a director and the legal representative of the following companies which were incorporated in the PRC and were dissolved by way of deregistration, and the relevant details are as follows:

Company name	Date of deregistration
Jiangsu Pengfei Grinding Equipment	29 November 2013
Pengfei Logistics	18 May 2016

As confirmed by Mr. Zhou, the aforementioned companies were solvent at the time when they were deregistered and he is not aware of any actual or potential claim that has been or will be made against him or these companies as a result of their respective deregistration. For further information, please refer to the paragraph headed "Disposal of or deregistration of subsidiaries and associated companies by our Group during the Track Record Period" in the section headed "History, development and Reorganisation" in this prospectus.

Mr. Dai Xianru

Mr. Dai Xianru (戴賢如) ("**Mr. Dai**"), aged 60, was appointed as our Director on 7 November 2018 and re-designated as our executive Director on 13 March 2019. Mr. Dai is also the finance director of our Group. Mr. Dai is primarily responsible for overseeing the overall management, financial operations and internal administration of the Group.

Mr. Dai has more than 30 years experience in finance and accounting. Prior to joining our Group, Mr. Dai worked as the head of accounting of the then Jiangsu Yinong Fertilizer Group Company Limited* (江蘇益農肥料集團有限公司) (formerly known as Haian County Dagong Phosphate Fertilizer Plant* (海安縣大公磷肥工廠)) from January 1985 to February 1997. He then worked in the then Haian City Dagong Township Enterprises Service Centre* (海安市大公鎮企業服務中心) (formerly known as Haian County Dagong Town Enterprises Service Station* (海安縣大公鎮企業服務站) as a township industrial enterprises statistician from March 1997 to August 2001. Mr. Dai joined our Group and has served as the head of finance department since September 2001. Starting from August 2002, Mr. Dai has also served as a director of Jiangsu Pengfei. From December 2009 to January 2018, Mr. Dai was appointed as the manager of the auditor committee of the trade union of Jiangsu Pengfei.

Mr. Dai is a certified accountant in China as accredited by the PRC Ministry of Finance in October 1994. He also received the qualification as a senior economist from Jiangsu Province Department of Human Resources in November 2006.

Mr. Dai was the supervisor of Jiangsu Pengfei Grinding Equipment, which was incorporated in the PRC and dissolved by way of deregistration on 29 November 2013. As confirmed by Mr. Dai, Jiangsu Pengfei Grinding Equipment was solvent at the time when it was deregistered and he is not aware of any actual or potential claim that has been or will be made against him or Pengfei Logistics as a result of such deregistration. For further information, please refer to the paragraph headed "Disposal of or deregistration of subsidiaries and associated companies by our Group during the Track Record Period" in the section headed "History, development and Reorganisation" in this prospectus.

Mr. Ben Daolin

Mr. Ben Daolin (賁道林) ("**Mr. Ben**"), with former name Ben Daonian (賁道年), aged 53, joined our Group in February 1994, was appointed as our Director on 7 November 2018 and re-designated as our executive Director on 13 March 2019. Mr. Ben is responsible for overseeing the human resources and administrative management of the Group.

Mr. Ben has more than 30 years of experience in special equipment manufacturing industry. Prior to joining our Group, Mr. Ben worked in Haian County Building Equipment Manufacturing Plant* (海安縣建材設備製造總廠) as a technician and quality inspector from July 1984 to July 1988 and then was promoted as the quality office manager from July 1988 to May 1994. Thereafter, Mr. Ben joined our Group and served as the office manger from May 1994 to March 2002 and has been promoted as the supervisor and secretary to the board since March 2002.

Mr. Ben has obtained a number of professional qualifications, including a first level / senior technician as accredited by The Ministry of Human Resources and Social Security, the PRC (中華人民共和國人力資源和社會保障部) in November 2012; a senior economist as accredited by Jiangsu Provincial Department of Human Resources and Social Security* (江蘇省人事廳) in December 2008, the deputy secretary of the 2nd Committee of Haian County Building Materials Machinery Business Association* (海安縣建材機械業商會) as appointed in June 2013, a mechanical engineer as accredited by Nantong City Department of Human Resources and Social Security* (南通市人力資源和社會保障局) in August 2015; the secretary of Haian County Building Materials Machinery Business Association* (海安縣建材機械業商會) as appointed in October 2016; and a council member of the 5th Committee of Jiangsu Province Building Materials Industry Association* (江蘇省建材行業協會) as appointed in March 2018.

Mr. Ben participating in editing several National Standards, including GB/T 329790-2016 "Building Materials Mechanical Product Classification and Model Compilation Method"* (《建材機械產品分類及型號編制方法》), GB/T 35150.1-2017 "Technical Requirements for Complete Dry Process Cement Production Equipment - Part 1: Raw material preparation systems"* (《新型乾法水泥生產成套裝備技術要求 第1部份: 生料制備系統》), JC/T 405-2006 Conditioning tower for cement industry (《水泥工業用增濕塔》) and JC/T 406-2006 "Packing technical Conditions for cement machinery" (《水泥機械包裝技術條件》).

Mr. Ben also received awards from various organisations, including the following:

Name of organisations	Award	Year of award
Jiangsu Province Enterprise Management Modernization Innovation Achievements Review Committee* (江蘇省企業管理現代化創新成果審定委員會)	Mr. Ben participated in the creation of "Rapidly Improve General Contracting Capacity Realize a New Leap in Internationalization Strategy"* (快速提升總承包能力實現國際化戰略新跨越) and was awarded with The 16th Provincial First-Class Enterprise Management Modernization Innovation Achievement* (第十六屆省級一等企業管理現代化創新成果)	January 2010

Name of organisations	Award	Year of award
China Building Materials Machinery Industry Association* (中國建材機械工業協會)	"Eleven-Five" Building Materials Machinery Enterprise Leader* (「十一五」建材機械企業領軍人物)	July 2011
Jiangsu Province Enterprise Management Modernization Innovation Achievements Review Committee* (江蘇省企業管理現代化創新成果審定委員會)	Mr. Ben participated in the creation of "Private Building Materials Enterprises Adopting "One Belt, One Road" as the Orientation of International Strategic Management"* (民營建材企業以「一帶一路」為導向的國際化戰略管理) and was awarded with The 23rd Jiangsu Province First-Class Enterprise Management Modernization Innovation Achievement* (第二十三屆省企業管理現代化創新成果一等獎)	April 2017

Mr. Ben completed Building Materials Mechanical Professional Certificate from Yancheng Industrial Institute* (鹽城工業專科學校) in the PRC in February 1996.

Mr. Ben was a director of the following companies which were incorporated in the PRC and were dissolved by way of deregistration, and the relevant details are as follows:

Company name	Date of deregistration
Zhongpeng Energy	18 May 2016
Strength Machinery	20 May 2016

As confirmed by Mr. Ben, the aforementioned companies were solvent at the time when they were deregistered and he is not aware of any actual or potential claim that has been or will be made against him or these companies as a result of their respective deregistration. For further information, please refer to the paragraph headed "Disposal of or deregistration of subsidiaries and associated companies by our Group during the Track Record Period" in the section headed "History, development and Reorganisation" in this prospectus.

Independent non-executive Directors

Ms. Zhang Lanrong

Ms. Zhang Lanrong (張嵐嶸) ("**Ms. Zhang**"), with former name Zhang Lanrong (張蘭榮), aged 62, was appointed as an independent non-executive Director of the Company on 25 October 2019. She is responsible for providing independent judgment on the Group's strategy, performance and financial operation.

Ms. Zhang has more than 12 years of experience in building materials industry. Prior to joining our Group, Ms. Zhang has worked as the chief editor of "Jiangsu Building Materials"* (《江蘇建材》) magazine since January 2006. She was appointed as the secretary of the board of directors of China Jiangsu International Economic and Technical Cooperation Group Ltd. (中國江蘇國際經濟技術合作集團有限公司) from December 2015 to June 2017.

Ms. Zhang was previously elected as the secretary general of the 3rd committee, the vice-president of the 4th committee and the executive vice-president of the 5th Committee of the Jiangsu Province Building Materials Industry Association* (江蘇省建材行業協會) in June 2006, April 2012 and March 2018, respectively. Ms. Zhang was regarded as National Building Materials Association Advanced Worker by China Building Materials Industry Association* (中國建築材料工業協會) in June 2007.

Ms. Zhang was accredited by Jiangsu Provincial Department of Human Resources and Social Security* (江蘇省人力資源和社會保障廳) as a senior economist, senior international business executive and a senior political economist in November 2010, November 2011 and September 2013, respectively.

Ms. Zhang obtained a Bachelor's degree in Economics Management from Nanjing University of Science and Technology (南京理工大學) in the PRC in July 1995 and a certificate of the master's degree training course in Economics Management from Nanjing Agricultural University (南京農業大學) in the PRC in November 1998. She also completed a chief editor training course from Jiangsu Province Journal Association* (江蘇省期刊協會) in October 2011.

Mr. Ding Zaiguo

Mr. Ding Zaiguo (丁再國) ("**Mr. Ding**"), aged 55, was appointed as an independent non-executive Director of the Company on 25 October 2019. He is responsible for providing independent judgment on the Group's strategy, performance, financial operation and legal related matters.

Mr. Ding has more than 20 years of legal experience. He is currently a qualified lawyer in the PRC as accredited by the People's Republic of China Ministry of Justice Lawyer Qualification Review Committee* (中華人民共和國司法部律師資格審查委員會) in August 1996. He is also accredited by Nantong City Professional Lawyers Review Committee* (南通市律師專業評委) as a level four lawyer in July 1999 and obtained professional lawyer license from Jiangsu Province Judicial Department* (江蘇省司法廳) in October 1997. Prior to joining the Group, Mr. Ding worked as a lawyer and a deputy manager in Jiangsu Victory Law Firm* (江蘇維多利律師事務所) from March 1996 to May 2002. Since then, Mr. Ding has worked as the deputy manager in Jiangsu Bright Eyes Law Firm* (formerly known as Nantong Nanhai Law Firm* (南通南海律師事務所)) (江蘇慧眼律師事務所) and subsequently promoted as the manager in July 2017.

Mr. Ding obtained a Bachelor of Laws from Southeast University (東南大學) in the PRC in March 2005 through long distance learning course.

Mr. Mak Hing Keung, Thomas (麥興強)

Mr. Mak Hing Keung, Thomas (麥興強) ("**Mr. Mak**"), aged 56, was appointed as an independent non-executive Director of the Company on 25 October 2019. He is responsible for providing independent judgement on the Group's strategy, performance, resources and financial operations.

Mr. Mak has over 15 years experience in accounting and financial management. Mr. Mak is currently a member of the Canadian institute of Chattered Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Prior to joining our Group, Mr. Mak worked in Ernst & Young for about 7 years. From October 1997 to May 2000, Mr. Mak worked as a manager in the listing division of Stock Exchange. From June 2000 to June 2001, Mr. Mak worked as a senior manager in the corporate finance department in Vickers Ballas. From June 2001 to January 2006, Mr. Mak worked as the chief financial officer of Bison Finance Group Limited (formerly known as RoadShow Holdings Limited) (Hong Kong stock code: 888). From February 2006 to October 2007, Mr. Mak worked as the chief financial officer of MMG Limited (formerly known as Minmetals Resources Limited) (Hong Kong stock code: 1208). From October 2007 to April 2010, Mr. Mak worked as the chief financial officer of Redgate Media (Hong Kong) Limited, a wholly owned subsidiary of Redgate Media Group. From May 2010 to April 2014, Mr. Mak worked as the chief financial officer of South China Media Group. Mr. Mak was the chief financial officer and the company secretary of China Shandong Hi-Speed Financial Group Limited (former known as Heritage International Holdings Limited, (Hong Kong stock code: 412) from October 2014 to May 2015. Mr. Mak then worked as the chief operations officer of HF Financial Group Limited from May 2015 to January 2017. Mr. Mak worked as an executive director of Millennium Pacific Group Holdings Limited (Hong Kong Stock Code: 8147 from May 2015 to July 2017. Also, Mr. Mak worked as a non-executive director of Cocoon Holdings Limited (formerly known as Huge China Holdings Limited) (Hong Kong stock code: 428) from July 2015 to November 2018. Since then, Mr. Mak has worked as chief financial officer of Fortunet E-Commerce Group Limited (Hong Kong stock code: 1039). Mr. Mak has also been an independent non-executive director of Tao Heung Holdings Limited (Hong Kong stock code: 573) since June 2007 and was an independent non-executive director of China Greenfresh Group Co., Ltd. (Hong Kong stock code: 6183) from May 2015 to July 2018.

Mr. Mak obtained a bachelor degree of commerce from Queen's University, Canada in May 1989.

General disclosure

Save as disclosed in the sections headed "Relationship with our Controlling Shareholders" and "Statutory and General Information" in Appendix V to this prospectus and above, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders of our Company as at the Latest Practicable Date; and (iii) has not held any directorship in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately prior to the Latest Practicable Date. Immediately following completion of the Share Offer and the Capitalisation Issue, save as disclosed in the section headed "Substantial Shareholders" in the prospectus, each of our Directors will not have any interest in the Shares within the meaning of Part XV of the SFO.

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

None of our Directors or any of their respective associates had interests in any other companies as at the Latest Practicable Date that may, directly or indirectly, compete with our business and would require disclosure under Rule 8.10 of the Listing Rules.

SENIOR MANAGEMENT

The table below sets forth information regarding our senior management of the Group.

Name	Age	Position	Time of joining the Group	Principal responsibility	Relationship with other Directors and/or the senior management of the Group
Mr. Shi Pengyu (施鵬宇)	34	General manager assistant	3 March 2018	Project management	Son-in-law of Mr. Wang

Mr. Shi Pengyu

Mr. Shi Pengyu (施鵬宇) ("**Mr. Shi**"), aged 34, joined our Group on 3 March 2018, and has been the general manager assistant of Jiangsu Pengfei since then. Mr. Shi is responsible for project management. Mr. Shi is the son-in-law of Mr. Wang.

Mr. Shi has more than 3 years of experience in materials procurement and production. Prior to joining our Group, Mr. Shi worked as a project manager in the production management department of Shanghai Zhenhua Heavy Industry Nantong Gearbox Plant* (上海振華重工南通齒輪箱廠) from June 2006 to July 2012. He subsequently joined the materials department of Nantong Acetate Fiber Co, Ltd.* (南通醋酸纖維有限公司) and worked in the maintenance department and materials department from August 2010 to March 2018.

He obtained a bachelor degree in electrical engineering and automation from Nanjing Normal University (南京師範大學) in the PRC in July 2008.

General disclosure

Save as disclosed as above, each of our senior management had no other relationship with any Directors, senior management or substantial or Controlling Shareholders of our Company as at the Latest Practicable Date and has not held any directorship in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately prior to the Latest Practicable Date.

COMPANY SECRETARY

Ms. Chau Hing Ling (周慶齡) ("**Ms. Chau**"), aged 44, was appointed our company secretary on 7 November 2018.

Ms. Chau joined Vistra Corporate Services (HK) Limited since June 2013 and now serves as a director of corporate services, where she leads a team of professional staff to provide a full range of corporate services and listed company secretary services. Prior to joining Vistra Corporate Services (HK) Limited, she was an associate director of corporate services of an international corporate services provider.

Ms. Chau has over 18 years of experience in the corporate services industry. She is currently the company secretary or joint company secretary of several companies listed on the Stock Exchange.

Ms. Chau received a master of laws degree majoring in corporate and financial law from The University of Hong Kong in November 2007. She has been a fellow member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries since May 2013.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

We have adopted the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules (the "**Corporate Governance Code**") and have complied with the applicable Listing Rules.

BOARD DIVERSITY

We recognise and embrace the benefits of having a diverse Board to enhance our Board's performance and to achieve a sustainable and balanced development. Our Board has adopted a board diversity policy which sets out the approach to achieve and maintain its diversity. The board diversity policy provides that selection of Board candidates should be based on a range of different considerations, including but not limited to professional skills, regional and industry experience, knowledge, gender, age, cultural and educational background, ethnicity and length of service. The ultimate selection of Board candidates will be based on merit and potential contribution to our Board with reference to our board diversity policy as a whole.

Our Board comprises of seven members, including four executive Directors and three independent non-executive Directors. They have a balanced mix of professional experience and industry background, including experience and industry background in building materials, equipment manufacturing business, finance, accounting and law. We will also take steps to promote gender diversity and representation at all levels of our Company.

After the Listing, the nomination committee of our Board will review the board diversity policy and its implementation from time to time to ensure its continued effectiveness. We will disclose the implementation of the board diversity policy in our corporate governance report on an annual basis after the Listing.

BOARD COMMITTEES

Pursuant to a resolution of our Directors passed on 25 October 2019, we have established an audit committee, a remuneration committee, a nomination committee and an investment committee. The memberships of our Directors in each of the committees are set out below:

Directors	Position	Audit Committee	Remuneration Committee	Nomination Committee	Investment Committee
Mr. Wang. .	Executive Director	—	—	Chairman	Member
Mr. Dai . . .	Executive Director	—	Member	—	Chairman
Mr. Zhou . .	Executive Director	—	—	—	Member
Mr. Ben . . .	Executive Director	—	—	—	Member
Mr. Ding . .	independent non-executive Director	Member	Chairman	Member	—
Mr. Mak . .	independent non-executive Director	Chairman	—	Member	—
Ms. Zhang	independent non-executive Director	Member	Member	Member	—

Audit committee

We established an audit committee on 25 October 2019 with its written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are mainly to make recommendation to the Board on the appointment and removal of external auditor; monitor the integrity of the financial statements, annual reports and interim reports and review significant financial reporting judgments contained in them; and oversee financial reporting system, risk management and internal control procedures. Our audit committee consists of 3 members who are Mr. Ding, Mr. Mak and Ms. Zhang all being our independent non-executive Directors. Mr. Mak is the chairman of the audit committee.

Remuneration committee

We established a remuneration committee on 25 October 2019 with its written terms of reference in compliance with the Listing Rules. The primary duties of the remuneration committee are mainly to make recommendation to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; review remuneration proposals of the management with reference to our Board's corporate goals and objectives; and ensure none of our Directors or any of their associates determine their own remuneration. Our remuneration committee consists of 3 members who are Mr. Dai, Mr. Ding and Ms. Zhang, among whom Mr. Dai is our executive Director and Mr. Ding and Ms. Zhang are our independent non-executive Directors. Mr. Ding is the chairman of the remuneration committee.

Nomination committee

We established a nomination committee on 25 October 2019 with its written terms of reference in compliance with the Listing Rules. The primary duties of the nomination committee is to review the structure, size, composition and diversity of our Board and make recommendations to our Board on the selection of individuals nominated for directorships, appointment or re-appointment of Directors and succession planning for Directors. Our nomination committee consists of 4 members who are Mr. Ding, Mr. Mak, Mr. Wang and Ms. Zhang, among whom Mr. Wang is our Executive Director and Mr. Ding, Mr. Mak and Ms. Zhang are our independent non-executive Directors. Mr. Wang is the chairman of the nomination committee.

Investment committee

We established an investment committee on 25 October 2019. The primary duties of the investment committee is to control, review and approve any investment or subscription of financial products and other types of investments initiated by our finance department and undertaken by our Group. Our investment committee consists of 4 members who are Mr. Wang, Mr. Dai, Mr. Zhou and Mr. Ben, all being our Executive Directors. Mr. Dai is the chairman of the investment committee.

EMPLOYEES

Please refer to "Business" — "Employees" for further information in relation to our employees and their benefits.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses related to the performance of us. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. We regularly review and determine the remuneration and compensation package of our Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of our Directors and the performance of us.

Remuneration packages of our employees usually comprise, among other things, salaries, contribution to pension schemes and allowances. We regularly review and determine the remuneration and compensation package of our employees by reference to, among other things, their performance, qualifications, respective responsibilities and market levels of salaries paid by comparable companies.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION DURING THE TRACK RECORD PERIOD

For the years ended 31 December 2016, 2017 and 2018 and for the four months ended 30 April 2019, the aggregate remuneration paid and benefits in kind granted to our Directors by our Group was approximately RMB1.38 million, RMB1.41 million, RMB1.50 million and RMB0.50 million, respectively. For the years ended 31 December 2016, 2017 and 2018 and for the four months ended 30 April 2019, the aggregate remuneration paid and benefits in kind by our Group to the Directors and senior management was approximately RMB1.38 million, RMB1.41 million, RMB1.60 million and RMB0.56 million, respectively. For the years ended 31 December 2016, 2017 and 2018 and for the four months ended 30 April 2019, the aggregate remuneration paid and benefits in kind granted to our five highest paid individuals, including four, four and four of our Directors stated above, was approximately RMB1.68 million, RMB1.71 million, RMB1.81 million and RMB0.61 million, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid, or are payable, by us to our Directors or senior management or the five highest-paid individuals as an inducement to join or upon joining our Group or as compensation for loss of office in respect of the years ended 31 December 2016, 2017 and 2018 and for the four months ended 30 April 2019. There was no arrangement under which a Director waived or agreed to waive any remuneration during the same period.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors for the year ending 31 December 2019 will be approximately RMB1.88 million.

For additional information on Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to the Accountants' Report set out in Appendix I to this prospectus.

COMPLIANCE ADVISER

We have appointed Essence Corporate Finance (Hong Kong) Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company on the following matters:

(a) before the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction under Chapter 14 and/or Chapter 14A of the Listing Rules, is contemplated including share issues and share repurchases;

(c) where we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and

(d) where the Stock Exchange makes any inquiry of us regarding unusual movements in the price or trading volume of the Shares under Rules 13.10 of the Listing Rules.

The term of the appointment of Essence Corporate Finance (Hong Kong) Limited shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

The compliance adviser shall provide us with services, including guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines, and to act as one of our principal channels of communication with the Stock Exchange.

OUR CONTROLLING SHAREHOLDERS

Ambon was incorporated in the BVI and is an investment holding company wholly owned by Mr. Wang Jiaan (王家安). Immediately upon completion of the Share Offer and the Capitalisation Issue (assuming the Over-allotment Option is not exercised), Mr. Wang Jiaan (王家安) and Ambon will together be interested in approximately 41.49% of the issued share capital of our Company, and hence they are regarded as a group of a Controlling Shareholders of our Company under the Listing Rules.

Please see "History, Reorganisation and Corporate Structure — Capitalisation Issue" and "Substantial Shareholders" for further information. For more information relating to Mr. Wang Jiaan (王家安), please see the section headed "Directors, Senior Management and Employees — Directors" in this prospectus.

Saved as disclosed above, there is no other person who will, immediately following the completion of Capitalisation Issue and the Share Offer, be directly or indirectly interested in 30% or more of the Shares then in issue or have a direct or in issue or have a direct or indirect equity interest in any member of our Group representing 30% or more of the equity in such equity.

In addition, our Controlling Shareholders and Directors confirm that they do not have any interest in a business which competes with or is likely to compete with out business, whether directly or indirectly, or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors are satisfied that we are capable of carrying on our business independently from and do not place under reliance on our Controlling Shareholders and their respective close associates taking into consideration the following factors:

(i) Management independence

Our Board comprises four executive Directors and three independent non-executive Directors ("**INEDs**").

The Directors believe that our Group will be able to operate independently of our Controlling Shareholders and their respective close associates after Listing despite the overlapping directorship for the following reasons:

(a) our Board will comprise seven members of which there are three INEDs and our Directors believe that the INEDs can exercise independent judgement free from any conflict of interest;

(b) with three INEDs out of a Board size of seven, our Directors believe that there is a strong element on our Board which can effectively exercise independent judgment in order to address any situations of conflict of interest and to protect the interests of the independent Shareholders;

(c) each of our Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he or she acts for the benefit and in the best interest of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interests;

(d) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at our relevant Board meetings in respect of such transactions and shall not be counted in the quorum; and

(e) with an independent team of senior management having substantial experience and expertise in our business to implement our Group's policies and strategies, our Directors are satisfied that our senior management team will be able to perform their roles in our Group independently.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Group independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Share Offer.

(ii) Operational independence

We have established our own organization structure comprised of individual departments, each with specific areas of responsibilities. We have also established internal control procedures to facilitate the effective and efficient operation of our business. Each department takes a specific role in our operations. There are internal control procedures to ensure effective operation of our business. Furthermore, we have independent access to suppliers and customers who are Independent Third Parties.

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

(iii) Financial independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. 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 their respective close associates. Our Directors confirmed that, as at the Latest Practicable Date, none of our Controlling Shareholders or their respective close associates had provided any loans, guarantees or pledges to our Group. Our Directors also confirmed that, as at the Latest Practicable Date, our Group did not provide any loans, guarantees or pledges to our Controlling Shareholders or their respective close associates.

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders and their respective close associates.

NON-COMPETITION UNDERTAKING

Our Controlling Shareholders as covenantors (each a "**Covenantor**", collectively, the "**Covenantors**") executed the Deed of Non-Competition in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries).

In accordance with the Deed of Non-Competition, each Covenantor undertakes that, from the Listing Date and ending on the occurrence of the earliest of (i) the date on which the Shares cease to be listed on the Main Board; or (ii) the date on which the Covenantors cease to be a Controlling Shareholder;

(i) Non-competition

He/it will not, and will use his/its best endeavours to procure any Covenantor, his/its close associates (collectively, the "**Controlled Persons**") and any company directly or indirectly controlled by the Covenantor (the "**Controlled Company**") not to, either on his/its own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, acquire or operate, or provide any form of assistance to any person, firm or company (except members of our Group) to conduct any business which, directly or indirectly, competes or is likely to compete with the business of our Company or any of our subsidiaries in Hong Kong, the PRC and such other places as our Company or any of our subsidiaries may conduct or carry on business from time to time (the "**Restricted Business**").

The Deed of Non-Competition does not apply if the Controlled Persons and Controlled Company in aggregate own any interest no exceeding five per cent of the issued shares in any company conducting any Restricted Business (the "**Relevant Company**"), and the Relevant Company is listed in any recognized exchange (as defined under the SFO), notwithstanding that the business conducted by the Relevant Company constitutes or might constitute competition with the business of our Company or any of our subsidiaries, provided that (i) there shall have at least one shareholder (individually or with his/her/its close associate, if applicable) whose shareholding interest in the Relevant Company is higher than that of the Controlled Persons and the Controlled Company (individually or with his/her/its close associates, if applicable) in aggregate at any time; and (ii) the total number of the relevant Covenantors' representatives on the board of directors of the Relevant Company is not significantly disproportionate with respect to his/her/its shareholding in the Relevant Company and neither the Covenantor nor his/its close associates participate in the management of such company.

(ii) New business opportunity

If any Covenantor and/or any Controlled Company is offered or becomes aware of any business opportunity directly or indirectly to engage in or own a Restricted Business (the "**New Business Opportunity**"):

(a) he/she/it shall within 10 days notify our Company of such New Business Opportunity in writing and refer the same to our Company for consideration, and shall provide the relevant information to our Company in order to enable us to make an informed assessment of such opportunity; and

(b) he/she/it shall not, and shall procure that his/her/its Controlled Persons or Controlled Companies not to, invest or participate in any project and New Business Opportunity, unless such project and New Business Opportunity shall have been rejected by our Company and the principal terms of which the Covenantor or his/her/its Controlled Persons or Controlled Companies invest or participate in are no more favourable than those made available to our Company.

A Covenantor may only engage in the New Business Opportunity if (i) a notice is received by the Covenantor from our Company confirming that the New Business Opportunity is not accepted and/or does not constitute competition with the Restricted Business (the "**Non-acceptable Notice**"); or (ii) the Non-acceptance Notice is not received by the Covenantor within 30 days after the proposal of the New Business Opportunity is received by our Company.

Any Director who has an actual or potential material interest in the New Business Opportunity shall abstain from attending (unless their attendance is specifically requested by the remaining non-interested Director) and voting at, and shall not count towards the quorum for, any meeting or part of a meeting convened to consider such New Business Opportunity.

Our Board (including our INEDs) will be responsible for reviewing and considering whether or not to take up a New Business Opportunity referred by a Covenantor or Controlled Company or whether or not the New Business Opportunity constitutes competition with the Restricted Business and such decisions will be made by our Board (including our INEDs). The factors that will be taken into consideration by our Board in making the decision include whether it is in line with the overall interests of our Shareholders.

In order to ensure the performance the above non-competition undertakings, the Covenantors will:

(i) In case of any actual or potential conflict of interest, abstain from attending and voting at any meeting or part of any meeting convened to consider any New Business Opportunity (unless their attendance is specifically requested by the non-interested Directors), and shall not be counted towards the quorum for such meeting;

(ii) as required by our Company, provide all information necessary for our INEDs for conducting annual examination with regard to the compliance of the terms of the Deed of Non-Competition and the enforcement of it;

(iii) procure our Company to disclose to the public either in the annual report of the Company or issue a public announcement in relation to any decisions made by our INEDs with regard to the compliance of the terms of the Deed of Non-Competition and the enforcement of it and, where applicable, the reason(s) why any New Business Opportunity referred to the Company by the Controlling Shareholders was not taken up;

(iv) make a declaration in relation to the compliance of the terms of the Deed of Non-Competition in the annual report of our Company, and ensure that the disclosure of information relating to compliance with the terms of the Deed of Non-Competition and the enforcement of it are in accordance with the Listing Rules; and

(v) that during the period when the Deed of Non-Competition is in force, fully and effectually indemnify the Company against any losses, liabilities, damages, costs, fees and expenses as a result of any breach on the part of such Covenantor of any statement, warrant or undertaking made under this Deed of Non-Competition.

The Deed of Non-Competition and the rights and obligations thereunder are conditional upon (i) the Stock Exchange granting the listing of, and the permission to deal in, the Shares, as described in this Prospectus, and (ii) the Listing and dealings in the Shares on Main Board taking place.

The Covenantors have given non-competition undertakings and in favour of our Company, and none of them have interests in other businesses that compete and are likely to compete with the business of our Group.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following enhanced corporate governance measures to avoid potential conflict of interests and safeguard the interests of our Shareholders as a whole:

(i) our Directors will comply with our Articles of Association, which require the interested Director not to vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he/she or any of his/her respective close associates is materially interested;

(ii) our Director will ensure that any material conflict or potential conflict of interests involving the Controlling Shareholders, our Directors and their respective close associates will be reported to our INEDs as soon as practicable when such conflict or potential conflict is discovered and a Board meeting will be held to review and evaluate the implications and risk exposure of such event and will monitor any material irregular business activities;

(iii) in respective of the business opportunity involving any material potential conflict of interests with the Controlling Shareholders, our Directors or their respective close associates, our INEDs will review all information and documents in respect of the same;

(iv) we will establish compliance department to identify any material conflict or potential conflict of interests involving the Controlling Shareholders, our Directors or their respective close associates and conduct a review on the effectiveness of such internal control measures on an half-yearly basis to ensure due compliance with the Deed of Non-competition and execution of our conflict check mechanism;

(v) our INEDs will review, on an annual basis, the compliance with the Deed of Non-competition in accordance with the Listing Rules;

(vi) our Company will disclose decisions on matters reviewed by our INEDs relating to compliance with and enforcement of the Deed of Non-competition in the annual reports or our Company or by way of announcement;

(vii) all connected transactions between our Company and our connected persons will be subject to annual review by our INEDs as well as the auditors of our Company;

(viii) our Company has appointed a compliance advisor, which will provide advice and guidance to our Group in respect of compliance with the applicable laws and Listing Rules including various requirements relating to Directors' duties and internal control; and

(ix) pursuant to the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules (the "**CG Code**"), our Directors, including the INEDs, will be entitled to seek independent professional advice from external parties in appropriate circumstances at the costs of our Company.

Our Company will comply with the CG Code which sets out principles of good corporate governance in relation to, among others, Directors, the chairman and chief executive officer, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communications with our Shareholders. Our Company will state in its interim and annual reports whether we have complied with the CG Code, and will provide details of, and reasons for, any deviation from it in the corporate governance report which will be included in our annual report.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Share Offer (but without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option), the following persons will have interests or short positions in the Shares or the 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 will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group:

Shareholder	Nature of interest	Number of Shares	Approximate percentage of Shareholding (%)
Ambon	Beneficial owner *(Note 1)*	207,444,000 (L) *(Note 2)*	41.49%
Mr. Wang Jiaan (王家安)	Interest in a controlled corporation *(Note 1)*	207,444,000 (L) *(Note 2)*	41.49%
PF International	Beneficial owner *(Note 3)*	121,946,000 (L) *(Note 2)*	24.39%
PF Global	Beneficial owner *(Note 4)*	45,610,000 (L) *(Note 2)*	9.12%

Notes:

1. Ambon is wholly-owned by Mr. Wang Jiaan (王家安). By virtue of the SFO, Mr. Wang Jiaan (王家安) is deemed to be interested in the Shares held by Ambon.

2. The letter "L" denotes the entity/person's long position in the Shares.

3. PF International is an investment holding company incorporated in the BVI and is held as to approximately 26.51% by Zhou Yinbiao (周銀標), 18.55% by Yu Yangui (于延桂), 16.76% by Dai Xianru (戴賢如), 13.70% by Wang Yun (王雲), 9.76% by Ben Daolin (賁道林), 8.26% by Chen Lidong (陳黎東) and 6.46% by Ben Daochun (賁道春).

4. PF Global is an investment holding company incorporated in the BVI and is held as to approximately 19.2% by Ben Xudong (賁旭東), 32.64% by Chen Yulou (陳玉樓), 21.6% by Cai Tongfu (蔡同富), 1.92% by Liu Chengguan (劉成官), 1.92% by Qian Jiayin (錢加銀), 1.28% by Zhang Doufa (張鬥發), 1.28% by Ding Jialin (丁佳林), 0.64% by Wang Shiqin (王世芹), 0.64% by Ding Qinghai (丁慶海), 0.64% by Cui Hengfu (崔恒富), 0.64% by Jiao Yuanjin (焦遠進), 0.64% by Wang Xiaobo (王小波), 0.64% by Yu Zhongwen (于中文), 0.64% by Lin Xianyue (林先月), 0.64% by Yuan Xiaofei (袁小飛), 1.12% by Zhou Bugao (周步高), 1.12% by Shen Jixiang (沈吉祥), 0.64% by Zhou Yue (周悅), 0.64% by Zhou Kewen (周克穩), 0.64% by Zhou Jin (周錦), 0.48% by Wang Huajun (王華俊), 0.48% by Zhang Gui (張貴), 0.48% by Liu Yaqin (劉亞芹), 0.48% by Ben Zhonglin (賁忠林), 0.64% by Wang Jin (王進), 0.64% by Jiang Xiaoming (蔣曉明), 0.64% by Wu Yijun (吳義軍), 0.48% by Pei Haiqing (裴海青), 0.48% by Cui Xinxin (崔欣欣) (which was inherited from Cui Yegui (崔業貴) on 1 July 2018), 0.48% by Zhou Jianyi (周建益) and 5.6% by Pei Qirong (裘其榮).

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Capitalisation Issue and the Share Offer (but without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option), have interests or short positions in our 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 who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

As part of the International Offering, we have entered into cornerstone investment agreements (each the "**Cornerstone Investment Agreement**" or together, the "**Cornerstone Investment Agreements**") with each of China High Speed Transmission Equipment Group Co., Ltd. ("**CHS**"), Jiangsu Suzhong Construction Group Co., Ltd. ("**Suzhong Construction**") and Peak Holding (together the "**Cornerstone Investors**" and each a "**Cornerstone Investor**"), pursuant to which each of the Cornerstone Investor has agreed to subscribe for such number of our Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) which may be purchased with an investment amount equivalent of HK$30.0 million, HK$23.4 million[(1)] and HK$29.0 million, respectively (excluding any brokerage, SFC transaction levy, and Stock Exchange trading fee which the Cornerstone Investors shall pay in respect of the International Offer Shares to be subscribed by them) (the "**Cornerstone Placing**").

NUMBER OF INTERNATIONAL OFFER SHARES TO BE SUBSCRIBED BY THE CORNERSTONE INVESTORS

Based on the Offer Price of HK$1.05, HK$1.315, and HK$1.58 (being the low-end, mid-point, and high-end of the indicative range of the Offer Price, respectively), the aggregate number of International Offer Shares agreed to be subscribed for by the Cornerstone Investors would be 78,472,000 Offer Shares, 62,658,000 Offer Shares, and 52,150,000 Offer Shares, respectively, representing (a) 62.8%, 50.1%, and 41.7% of the initial number of our Offer Shares or (b) 15.7%, 12.5%, and 10.4% of the enlarged number of Shares in issue following completion of the Share Offer and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised).

The tables below sets forth a summary of further information on the investment made by the Cornerstone Investors and the number of International Offer Shares that would be subscribed by them:

		Assuming that the Offer Price of HK$1.05 (being the low-end of the indicative range of the Offer Price)			
Name of the Cornerstone Investor	**Amount of investment**	**Number of Shares agreed to be subscribed for[(2)]**	**Percentage to the initial number of International Offer Shares[(3)]**	**Percentage to the initial number of Offer Shares[(3)]**	**Percentage to the enlarged number of Shares in issue immediately upon completion of the Share Offer and the Capitalisation Issue[(3)]**
	(HK$ million)		**(%)**	**(%)**	**(%)**
CHS	30.0	28,570,000	25.4	22.9	5.7
Suzhong Construction[(4)]	23.4[(1)]	22,284,000	19.8	17.8	4.5
Peak Holding	29.0	27,618,000	24.5	22.1	5.5
	82.4	78,472,000	69.8	62.8	15.7

(1) Calculated based on an investment amount of RMB20.0 million converted at an exchange rate of RMB1.00: HK$1.17 as described in "Information about this Prospectus and the Share Offer — Exchange rate conversion" in this prospectus. The actual investment amount in Hong Kong dollars, the number of Shares agreed to be subscribed for, percentage to the initial number of International Offer Shares, percentage to the initial number of Offer Shares and percentage to the enlarged number of Shares in issue immediately upon completion of the Share Offer and the Capitalisation Issue of the relevant Cornerstone Investors may change due to the actual exchange rate be used as prescribed in the relevant Cornerstone Investment Agreement.

Name of the Cornerstone Investor	Amount of investment	Assuming that the Offer Price of HK$1.315 (being the mid-point of the indicative range of the Offer Price) Number of Shares agreed to be subscribed for(2)	Percentage to the initial number of International Offer Shares(3)	Percentage to the initial number of Offer Shares(3)	Percentage to the enlarged number of Shares in issue immediately upon completion of the Share Offer and the Capitalisation Issue(3)
	(HK$ million)		(%)	(%)	(%)
CHS	30.0	22,812,000	20.3	18.2	4.6
Suzhong Construction(4)	23.4(1)	17,794,000	15.8	14.2	3.6
Peak Holding	29.0	22,052,000	19.6	17.6	4.4
	82.4	62,658,000	55.7	50.1	12.5

Name of the Cornerstone Investor	Amount of investment	Assuming that the Offer Price of HK$1.58 (being the high-end of the indicative range of the Offer Price) Number of Shares agreed to be subscribed for(2)	Percentage to the initial number of International Offer Shares(3)	Percentage to the initial number of Offer Shares(3)	Percentage to the enlarged number of Shares in issue immediately upon completion of the Share Offer and the Capitalisation Issue(3)
	(HK$ million)		(%)	(%)	(%)
CHS	30.0	18,986,000	16.9	15.2	3.8
Suzhong Construction(4)	23.4(1)	14,810,000	13.2	11.8	3.0
Peak Holding	29.0	18,354,000	16.3	14.7	3.7
	82.4	52,150,000	46.4	41.7	10.4

Notes:

(1) Calculated based on an investment amount of RMB20.0 million converted at an exchange rate of RMB1.00: HK$1.17 as described in "Information about this Prospectus and the Share Offer — Exchange rate conversion" in this prospectus. The actual investment amount in Hong Kong dollars, the number of Shares agreed to be subscribed for, percentage to the initial number of International Offer Shares, percentage to the initial number of Offer Shares and percentage to the enlarged number of Shares in issue immediately upon completion of the Share Offer and the Capitalisation Issue of the relevant Cornerstone Investors may change due to the actual exchange rate be used as prescribed in the relevant Cornerstone Investment Agreement.

(2) According to the Cornerstone Investment Agreements, the number of Shares agreed to be subscribed for shall be rounded down to the nearest whole board lot of 2,000 Shares.

(3) The percentages are based on such number of Shares without taking into consideration Shares that may be issued pursuant to the exercise of the Over-allotment Option.

(4) Suzhong Construction agrees and undertakes that the subscription of the Offer Shares will be conducted through a qualified domestic institutional investor (the "**QDII**") and that it will procure the due and punctual performance and observance by the QDII of all of the obligations, undertakings, representations, warranties, indemnities and liabilities of Suzhong Construction arising out of, under or in connection with the relevant Cornerstone Investment Agreement.

The actual number of our International Offer Shares to be allocated to each of the Cornerstone Investor may be affected by clawback of Offer Shares to the Hong Kong Public Offering from the International Offering in the event of over-subscription under the Hong Kong Public Offering, further information on which is set forth in "Structure and Conditions of the Share Offer — Hong Kong Public Offering — Reallocation and clawback" in this prospectus, and will be disclosed in our announcement of the results of allocations of our Offer Shares on Thursday, 14 November 2019, and subject to adjustments which may be required so that the three largest public Shareholders will not beneficially own more than 50% of the Shares in public hands at the time of Listing in compliance with Rule 8.08(3) of the Listing Rules.

Pursuant to Rule 8.08(3) of the Listing Rules, no more than 50% of the Shares in public hands on the Listing Date can be beneficially owned by the three largest public shareholders of the Shares. In the event that the Offer Price is set at the low-end or mid-point of the indicative Offer Price Range set out in this prospectus, to satisfy the requirement under Rule 8.08(3) of the Listing Rules, pursuant to the Cornerstone Investment Agreements, the Sole Global Coordinator and the Company have the right to adjust the allocation of the number of Shares to be purchased by the Cornerstone Investors in order to comply with such requirement, subject to compliance with the Stock Exchange's Guidance Letter HKEX-GL51-13 in relation to the allocation of Shares to Essence Securities QDII.

Pursuant to the terms of the Cornerstone Investment Agreements entered into with each Cornerstone Investor, payment shall be settled by the relevant Cornerstone Investors on the business day before the Listing Date and the relevant Offer Shares shall be delivered on the Listing Date or in any manner as may be agreed by the parties to the relevant Cornerstone Investment Agreement. The latest time for delivery will be three business days from the expiry date of the Over-Allotment Option.

To the best knowledge of our Company, each of the Cornerstone Investors and their respective ultimate beneficial owners is an Independent Third Party and is not (a) our existing Shareholders and (b) a close associate of any of our existing Shareholders. Each of the Cornerstone Investors is also independent of our connected persons and their respective close associates and independent from each other and makes its own investment decisions independently. In addition, the Company confirms that (i) there is no side agreement or arrangement between the Group and each of the Cornerstone Investors entered into between the Group and each of the Cornerstone Investors for the purpose of the Cornerstone Placing; (ii) none of the Cornerstone Investors are accustomed to take instructions from the Company, the Directors, chief executive of the Company, the Controlling Shareholders, substantial Shareholders or existing Shareholders or any of its subsidiaries or their respective close associates; and (iii) none of the subscription of the Offer Shares by the Cornerstone Investors are financed by the Company, the Directors, chief executive of the Company, Controlling Shareholders, substantial Shareholders or existing Shareholders or any of its subsidiaries or their respective close associates.

The investments made by the Cornerstone Investors pursuant to their respective Cornerstone Investment Agreements will form part of the International Offering. The International Offer Shares to be subscribed for by the Cornerstone Investor (a) will rank *pari passu* in all respects with the other fully paid Shares in issue upon completion of the Share Offer and the Capitalisation issue and (b) will be counted towards the public float of our Company.

None of the Cornerstone Investor will subscribe for any Offer Shares under the Share Offer other than pursuant to their respective Cornerstone Investment Agreements. Immediately following completion of the Share Offer and the Capitalisation Issue, none of the Cornerstone Investors will have any representation on the Board, nor will any of the Cornerstone Investor become a substantial shareholder (as defined under the Listing Rules) of our Company. No special rights have been granted to the Cornerstone Investors pursuant to the investment made by the Cornerstone Investors.

INFORMATION ON THE CORNERSTONE INVESTOR

We set forth below a brief description of each of the Cornerstone Investors, which has been provided by the respective Cornerstone Investors:

CHS

CHS (stock code: 658) is a company incorporated in the Cayman Islands with limited liability and listed on main board of the Stock Exchange. CHS and its subsidiaries are principally engaged in research, design, development, manufacture and distribution of various types of mechanical transmission equipment for a broad range of applications in wind power generation and industrial use. The intermediate holding company of CHS is Fullshare Holdings Limited (stock code: 607), a company listed on the main board of the Stock Exchange, which principally engaged in property, building, investment and healthcare businesses.

南京高精傳動設備製造集團有限公司 (Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd.*), an indirect wholly-owned subsidiary of CHS, is one of our major suppliers during the years ended 31 December 2016 and 2017 and the four months ended 30 April 2019.

CHS, through its indirectly wholly owned subsidiaries, has a long term business relationship with our Group and is confident in the future growth and business prospects of our Group. CHS also believes that its participation in the Cornerstone Placing will create synergy in business with our Group in the future. The consideration for its Cornerstone Placing is expected to be funded with the internal resources of CHS.

CHS has confirmed that it is not required to obtain its shareholders' approval nor any approval from the Stock Exchange to invest in the Company.

Suzhong Construction

Suzhong Construction is a stock limited company established in the PRC. Its principal business include, among others, industrial and civil projects construction, survey, design, equipment installation, interior and exterior decoration, undertaking municipal construction projects and other overseas and domestic construction project, overseas projects and domestic international bidding projects. It is one of the leading construction services providers in Jiangsu Province, the PRC and ranked 323th among the 2019 Top 500 Chinese Enterprises (2019年度中國企業500強) and ranked 130th among the China Top 500 Private Enterprises (中國民營企業500強). Suzhong Construction has more than 100 shareholders and two of which holds more than 10% and the largest shareholder holds approximately 13.12% of its shareholding.

Suzhong Construction has provided civil construction services to us and is one of our major suppliers during the year ended 31 December 2018 and the four months ended 30 April 2019.

Through business cooperation with us, Suzhong Construction is confident in the future growth and business prospects of our Group and decides to participate in the Cornerstone Placing. The consideration for its Cornerstone Placing is expected to be funded with the internal resources of Suzhong Construction.

Peak Holding

Peak Holding is a company incorporated in the BVI with limited liability and primarily engaged in the equity and debt investment business. Peak Holding is ultimately and beneficially owned as to 27.27% by Wu Qianying (吳倩穎), 21.44% by Gu Guomin (顧國民), 18.18% by Xi Xiaoming (席曉鳴), 13.64% by Wang Bin (王彬), 12.86% by Ma Jianbo (馬劍波), 4.55% by Cao Lei (曹磊) and 2.06% by Dong Hao (董浩), all being Independent Third Parties. Mr. Gu Guomin ("**Mr. Gu**"), a shareholder of Peak Holding, is an individual investor with investment experience in, among others, the automotive, rail transit and building materials industries.

Peak Holding is a creditor to our Group and as at the Latest Practicable Date, an outstanding amount of US$1,607,750 (inclusive of principal and interests incurred) was due to Peak Holding by our Company. For further information, please refer to paragraph headed "Reorganisation — 8. Loan from Peak Holding to our Company and full payment of share capital of our Company" in the section headed "History, development and Reorganisation" in this prospectus.

Peak Holding was introduced to our Group by PRC local government in 2012 and based on its understanding of our Group's financial performance and growth in the past, Peak Holding is optimistic in the long term development of our Group as well as the future investment gains therefore decides to participate in the Cornerstone Placing. The consideration for its Cornerstone Placing is expected to be funded with the internal resources of Peak Holding.

CONSENT FOR ALLOCATION OF OFFER SHARES TO A CONNECT CLIENT OF ESSENCE INTERNATIONAL SECURITIES (HONG KONG) LIMITED

In connection with the cornerstone investment by Suzhong Construction, Suzhong Construction has engaged Essence Securities Co., Ltd. ("**Essence Securities**"), a qualified domestic institutional investor as approved by the relevant PRC authority (the "**Essence Securities QDII**"), to subscribe for and hold its Shares on a discretionary basis on behalf of Suzhong Construction. As (i) Essence Securities QDII is managed by Essence Securities and (ii) Essence International Securities (Hong Kong) Limited ("**EIS**"), one of the Joint Bookrunners and Underwriters, is an indirect wholly-owned subsidiary of Essence Securities, Essence Securities QDII is a "connected client" of EIS under paragraph 13(7) of Appendix 6 to the Listing Rules. Accordingly, the participation of Suzhong Construction as a cornerstone investor through the Essence Securities QDII is subject to the consent under paragraph 13(7) of Appendix 6 to the Listing Rules from the Hong Kong Stock Exchange.

The Company confirmed that (i) the cornerstone investment agreement entered into with Suzhong Construction does not contain any material terms which are more favourable to Suzhong Construction or the Essence Securities QDII than those in other cornerstone investment agreements; and (ii) Suzhong Construction is an Independent Third Party.

In addition, other than the preferential treatment of assured entitlement under such cornerstone investment agreement, (a) each of the Company and EIS, and to the best knowledge and belief, the other Joint Bookrunner (other than EIS), namely, Solomon JFZ (Asia) Holdings Limited (one of the Joint Bookrunners and Underwriters), confirmed that (i) EIS has not participated, and will not participate, in the decision-making process or relevant discussions among the Company, Solomon JFZ (Asia) Holdings Limited (one of the Joint Bookrunners and Underwriters) and the other Underwriters as to whether the Suzhong Construction will be selected as a cornerstone investor; and (ii) no preferential treatment has been, nor will be, given to the Essence Securities QDII by virtue of its relationship with EIS as one of the Joint Bookrunners and Underwriters other than the preferential treatment of assured entitlement under such cornerstone investment agreement following the principles set out in the Guidance Letter HKEX-GL53-13; (b) the Essence Securities QDII confirmed that to the best of its knowledge and belief, it has not received and will not receive preferential treatment in the allocation of the Offer Shares under the Share Offer on behalf of Suzhong Construction as a cornerstone investor by virtue of its relationship with EIS, other than the preferential treatment of assured entitlement under the Cornerstone Investment Agreement entered into with Suzhong Construction following the principles set out in the Stock Exchange's Guidance Letter HKEX-GL51-13; and (c) the Sole Sponsor confirmed that, based on its discussion with the Company, EIS, and the other Joint Bookrunner, the confirmations (a) and (b) above and to the best of its knowledge and belief, they have no reason to believe that the Essence Securities QDII has received any preferential treatment in the allocation of the Offer Shares under the Share Offer as a cornerstone investor on behalf of Suzhong Construction by virtue of its relationship with EIS other than the preferential treatment of assured entitlement under the Cornerstone Investment Agreement entered into with Suzhong Construction following the principles set out in the Stock Exchange's Guidance Letter HKEX-GL51-13.

An application has been made to the Stock Exchange, and the Stock Exchange has granted us, a consent under paragraph 5(1) of Appendix 6 of the Listing Rules to allow the Offer Shares to be allocated to the Essence Securities QDII (to be held on behalf of Suzhong Construction) as a "connected client" of EIS.

CONDITIONS PRECEDENT

The obligations of the Cornerstone Investors to subscribe for our International Offer Shares under the Cornerstone Investment Agreements are subject to, among other things, the following conditions precedent:

(a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified therein (or any other later time and date as may be agreed between the Company and the Sole Global Coordinator), and neither of these agreements having been terminated;

(b) the Offer Price having been agreed upon between the Company and the Sole Global Coordinator (on behalf of the Underwriters);

(c) the Listing Committee having granted or agreeing to grant the listing of, and permission to deal in, our Shares and such approval or permission having not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;

(d) no Laws (as defined therein) shall have been enacted or promulgated by any Governmental Authority (as defined therein) which prohibits the consummation the closing of the transactions contemplated in the Cornerstone Investment Agreements and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation the closing of such transactions; and

(e) the representations, warranties, undertakings, and confirmations of the Cornerstone Investors are accurate and true in all material respects and not misleading and that there is no material breach of the Cornerstone Investment Agreements on the part of the Cornerstone Investors.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Pursuant to the Cornerstone Investment Agreements, each of the Cornerstone Investors has agreed and undertaken that, without the prior written consent of our Company and the Sole Global Coordinator, it will not, whether directly or indirectly, at any time during the period of six months from and inclusive of the Listing Date (the "**Lock-up Period**") (i) dispose of, in any way, any Shares to be subscribed by it pursuant to the relevant Cornerstone Investment Agreement ("**Relevant Shares**") or other securities of our Company which are derived from the Relevant Shares (pursuant to any rights issue, Capitalisation Issue or other form of capital reorganisation) (the "**Relevant Shares**") or any interest in any company or entity holding any Relevant Shares; (ii) allow itself to undergo a change of control (as defined in the Takeovers Code) at the level of its ultimate beneficial owner (except for under such circumstances as outside the control or reasonable anticipation of the relevant Cornerstone Investor); or (iii) enter into any transactions directly or indirectly with the same economic effect as any above transaction.

Notwithstanding the above, each of the Cornerstone Investors may transfer all or part of the Relevant Shares to their respective wholly-owned subsidiaries, provided that the transferee will undertake that it will abide by the obligations of the relevant Cornerstone Investor under the relevant Cornerstone Investment Agreement.

AUTHORISED AND ISSUED SHARE CAPITAL

The authorised and issued share capital of our Company is as follows:

Authorised share capital:

As at the date of this prospectus:

10,000,000,000	Shares of HK$0.01 each	HK$100,000,000

Assuming the Over-allotment Option is not exercised, the issued share capital of our Company immediately following the Share Offer will be as follows:

Issued and to be issued, fully paid or credited as fully paid, upon completion of the Share Offer and the Capitalisation Issue:

		HK$
51,385,900	Shares in issue immediately prior to the Capitalisation Issue	513,859
323,614,100	Shares to be issued under the Capitalisation Issue	3,236,141
125,000,000	Shares to be issued under the Share Offer	1,250,000
500,000,000	Shares in total	5,000,000

Assuming the Over-allotment Option is exercised in full, the issued share capital of our Company immediately following the Share Offer will be as follows:

Issued and to be issued, fully paid or credited as fully paid, upon completion of the Share Offer and the Capitalisation Issue:

		HK$
51,385,900	Shares in issue immediately prior to the Capitalisation Issue	513,859
323,614,100	Shares to be issued under the Capitalisation Issue	3,236,141
143,750,000	Shares to be issued under the Share Offer and the Over-allotment Option	1,437,500
518,750,000	Shares in total	5,187,500

ASSUMPTIONS

The above table assumes that the Share Offer and the Capitalisation Issue become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account any Shares which may be allotted and issued or repurchased by our Company pursuant to the General Mandate and the Repurchase Mandate.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1)(a) of the Listing Rules, at all times after Listing, our Company must maintain the minimum prescribed percentage of 25.0% (or such applicable percentage as prescribed by the Stock Exchange) of the issued share capital of our Company in the hands of the public (as defined in the Listing Rules). Our Company has a minimum public float at the time of Listing.

RANKING

The Offer Shares will rank equally with all our Shares in issue or to be issued and will qualify for all dividends, income and other distributions and any other rights and benefits attaching or accruing to our Shares.

GENERAL MANDATE

Assuming the Share Offer becomes unconditional, our Directors have been granted a general mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

(a) 20.0% of the total nominal amount of our share capital in issue immediately following the completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option); and

(b) the total amount of our share capital repurchased by us (if any) pursuant to the Repurchase Mandate.

The General Mandate is in addition to the powers of our Directors to allot, issue or deal with Shares under any rights issue, scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend in accordance with the Articles of Association, or pursuant to the exercise of any subscription rights attached to any warrants which may be issued by us from time to time, or upon the exercise of the Over-allotment Option. The General Mandate does not include any Shares to be issued pursuant to the exercise of the Over-allotment Option.

The General Mandate will expire at the earliest of:

(a) at the end of our next annual general meeting;

(b) at the end of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or

(c) when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Please refer to "A. Further Information about our Company — 4. Resolutions in writing passed by our Shareholders passed on 25 October 2019" in Appendix V to this prospectus for further details.

REPURCHASE MANDATE

Our Directors have been granted a general mandate to exercise all our powers to repurchase Shares with a total nominal value of not more than 10.0% of the aggregate nominal value of our share capital in issue immediately following the completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

The Repurchase Mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "A. Further Information about our Company — 6. Repurchase of Shares by our Company" in Appendix V to this prospectus.

The Repurchase Mandate will expire at the earliest of:

(d) at the end of our next annual general meeting;

(e) at the end of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or

(f) when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Please refer to "A. Further Information about or Company — 4. Resolutions in writing passed by our Shareholders passed on 25 October 2019" in Appendix V to this prospectus for further details.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Our Company has only one class of shares, namely ordinary shares, each of which ranks pari passu with the other shares.

Pursuant to the Cayman Companies Law and the terms of the Articles of Association, our Company may from time to time by ordinary shareholders' resolution (i) increase its share capital; (ii) consolidate and divide its share capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may, subject to sanction by the courts in the Cayman Islands, reduce its share capital by shareholders' special resolution. Please refer to "Summary of the Constitution of our Company and Cayman Islands Company Law" in Appendix IV to this prospectus for further details.

Pursuant to the Cayman Companies Law and the terms of the Articles of Association, all or any of the special rights attached to the Share or any class of Share may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. Please refer to "Summary of the Constitution of our Company and Cayman Islands Company Law" in Appendix IV to this prospectus for further details.

The following discussion and analysis should be read in conjunction with our audited consolidated financial information for the Track Record Period and the accompanying notes ("Financial Information"), included in the Accountants' Report in Appendix I to this prospectus. Our Financial Information and consolidated financial statements have been prepared in accordance with IFRS, which may differ in certain respects from generally accepted accounting principles in other countries. Potential investors should also read the entire Accountants' Report in Appendix I to this prospectus and should not rely merely on the information contained in this section.

The discussion and analysis in this section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected. Factors that might cause our future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this prospectus, particularly in "Risk factors" of this prospectus.

Discrepancies between totals and sums of amounts set out in any table within this section or elsewhere in this prospectus are due to rounding of the relevant totals and/or sums of amounts.

OVERVIEW

We are a leading manufacturer of rotary kiln, grinding equipment and their related equipment in the PRC and the global market and have been in the industry for over 20 years. According to the F&S Report, in 2018, we were the largest supplier of rotary kilns and their related equipment in the PRC and the global market in terms of revenue with a market share of 22.0% and 13.3%, respectively and we were the second largest supplier of grinding equipment and their related equipment in the PRC and the global market in terms of revenue with a market share of 13.1% and 7.9%, respectively.

We engage in equipment manufacturing and installation, and construction of production lines business which are divided into three business lines, namely (i) manufacturing of equipment, in which we engage in the design, manufacturing and sales of equipment including related parts and components for various industries including building materials, metallurgy, chemical and environmental protection industries; (ii) installation services, in which we mainly provide installation services to our customers under our manufacturing of equipment business as this is part and parcel of our manufacturing of equipment business; and (iii) construction of production line, in which we act as EPC service provider providing bespoke one-stop solutions in respect of design, procurement, construction and/or trial operations of production lines.

Our revenue increased by 21.8% from approximately RMB776.7 million for the year ended 31 December 2016 to approximately RMB946.1 million for the year ended 31 December 2017 and further increased by 7.4% to approximately RMB1,016.2 million for the year ended 31 December 2018. Our revenue increased by 63.2% from approximately RMB245.1 million for the four months ended 30 April 2018 to approximately RMB399.9 million for the four months ended 30 April 2019.

Our profit and total comprehensive income for the year increased significantly by 71.7% from approximately RMB33.6 million for the year ended 31 December 2016 to approximately RMB57.7 million for the year ended 31 December 2017 and increased by 27.0% to approximately RMB73.3 million for the year ended 31 December 2018. Our profit and total comprehensive income increased by 143.7% from approximately RMB5.6 million for the four months ended 30 April 2018 to approximately RMB13.8 million for the four months ended 30 April 2019.

BASIS OF PRESENTATION

Our financial information is presented in RMB, the functional currency of companies comprising our Group and was prepared and presented in accordance with IFRS.

Pursuant to the Reorganisation which was completed on 8 September 2018, our Company became the holding company of the companies now comprising our Group. Please refer to the section headed "History, development and reorganisation — Reorganisation" in this prospectus for further details on the Reorganisation.

Our consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period, as set out in the Accountants' Report in Appendix I to this prospectus, include the results, changes in equity and cash flows of companies comprising our Group as if our Group structure upon completion of the Reorganisation had been in existence throughout the Track Record Period, or since their date of incorporation or acquisition, where there is a shorter period. The consolidated statements of financial position of our Group as at 31 December 2016 and 2017, as set out in the Accountants' Report in Appendix I to this prospectus, have been prepared to present the assets and liabilities of the companies now comprising our Group as if our Group structure upon completion of the Reorganisation had been in existence as at those dates taking into account the respective dates of incorporation or acquisition, where applicable.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our financial condition, results of operations and the period to period fluctuations of our financial results are mainly affected by the following factors:

Pricing of our product and product mix

Our product pricing strategy and product mix have historically affected and are expected to continue to affect our financial performance in the future. Our main sources of revenue during the Track Record Period included, and is expected to include in the future: (a) design, manufacturing and sales of equipment; (b) provision of installation services; and (c) provision of construction services for production lines. We normally set the prices for our products and/or our services on a cost-plus basis and take into account a variety of factors, including cost of raw materials, productions costs, processing complexity, customers' specification on raw materials and parts and components, scale of production line (in the case of our construction of production line business) and sub-contracting fees, costs and payment schedule. We determine the price of each order or contract value of each contract on a standalone basis, all of which are negotiated on an individual basis with each customer. Our Group's sales are mainly settled in US dollars and Renminbi. Generally any increase in the price of raw materials and any appreciation or depreciation in Renminbi are factored into the pricing consideration for the orders. Please also refer to "Financial information — Discussion of selected items in consolidated statements of profit or loss and other comprehensive income — Cost of sales and services — Sensitivity analysis" in this prospectus for further details on the sensitivity analysis of the cost of raw materials of our products and services.

Cost of our main raw material

The main raw material required for the manufacture of rotary kiln systems, grinding equipment systems, their related equipment and parts and components and the construction of production lines are steel materials including steel plates, castings and forgings. During the Track Record Period, the majority of our raw materials are made of steel. We generally purchase steel materials from our suppliers in the PRC. Steel prices can be affected by various factors, such as market supply and demand levels, fluctuations of commodity prices and our bargaining power over our steel materials suppliers. Steel as one of the major raw materials, the average annual price of steel in China has experienced an enormous fluctuation in the past five years. Other raw materials contain reducers, motors and bearings etc. Since the selling prices of our products and services are determined on a cost-plus basis, fluctuations in the purchase prices of steel materials and other raw materials will have an significant impact on our revenue levels. If there is a substantial increase in the purchase prices of steel materials and other raw materials and we are unable to pass on all or part of the increase in cost of steel materials and other raw materials to our customers, our profitability and financial performance may be materially and adversely affected. Please refer to "Financial information — Discussion of selected items in consolidated statements of profit or loss and other comprehensive income — Cost of sales and services — Sensitivity analysis" in this prospectus for further details on the sensitivity analysis of the cost of raw materials of our products and services.

Timing of receipt of payments for our production line projects

During the Track Record Period, approximately 21.9%, 29.1%, 21.0% and 27.4% of our revenue was derived from our production line projects under our construction of production line business. We typically receive a certain percentage of the contract value for our production line projects upon achievement of key milestones as stipulated in the contract. The typical payment stages for our production line projects include: (a) an advance payment of 30% of the total contract value which is payable within a certain period after signing of the contract; and (b) generally an amount of not less than 80% of the contract value corresponding to the relevant batch of products that we deliver will be paid before delivery of products and each installment will be paid subject to the project progress, delivery progress, commissioning of the production line and/or issuance of final acceptance certificate. As our production line projects generally require approximately 12 to 40 months to be fully completed, the number of production line projects and progress of each contract we undertake in any period may affect our results of operations and lead to fluctuations in revenue recognised from period to period. In addition, customers of our production line projects, if full payment has not been received by us, generally retain approximately 5% to 10% of the contract value as retention money which will be paid to us after acceptance of the production line and until the expiry of the warranty period or if a bank guarantee equivalent to the amount of retention money is provided by us instead, which is usually the case for our overseas customers where full payment is received by us, such bank guarantee will be released. The length of our typical warranty period is 12 months after the operation of production line and the issuance of the final acceptance certificate.

Policy initiatives of the PRC government

The PRC government's implementation of the "Go Global" strategy represented by the "Belt and Road" Initiative are policy initiatives that will have a relatively significant impact on the way we operate our business and market our products and services, given that we offer our products and services to customers in several "Belt and Road" jurisdictions. Our Group had business transactions with more than 50 customers based in "Belt and Road" countries and generated approximately 60.6%, 73.8%, 88.0% and 93.2% of our revenue from our customers outside mainland China located in various countries and regions, including "Belt and Road" countries such as Bangladesh, Kazakhstan, Turkey and Uzbekistan during the Track Record Period. We intend to expand our global market to reach out to other unexplored "Belt and Road" countries which have plans to construct production line projects.

Market changes in downstream industries relevant to our Group

Any overseas and China market changes to downstream industries that our Group's products in the rotary kiln and grinding equipment systems cater to, in particular, the building materials industry which accounted for approximately 59.7%, 68.5%, 50.2% and 44.2% of our total revenue for the relevant periods during the Track Record Period, respectively, will have a direct impact on our sales volume and eventually our results of operations. The development of infrastructure and building construction in China and overseas countries will continuously generate a growing consumption demand for a variety of building materials, especially cement. Our sales volume will be directly impacted by the urbanization rate and the development of construction industry. Please also refer to "Industry Overview — Overview of the global and China's rotary kiln, grinding equipment and their related equipment industry — Market drivers and opportunities of the rotary kiln, grinding equipment and their related equipment market in the PRC — (i) Increasing downstream demand from infrastructure and building construction" for further details on our Group's downstream industries.

Fluctuations in foreign exchange rates

Our Group recorded: (a) foreign exchange gains of approximately RMB14.3 million and RMB4.7 million for the years ended 31 December 2016 and 2018, respectively; and (b) foreign exchange losses of RMB12.5 million and RMB3.9 million for the year ended 31 December 2017 and the four months ended 30 April 2019, respectively. During the Track Record Period, we sold our products in the rotary kiln and grinding equipment systems to and provided construction services for production line projects to several overseas customers located in various "Belt and Road" jurisdictions, including Bangladesh, Kazakhstan, Turkey and Uzbekistan. Such sales to our customers outside mainland China were usually denominated in USD. Given that: (a) approximately 25.4%, 44.9%, 15.4% and 2.8% of our sales is denominated in currency other than the functional currency of the relevant group entities making the sale; (b) 89.0%, 56.7%, 10.6% and 55.2% of our total bank balances and cash and restricted bank deposits was denominated in USD, and 0.4%, 6.6%, 0.6% and 18.4% of our total bank balances and cash and restricted bank deposits was denominated in EUR as at 31 December 2016, 2017 and 2018, and 30 April 2019, respectively; and (c) we did not adopt any foreign exchange hedging policy, engage in any currency hedging or have any positions in any derivative financial instruments to hedge our currency risk during the Track Record Period, we are exposed to currency risk. Our profit margins and results of operations will be adversely affected if foreign currencies, in particular the USD received from our overseas customers for our products and/or services, depreciates against RMB. Fluctuations in exchange rates between the RMB and other foreign currencies may also affect the translation of our non-RMB denominated assets and liabilities into RMB when we prepare our financial statements and may result in foreign exchange gains or losses which will eventually affect our financial condition and results of operation. Please refer to "Notes to the historical financial information — 40. Financial instruments" in Appendix I to this prospectus for further details on our Group's exposure to currency risk.

Preferential tax rates

Our principal PRC operating subsidiary, Jiangsu Pengfei, an indirect wholly-owned subsidiary of our Company, obtained the "High Technology Enterprise" certificate* (高新技術企業證書) in 2015 and, thus entitling it to a preferential tax rate of 15% for a period from 1 January 2015 to 31 December 2017 under the relevant PRC tax laws and regulations. Jiangsu Pengfei applied for and obtained a new "High Technology Enterprise" certificate in 2019 therefore continued to enjoy the preferential tax rate of 15% for a futher term of three years from 1 January 2018 to 31 December 2020. Given that most of our Group's revenue was and is expected to be generated by such PRC operating subsidiary during the Track Record Period and in future, respectively, such entitlement to preferential tax rate will have a substantial impact on our Group's results of operations, given that the difference between the preferential tax rate (15%) and non-preferential tax rate (25%) is relatively significant. Please also refer to "Notes to the historical financial information — 11. Income tax expense" in Appendix I to this prospectus for further details on our Group's income tax expense.

CRITICAL ACCOUNTING POLICIES

For the purpose of preparing and presenting the Historical Financial Information, our Company has applied all International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments issued by the International Accounting Standards Board (the "IASB") and the related interpretations ("IFRICs"), that are effective for the accounting period beginning on 1 January 2019, including IFRS 16 "Lease" and IFRS 15 "Revenue from Contracts with Customers" which are effective for the accounting period beginning on 1 January 2018, consistently throughout the Track Record Period except that we adopted IFRS 9 "Financial Instruments" on 1 January 2018 and IAS 39 "Financial Instruments: Recognition and Measurement" for each of the two years ended 31 December 2017.

In addition, the adoption of IFRS 15 would have no significant impact on our financial position and performance compared to the requirements of IAS 18 "Revenue". In relation to our revenue from provision of installation services, under IAS 18, it is recognised when the service is performed while under IFRS 15, it is recognised over time throughout the installation period because our performance enhances an asset that our customers control as the asset is enhanced. As the installation period is no more than one year and therefore the adoption of IFRS 15 would have no significant impact.

Our management has assessed the effects of adoption of IFRS 9 on the historical financial information on 1 January 2018. We have applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applying the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating the financial information for the two years ended 31 December 2017. The adoption of IFRS 9 on 1 January 2018 does not have any significant impact on our Group's cash flows for the year ended 31 December 2018. Our Directors considered that the initial adoption of IFRS 9 does not result in a significant impact to our Group's financial position and performance.

The adoption of IFRS 16 does not have any significant impact on our Group's financial position and performance and key ratios (e.g. gearing ratio, current ratio and quick ratio) compared to the requirement of IAS 17 "Leases".

We have identified various accounting policies that are significant to the preparation of our Financial Information. Please refer to "Notes to the historical financial information — 4. Significant accounting policies" in Appendix I to this prospectus for further details on our significant accounting policies.

Our management are sometimes required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources in the application of our accounting policies. The estimates and associated assumptions are based on their past experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Such assumptions and sources of estimation uncertainty are set out in "Notes to the historical financial information — 5. Critical accounting judgements and key sources of estimation uncertainty" in Appendix I to this prospectus.

The following paragraphs set out, among others, the most significant critical accounting policies, estimates and judgements applied by our Group in preparing our financial information.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which our Group expects to be entitled in exchange for those goods or services.

Our Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customers.

Control of the goods or services may be transferred over time or at a point in time. Control of the goods or services is transferred over time if:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as our Group performs;
- our Group's performance creates and enhances an asset that the customer controls as our Group performs; or
- our Group's performance does not create an asset with an alternative use to our Group and our Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services.

A contract asset represents our Group's right to consideration in exchange for goods or services that our Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents our Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents our Group's obligation to transfer goods or services to a customer for which our Group has received consideration (or an amount of consideration is due) from the customer.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations (i.e. certain sale of equipment contracts include the provision of installation services), our Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which our Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, our Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which our Group expects to be entitled in exchange for transferring the promised goods or services to our customer.

Over time recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the contract costs incurred to the satisfaction of a performance obligation relative to the estimated total contract costs to the satisfaction of that performance obligation, that best depict our Group's performance in transferring control of the production line.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Government grants

Government grants are not recognised until there is reasonable assurance that our Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to our Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Our Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the historical financial information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investment in a subsidiary, except where our Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investment is only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

For the purposes of measuring deferred tax for leasing transactions in which our Group recognises the right-of-use assets and the related lease liabilities, our Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, our Group applies IAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax assets reflects the tax consequences that would follow from the manner in which our Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and our Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress/assets under installation as described below) are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than construction in progress/assets under installation less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Impairment on tangible and intangible assets and contract costs

At the end of each reporting period, our Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives and contract costs to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangible and intangible assets are estimated individually, or when it is not possible to estimate the recoverable amount of an asset individually, our Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

Before our Group recognises an impairment loss for assets capitalised as contract costs under IFRS 15, our Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that our Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the CGU to which they belong for the purpose of evaluating impairment of that CGU.

Recoverable amount is the higher of 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 (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated to the assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, which comprises all costs of purchases and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Costs of raw material are determined on a weighted average method and costs of work-in-progress and finished goods are determined on a specific identification basis based on the actual costs specific to each processing order incurred. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Impairment of financial assets under IAS 39 (before the adoption of IFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;

- breach of contract, such as a default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

Objective evidence of impairment for a portfolio of receivables could include our Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivables is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment of financial assets under IFRS 9

Our Group recognises a loss allowance for expected credit losses ("**ECL**") on financial assets and other assets subject to ECL (including trade, bills and other receivables, amounts due from related parties, restricted bank deposits and bank balances and contract assets). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on our Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

Our Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed on individual basis for customers with high credit risk and the remaining is collectively using provision matrix, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

For all other instruments, our Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, our Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, our Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, our 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. Forward-looking information includes the future prospects of the industries in which our Group's debtors operate as well as various external sources of forecast macro-economic condition, such as gross domestic product ("GDP") growth rate.

Irrespective of the outcome of the above assessment, our Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless our Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, our Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Definition of default

Our Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including our Group, in full (without taking into account any collaterals held by our Group).

Irrespective of the above, our Group considers that default has occurred when a financial asset is more than 90 days past due unless our Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Write-off policy

Our Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under our Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a deregistration event. Any subsequent recoveries are recognised in profit or loss.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of our Group's accounting policies, which are described in "Notes to the historical financial information — 4. Significant accounting policies" in Appendix I to this prospectus, management of our Group is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following is the critical judgements, apart from those involving estimations (see below), that the management of our Group has made in the process of applying our Group's accounting policies and that have the most significant effect on the amounts recognised in the historical financial information.

Principal versus agent for revenue recognition on installation service

Our Group is the contracting party to its customers in rendering the installation service and our Group is primarily responsible for fulfilling the promise to provide the installation service and has the discretion on establishing the contract price. Thus, the management of our Group considers our Group acts as principal and recognises revenue generated from the installation service on a gross basis. Having considered the cost and benefits in performing the installation service, our Group had subcontracted the installation service to independent third parties. Significant judgement is made by the management of our Group in determining whether our Group is acting as a principal or agent in its performance of the installation service.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that has a significant risk of causing a material adjustment to the carrying amounts of assets within the next 12 months.

Revenue recognition on construction of production line

Our Group recognises revenue on construction of production line by reference to the stage of completion of the contract activity at the end of each reporting period, when the outcome of a construction of production line contract can be estimated reliably. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed to date to the estimated total contract costs (i.e. input method).

Significant estimates are required in determining the stage of completion, the extent of the contract costs incurred and estimated total contract cost, as well as the recoverability of the contract costs incurred. In making these estimates, the management of our Group has relied on past experience and knowledge of project engineers employed by our Group.

The stage of completion of each construction of production line contract is assessed on a cumulative basis in each reporting period. Changes in estimate of contract costs, or the effect of a change in the estimate of the outcome of a contract could impact the amount of revenue and expense recognised in profit or loss in the year in which the change is made and in subsequent years. Such impact could potentially be significant.

Price allocation for multiple performance obligations

Certain of our Group's sales of equipment contracts includes the provision of installation services to customers. For contracts that contain more than one performance obligations, our Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which our Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, our Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which our Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

The management of our Group exercises judgement in determining the price allocation basis between the performance obligations of sale of equipment and installation service.

Estimated impairment of financial assets and contract assets

Our Group reviews its financial assets to assess impairment on a regular basis. The methodologies and assumptions used for estimating the impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Before the adoption of IFRS 9, the management of our Group estimated the amount of loss allowance using incurred credit loss model. The impairment loss amount of the individual trade receivable and contract asset is the net decrease in the present value of the estimated future cash flows, and the evidence of impairment may include observable data indicating that there is a measurable decrease in the estimated future cash flows of the individual trade receivable and contract asset. Our Group periodically reviews its trade receivables and contract assets to assess impairment individually and collectively except that there are known situation demonstrating impairment losses have occurred during that period. Our Group makes judgments as to whether there is any observable data indicating that an impairment loss should be recorded in the consolidated statements of profit or loss and other comprehensive income from a portfolio of trade receivables and contract asset before the decrease can be identified with an individual trade receivable and contract asset in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of the counterparty (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the portfolio. The management of our Group uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

Since the adoption of IFRS 9 on 1 January 2018, the management of our Group have estimated the amount of loss allowance for ECL on trade receivables and contract assets based on the credit risk of the trade receivables and contract assets. The estimation of the credit risk of the trade receivables and contract assets involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

Useful lives and depreciation charges of property, plant and equipment and investment properties

Our Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment and investment properties. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment and investment properties of similar nature and functions. Our Group will increase or decrease the depreciation charge where useful lives are less or more than previously estimated lives.

OUR RESULTS OF OPERATIONS

The table below sets out our consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, which has been extracted from and should be read in conjunction with the Accountants' Report in Appendix I to this prospectus:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	776,661	946,143	1,016,201	245,064	399,902
Cost of sales and services	(634,400)	(751,723)	(799,836)	(193,369)	(313,879)
Gross profit	142,261	194,420	216,365	51,695	86,023
Other income	7,434	8,554	27,332	1,262	794
Other gains and losses	14,605	1,244	8,324	(944)	(1,577)
Selling and distribution expenses	(41,110)	(62,777)	(74,749)	(21,897)	(36,563)
Administrative expenses	(41,273)	(41,024)	(41,557)	(13,607)	(14,447)
Research expenditure	(32,579)	(31,497)	(32,377)	(9,890)	(11,694)
(Provision) reversal of loss allowance on trade and other receivables and contract assets, net	(8,883)	(532)	(2,514)	412	(2,316)
Listing expenses	—	—	(11,772)	—	(3,328)
Finance costs	(353)	(1,605)	(1,204)	(199)	(180)
Profit before tax	40,102	66,783	87,848	6,832	16,712
Income tax expense	(6,528)	(9,127)	(14,532)	(1,184)	(2,946)
Profit and total comprehensive income for the year/period	33,574	57,656	73,316	5,648	13,766
Profit (loss) and total comprehensive income (expenses) for the year/period attributable to:					
- Owners of the Company	31,842	58,720	72,506	6,132	13,877
- Non-controlling interests	1,732	(1,064)	810	(484)	(111)
	33,574	57,656	73,316	5,648	13,766
Earnings per share					
- Basic (RMB cents)	8.49	15.66	19.33	1.64	3.70

DISCUSSION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

We are engaged in equipment manufacturing and installation, and construction of production lines business. We generate revenue mainly from three business lines, namely: (a) manufacturing of equipment, in which we engage in the design, manufacturing and sales of equipment including related parts and components for various industries including building materials, metallurgy, chemical and environmental protection industries; (b) installation services, in which we mainly provide installation services to our customers under our manufacturing of equipment business; and (c) construction of production lines, in which we act as an EPC service provider providing bespoke one-stop solutions in respect of design, procurement, construction and/or trial operations of production lines.

The table below sets out the breakdown of our revenue by business lines for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Manufacturing of equipment										
Rotary kiln system	315,611	40.6	343,487	36.3	479,422	47.2	85,158	34.7	225,748	56.5
Grinding equipment system	246,376	31.7	295,155	31.2	277,484	27.3	110,295	45.0	46,982	11.7
Others(Note)	13,639	1.8	15,059	1.6	23,504	2.3	8,458	3.5	10,276	2.6
Subtotal	575,626	74.1	653,701	69.1	780,410	76.8	203,911	83.2	283,006	70.8
Installation services	30,786	4.0	17,140	1.8	21,985	2.2	3,035	1.2	7,290	1.8
Construction of production line	170,249	21.9	275,302	29.1	213,806	21.0	38,118	15.6	109,606	27.4
Total	776,661	100.0	946,143	100.0	1,016,201	100.0	245,064	100.0	399,902	100.0

Note: Others represent mainly revenue generated from sale of scrap materials.

Our revenue for the three years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019 was approximately RMB776.7 million, RMB946.1 million, RMB1,016.2 million, RMB245.1 million and RMB399.9 million, respectively.

Manufacturing of equipment business

During the Track Record Period, most of our revenue were attributable to manufacturing of equipment business, which includes the sale of (i) rotary kiln system which mainly includes rotary kilns, preheaters, coolers, dryers and ancillary machinery and related parts and components; and (ii) grinding equipment system which mainly includes vertical mills, roller presses, tube mills, separators and ancillary machinery and related parts and components. Revenue generated from our manufacturing of equipment business increased by 13.6% from approximately RMB575.6 million for the year ended

31 December 2016 to approximately RMB653.7 million for the year ended 31 December 2017 and further increased by 19.4% to RMB780.4 million for the year ended 31 December 2018. Revenue generated from our manufacturing of equipment business increased by 38.8% from RMB203.9 million for the four months ended 30 April 2018 to RMB283.0 million for the same period in 2019.

During the Track Record Period, the fluctuation in revenue generated from our manufacturing of equipment business was mainly attributable to the fluctuation of the revenue derived from the sale of our products in the rotary kiln system and grinding equipment system.

Sale of our products in the rotary kiln system

Our revenue generated from sale of products in the rotary kiln system amounted to approximately RMB315.6 million, RMB343.5 million, RMB479.4 million, RMB85.2 million and RMB225.7 million, representing approximately 40.6%, 36.3%, 47.2%, 34.7% and 56.5% of our total revenue for the three years ended 31 December 2018 and the four months ended 30 April 2018 and 2019, respectively. The increase for the year ended 31 December 2017 as compared to the year ended 31 December 2016 was attributable to the increased revenue generated from customers in "Belt and Road" countries. The further increase in the year ended 31 December 2018 was mainly due to the increased sales from customers in mainland China. The increase in revenue generated from sale of our products in the rotary kiln system for the four months ended 30 April 2019 as compared to the same period in 2018 was mainly attributable to sales made to a few major customers in mainland China with considerably large revenue contribution during the four months ended 30 April 2019 as compared with customers in the same period of 2018.

Sale of our products in the grinding equipment system

Our revenue generated from sale of products in the grinding equipment system amounted to approximately RMB246.4 million, RMB295.2 million, RMB277.5 million, RMB110.3 million and RMB47.0 million, representing approximately 31.7%, 31.2%, 27.3%, 45.0% and 11.7% of our total revenue for the three years ended 31 December 2018 and the four months ended 30 April 2018 and 2019, respectively. The increase for the year ended 31 December 2017 as compared to the year ended 31 December 2016 was mainly attributable to the increase in revenue derived from customers in the building materials industry. The decrease for the year ended 31 December 2018 and the four months ended 30 April 2019 as compared to the previous corresponding year/period was mainly attributable to the decreased demand of such products from customers in the building materials industry.

Others

We recorded revenue generated from the sale of scrap materials and others of approximately RMB13.6 million, RMB15.1 million, RMB23.5 million, RMB8.5 million and RMB10.3 million for the three years ended 31 December 2018 and the four months ended 30 April 2018 and 2019, respectively. Such revenues so generated remained stable for the years ended 31 December 2016 and 2017 and increased by 55.6% to approximately RMB23.5 million for the year ended 31 December 2018 due to our increased production volume during the same period. The increase for the four months ended 30 April 2019 as compared to the same period in 2018 was mainly attributable to our increased production volume during the four months ended 30 April 2019.

Installation services business

Our installation services business line is part and parcel of our manufacturing of equipment business as we provide installation services to our customers under our manufacturing of equipment business. We outsource the installation services to third party sub-contractors on an ad-hoc basis and depending on the needs of individual customer. Not all of our customer under manufacturing of equipment business require installation services from us. Upon receiving requests for installation services from our customers under manufacturing of equipment business, we obtain price quotation from third party and provide our quotation for the sale of equipment and the provision of installation services on an overall basis. Therefore, the movement of our revenue generated from the provision of installation services may not directly associate with the movement of the revenue generated from manufacturing of equipment business.

Revenue generated from our installation services business amounted to approximately RMB30.8 million, RMB17.1 million, RMB22.0 million, RMB3.0 million and RMB7.3 million for the three years ended 31 December 2018 and the four months ended 30 April 2018 and 2019, respectively. The fluctuation of revenue from our installation services business during the Track Record Period was mainly affected by the actual demand of installation service from customers under our manufacturing of equipment business.

Construction of production line business

			Year ended 31 December			Four months ended 30 April	
No.	**Project name**	**Location**	**2016**	**2017**	**2018**	**2018**	**2019**
			RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
1	Congo Clinker Production Line ...	The Republic of Congo	13,591	—	—	—	—
2	Inner Mongolia Cement Grinding Station	PRC	33	—	—	—	—
3	Uzbekistan Cement Production Line	Uzbekistan	76,247	373	—	—	—
4	Malawi Clinker Production Line	Malawi	23,079	3,538	—	—	—
5	Yemen Cement Grinding Plant	Yemen	179	12,032	304	—	—
6	Guangdong Active Lime Production Line	PRC	19,983	—	—	—	—
7	Bangladesh Cement Plant	Bangladesh	25,992	1,706	—	—	—
8	Hunan Mineral Powder Production Line	PRC	1,435	1,523	—	—	—
9	Turkey Cement Production Line	Turkey	9,702	256,131	65,065	38,118	—
10	Kazakhstan Cement Production Line	Kazakhstan	8	—	138,531	—	108,541
11	Uzbekistan Active Lime Plant	Uzbekistan	—	—	9,906	—	1,065
	Total		170,249	275,302	213,806	38,118	109,606

Our Group recognises revenue from construction of production line by reference to the stage of completion of the contract activity at the end of each reporting period, when the outcome of a construction of production line contract can be estimated reliably. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed to date to the estimated total contract costs. Therefore our revenue recognised in each of the three years ended 31 December 2018 and the four months ended 30 April 2019 for our production line projects depends on our actual costs incurred at the requests of each customer in proportion to our estimated total costs for the respective production line project during the corresponding period. Our revenue generated from construction of production line business was approximately RMB170.2 million, RMB275.3 million, RMB213.8 million, RMB38.1 million and RMB109.6 million for each of the three years ended 31 December 2018 and four months ended 30 April 2018 and 2019, respectively.

Cost of sales and services

Our cost of sales and services consists principally of cost of raw materials, sub-contracting fees and overhead. Our costs of raw materials mainly represent direct costs for purchase of steel materials, such as steel plates, castings, forgings and parts and components such as motors, reducers and axle bearings. The table below sets out a breakdown of our cost of sales and services by expense nature for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Raw materials (Note 1)										
Manufacturing of equipment	393,386	62.0	415,386	55.3	515,384	64.5	138,261	71.5	192,164	61.2
Construction of production line	67,900	10.7	137,963	18.4	28,057	3.5	7,992	4.1	49,762	15.9
Sub-total	461,286	72.7	553,349	73.7	543,441	68.0	146,253	75.6	241,926	77.1
Overhead (Note 2)										
Manufacturing of equipment	87,550	13.8	84,306	11.2	96,062	12.0	19,110	9.9	32,537	10.4
Construction of production line	17,081	2.7	18,991	2.5	5,609	0.7	1,568	0.8	8,085	2.5
Sub-total	104,631	16.5	103,297	13.7	101,671	12.7	20,678	10.7	40,622	12.9
Sub-contracting fees (Note 3)										
Installation and design fees										
Installation services	30,786	4.8	17,140	2.2	21,985	2.7	3,035	1.6	7,290	2.3
Construction of production line	22,097	3.5	77,937	10.4	55,503	6.9	23,403	12.1	7,300	2.3
Civil construction fees										
Construction of production line	15,600	2.5	—	—	77,236	9.7	—	—	16,741	5.4
Sub-total	68,483	10.8	95,077	12.6	154,724	19.3	26,438	13.7	31,331	10.0
Total	634,400	100.0	751,723	100.0	799,836	100.0	193,369	100.0	313,879	100.0

Notes:

1. Cost of raw materials includes costs of steel materials, such as steel plates, castings, forgings and parts and components such as motors, reducers and axel bearing.

2. Overhead mainly represents utilities costs, indirect labour costs, depreciation and amortisation, consumables and processing fees.

3. Sub-contracting fees mainly represents costs for engaging sub-contracting services for design, installation services and/or civil construction.

Our Group engaged subcontractors mainly for our construction of production line business, such as design, civil construction and installation services. Sub-contracting fees amounted to approximately 10.8%, 12.6%, 19.3%, 13.7% and 10.0% of our total costs of sales and services for each of the three years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, respectively and was mainly affected by the actual demand of civil construction, installation and design service, from customers under our construction of production line business.

Our sub-contracting fees increased by approximately RMB26.6 million or 38.8% to approximately RMB95.1 million for the year ended 31 December 2017 from approximately RMB68.5 million for the year ended 31 December 2016 mainly due to the significant increase in installation fees incurred for our Turkey Cement Production line during the year ended 31 December 2017. Such fees further increased significantly by approximately RMB59.6 million or 62.6% to approximately RMB154.7 million for the year ended 31 December 2018 mainly due to the civil construction fees incurred for our Kazakhstan Cement Production Line during the same year. The increase in our sub-contracting fees for the four months ended 30 April 2019 as compared to the same period in 2018 was mainly attributable to civil construction fees incurred for our Kazakhstan Cement Production Line.

The following table sets out a breakdown of our cost of sales and services by business line for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Manufacturing of equipment	480,936	75.8	499,692	66.5	611,446	76.5	157,371	81.4	224,701	71.6
Installation services	30,786	4.9	17,140	2.3	21,985	2.7	3,035	1.6	7,290	2.3
Construction of production line	122,678	19.3	234,891	31.2	166,405	20.8	32,963	17.0	81,888	26.1
Total	634,400	100.0	751,723	100.0	799,836	100.0	193,369	100.0	313,879	100.0

Our cost of sales and services amounted to approximately RMB634.4 million, RMB751.7 million, RMB799.8 million, RMB193.4 million and RMB313.9 million for the year ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, respectively. The fluctuation of our cost of sales and services was primarily a result of the fluctuation of our cost of raw materials and was generally in line with our revenue fluctuation over the same period during the Track Record Period.

Sensitivity analysis

During the three years ended 31 December 2018 and four months ended 30 April 2018 and 2019, cost of raw materials was a major component of our cost of sales and services, representing approximately 72.7%, 73.7%, 68.0%, 75.6% and 77.1% of our total cost of sales and services, respectively. Any material fluctuation in the cost of raw materials may affect the results of our operations.

For illustration purpose only, the following table illustrates the sensitivity analysis of hypothetical fluctuations in the cost of raw materials on profit before tax and profit for the year during the Track Record Period, while all other factors remain unchanged. The sensitivity analysis demonstrates the impact of hypothetical increase or decrease in the cost of raw materials by 5% and 10% for the period indicated.

Hypothetical fluctuations in cost of raw materials	**-10%**	**-5%**	**+5%**	**+10%**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Increase/(decrease) in profit before tax				
Year ended 31 December 2016	46,129	23,064	(23,064)	(46,129)
Year ended 31 December 2017	55,335	27,667	(27,667)	(55,335)
Year ended 31 December 2018	54,344	27,172	(27,172)	(54,344)
Four months ended 30 April 2019	24,193	12,096	(12,096)	(24,193)
Increase/(decrease) in profit after tax*(Note)*				
Year ended 31 December 2016	39,209	19,605	(19,605)	(39,209)
Year ended 31 December 2017	47,035	23,517	(23,517)	(47,035)
Year ended 31 December 2018	46,193	23,096	(23,096)	(46,193)
Four months ended 30 April 2019	20,564	10,282	(10,282)	(20,564)

Note: For illustration purpose only, an effective tax rate of 15% was used in the sensitivity analysis.

Gross profit and gross profit margin

During the three years ended 31 December 2018 and four months ended 30 April 2018 and 2019, we recorded gross profit of approximately RMB142.3 million, RMB194.4 million, RMB216.4 million, RMB51.7 million and RMB86.0 million, and gross profit margin of 18.3%, 20.5%, 21.3%, 21.1% and 21.5% for the relevant periods, respectively.

The table below sets out a breakdown of our gross profit by business line for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Gross profit										
Manufacturing of equipment	94,690	66.6	154,009	79.2	168,964	78.1	46,540	90.0	58,305	67.8
Installation services*(Note)*	—	—	—	—	—	—	—	—	—	—
Construction of production line	47,571	33.4	40,411	20.8	47,401	21.9	5,155	10.0	27,718	32.2
Total	142,261	100.0	194,420	100.0	216,365	100.0	51,695	100.0	86,023	100.0

Note: During the Track Record Period, no gross profit for our installation services business was recorded. For further details, please refer to paragraph headed "Discussion of selected items in consolidated statements of profit or loss and other comprehensive income — Gross profit and gross profit margin — Installation services business" below in this section of the prospectus.

Our overall gross profit increased by 36.6% from approximately RMB142.3 million for the year ended 31 December 2016 to approximately RMB194.4 million for the year ended 31 December 2017, mainly due to the increase in gross profit from our manufacturing of equipment business of approximately RMB59.3 million. Our overall gross profit further increased by 11.3% to approximately RMB216.4 million for the year ended 31 December 2018, mainly due to the increase in gross profit from our manufacturing of equipment business of approximately RMB15.0 million. The increase in our overall gross profit for the four months ended 30 April 2019 as compared to the same period in 2018 was mainly attributable to the increase in gross profit from our construction of production line business of approximately RMB22.6 million.

For the three years ended 31 December 2018 and the four months ended 30 April 2018 and 2019, gross profit from our manufacturing of equipment business constituted approximately 66.6%, 79.2%, 78.1%, 90.0% and 67.8% of our total gross profit, while gross profit from our construction of production line business constituted approximately 33.4%, 20.8%, 21.9%, 10.0% and 32.2% of our total gross profit. As a result, our overall gross profit margin was substantially affected by the gross profit and revenue of our manufacturing of equipment business during the Track Record Period.

The table below sets forth details of our gross profit margin by business line for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	%	%	%	%	%
				(unaudited)	
Gross profit margin					
Manufacturing of equipment	16.4	23.6	21.7	22.8	20.6
Installation services	—	—	—	—	—
Construction of production line	27.9	14.7	22.2	13.5	25.3
Overall gross profit margin	18.3	20.5	21.3	21.1	21.5

The table below sets forth details of gross profit margin by geographical location for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	%	%	%	%	%
Gross profit margin					
Mainland China	16.1	20.1	20.9	23.7	20.1
Manufacturing of equipment	16.1	20.5	21.5	24.1	20.6
Installation services	—	—	—	—	—
Construction of production line	16.4	10.3	—	—	—
Outside Mainland China	23.0	20.9	22.1	16.1	24.8
Manufacturing of equipment	18.7	29.5	22.7	18.2	20.0
Installation services	—	—	—	—	—
Construction of production line	29.6	14.7	22.2	13.5	25.3
Overall gross profit margin	18.3	20.5	21.3	21.1	21.5

Manufacturing of equipment business

Gross profit margin for our manufacturing of equipment business increased from 16.4% for the year ended 31 December 2016 to 23.6% for the year ended 31 December 2017 primarily due to (a) higher proportion of sales made outside Mainland China with higher gross profit margin as compared with our Mainland China sales due to less competitive environment and our brand recognition in the overseas market; and (b) the improvement in production efficiency resulting from higher utilisation rate of our production plant thereby led to a decrease in our manufacturing overhead per unit product.

Gross profit margin for our manufacturing of equipment business decreased to 21.7% for the year ended 31 December 2018 mainly due to lower proportion of our sales made outside mainland China with higher profit margin as compared to our Mainland China sales given the less competitive environment and our brand recognition in the overseas market offsetting the effect of improvement in our production efficiency.

Gross profit margin for our manufacturing of equipment business decreased from 22.8% for the four months ended 30 April 2018 to 20.6% for the same period in 2019 mainly due to sales made to a few major customers in Mainland China during the four months ended 30 April 2019 which accounted for approximately 54.9% of revenue generated from manufacturing of equipment business at lower gross profit margin with a view to maintain a stable and long term business relationship with such customers.

Gross profit margin for our manufacturing of equipment business in Mainland China increased steadily throughout the three years ended 31 December 2018 and decreased slightly during the four months ended 30 April 2019 while still remained stable as compared to year of 2018. Gross profit margin for the four months ended 30 April 2018 was 24.1% as compared to 20.6% for the four months ended 30 April 2019. The relatively high gross profit margin for the four months ended 30 April 2018 was mainly attributable to the relatively high proportion of revenue contribution from sale of scrap materials during the four months ended 30 April 2018 with a gross profit margin of 99.8%. Gross profit margin for our manufacturing of equipment business outside Mainland China increased significantly from 18.7% for the year ended 31 December 2016 to 29.5% for the year ended 31 December 2017, mainly due to sales made to one of our largest customers from "Belt and Road" countries of the year ended 31 December 2017 with gross profit margin of approximately 40.0%. It then decreased to 22.7% for the year ended 31 December 2018 but remained relatively stable as compared to the year ended 31 December 2016. Gross profit margin for our manufacturing of equipment business outside Mainland China increased to 20.0% for the four months ended 30 April 2019 from 18.2% for the same period in 2018. This was attributable to our sales made to one customer outside Mainland China at a higher gross profit margin to comply with higher product quality requirements requested by this customer with revenue contribution of approximately 18.8%.

The table below sets forth details of gross profit margin of our key products under our manufacturing of equipment business for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	%	%	%	%	%
Gross profit margin					
Rotary kiln	12.8	20.6	18.4	21.5	16.2
Grinding equipment					
Vertical mill	11.7	18.1	13.7	9.0	— *(Note)*
Roller press	16.4	24.4	21.6	19.2	20.0
Tube mill	14.8	23.3	19.0	14.6	17.0

Note: We did not record gross profit margin for sales of vertical mills for the four months ended 30 April 2019 as no sale of vertical mills was made during such period.

Movements of gross profit margin of each product type during the Track Record Period were generally in line with the movements of our overall gross profit margin of manufacturing of equipment business, while still been affected largely by the specification and/or customisations required by our customers and pricing negotiated with each customer.

Installation services business

Our installation services business line is part and parcel of our manufacturing of equipment business as we mainly provide installation services to our customers under our manufacturing of equipment business. We outsource installation works to third party sub-contractors to ensure the progress and quality of the projects. In order to provide an integrated whole industry chain services to our customers, we provide quotation to our customers under manufacturing of equipment business on an overall basis after obtaining price quotation from our installation services sub-contractors. As sales contracts of our manufacturing of equipment and installation services businesses generally do not provide a stand-alone price for each of our contractual obligations, we estimate the stand-alone price of our installation services based on fees charged by our sub-contractor for the provision of such services. As such, we did not record any gross profit for our installation services business during the Track Record Period. For further details, please refer to the paragraph headed "Critical accounting policies — Revenue recognition" in this section of the prospectus.

Construction of production line business

The table below sets forth details of our gross profit and gross profit margin by production line for the periods indicated:

No.	Project name	Location	Key products involved	Year ended 31 December						Four months ended 30 April			
				2016		2017		2018		2018		2019	
				RMB ’000	Margin %	RMB ’000	Margin %	RMB ’000	Margin %	RMB ’000	Margin %	RMB ’000	Margin %
										(unaudited)			
1	Congo Clinker Production Line .	The Republic of Congo	Rotary kiln, preheater, cooler	2,879	21.2	—	—	—	—	—	—	—	—
2	Inner Mongolia Cement Grinding Station	PRC	Tube mills, roller press, separator	6	18.2	—	—	—	—	—	—	—	—
3	Uzbekistan Cement Production Line .	Uzbekistan	Rotary kiln, tube mills, preheater, cooler	27,831	36.5	136	36.5	—	—	—	—	—	—
4	Malawi Clinker Production Line .	Malawi	Rotary kiln, tube mills, preheater, cooler	5,224	22.6	803	22.6	—	—	—	—	—	—
5	Yemen Cement Grinding Plant ...	Yemen	Tube mill	60	33.7	4,057	33.7	103	33.7	—	—	—	—
6	Guangdong Active Lime Production Line .	PRC	Rotary kiln, tube mill, preheater, cooler	3,363	16.8	—	—	—	—	—	—	—	—
7	Bangladesh Cement Plant	Bangladesh	Tube mill	6,752	26.0	444	26.0	—	—	—	—	—	—
8	Hunan Mineral Powder Production Line .	PRC	Tube mill, dryer	147	10.2	156	10.2	—	—	—	—	—	—
9	Turkey Cement Production Line .	Turkey	Rotary kiln, tube mills, vertical mills, preheater, cooler, separator	1,307	13.5	34,815	13.5	8,965	13.5	5,155	13.5	—	—
10	Kazakhstan Cement Production Line .	Kazakhstan	Rotary kiln, tube mills, roller presses, preheater, cooler, separator	2	25.2	—	—	34,937	25.2	—	—	27,353	25.2
11	Uzbekistan Active Lime Plant	Uzbekistan	Rotary kiln, preheater, cooler	—	—	—	—	3,396	34.3	—	—	365	34.3
	Total			47,571	27.9	40,411	14.7	47,401	22.2	5,155	13.5	27,718	25.3

Our overall gross profit margin for our construction of production line business was 27.9%, 14.7%, 22.2%, 13.5% and 25.3% for the three years ended 31 December 2018 and the four months ended 30 April 2018 and 2019, respectively. Our gross profit margin of each of our production line project remained stable throughout the Track Record Period. The gross profit margin of our production line projects ranges from 10.2% to 36.5% during the Track Record Period. Gross profit margin of our construction of production line business decreased from 27.9% for the year ended 31 December 2016 to 14.7% for the year ended 31 December 2017 mainly due to our Turkey Cement Production Line which accounted for 86.2% of the total gross profit of our construction of production line business for the year ended 31 December 2017 with a lower gross profit margin of approximately 13.5%. This in turn led to a decline of gross profit margin for our construction of production line business outside Mainland China for the year ended 31 December 2017, being 14.7% as compared to 29.6% for the year ended 31 December 2016.

The increase of gross profit margin for our construction of production line business from 14.7% for the year ended 31 December 2017 to 22.2% for the year ended 31 December 2018 was mainly attributable to our Kazakhstan Cement Production Line which accounted for 73.7% of the total gross profit of our construction of production line business for the year ended 31 December 2018 with a gross profit margin of 25.2%. As a result, gross profit margin for our construction of production line business outside Mainland China increased to 22.2% for the year ended 31 December 2018.

The increase in gross profit margin of our construction of production line project from 13.5% for the four months ended 30 April 2018 to 25.3% for the four months ended 30 April 2019 was mainly attributable to our Kazakhstan Cement Production Line which accounted for 98.7% of the total gross profit with a gross profit margin of 25.2% of our construction of production line business for the four months ended 30 April 2019. All gross profit of our construction of production line project during the four months ended 30 April 2019 was generated from customers outside Mainland China.

Other income

The table below sets out a breakdown of our other income for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000** (unaudited)	**RMB'000**
Bank interest income	1,135	1,141	889	223	149
Interest income from independent third parties	1,276	1,063	658	353	—
Government subsidies *(Note)*	1,996	3,672	23,826	4	20
Rental income	2,127	2,176	1,876	674	603
Others	900	502	83	8	22
Total	7,434	8,554	27,332	1,262	794

Note: *Government subsidies mainly represents unconditional government subsidies received from local governments in connection with the enterprise development support and innovation capability incentives and/or the expenses related to the Listing incurred by our Group during the Track Record Period.*

Other gains and losses

Our other gains and losses mainly consists of gain on disposal of subsidiaries, loss on deregistration of subsidiaries, investment gain on financial assets at FVTPL, net foreign exchange gains/losses and loss/gain on disposal of property, plant and equipment. The table below sets out a breakdown of our other gains and losses for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000** (unaudited)	**RMB'000**
Gain on disposal of subsidiaries	821	10,862	—	—	—
Loss on deregistration of subsidiaries	(494)	(100)	—	—	—
Investment gain on financial assets at FVTPL*(Note)*	159	2,845	3,438	2,426	2,760
Net foreign exchange gains (losses)	14,337	(12,490)	4,697	(3,392)	(3,902)
(Loss) gain on disposal of property, plant and equipment	(5)	137	248	47	—
Others	(213)	(10)	(59)	(25)	(435)
Total	14,605	1,244	8,324	(944)	(1,577)

Note: *Investment gain on financial assets at FVTPL represents our investment gain in non-principal guaranteed investments with no guaranteed return issued by independent financial institutions or banks in the PRC. For further details of our financial assets at FVTPL, please refer to the paragraph headed "Financial assets at fair value through profit or loss" in this section of the prospectus.*

The decrease of our other gains and losses for the year ended 31 December 2017 as compared to the year ended 31 December 2016 was mainly due to the net foreign exchange losses recorded of approximately RMB12.5 million partially offset by the gain on disposal of subsidiaries of approximately RMB10.9 million during the year ended 31 December 2017.

We record other gains of approximately RMB1.2 million for the year ended 31 December 2017 as compared to approximately RMB8.3 million for the year ended 31 December 2018. This was mainly due to (a) the turn of a net foreign exchange losses of approximately RMB12.5 million to a net foreign exchange gains of approximately RMB4.7 million during the year ended 31 December 2018 and (b) an increase in investment gain on financial assets at FVTPL of approximately RMB0.6 million to RMB3.4 million for the year ended 31 December 2018 from RMB2.8 million for the year ended 31 December 2017.

We record other losses of approximately RMB0.9 million and RMB1.6 million for the four months ended 30 April 2018 and 2019, respectively. This was mainly attributable to the net foreign exchange losses, being partially offset by the investment gain on financial assets at FVTPL during the respective periods.

Selling and distribution expenses

Our selling and distribution expenses mainly include expenses that are associated with the sale and distribution of our products, including transportation and port expenses incurred mainly for the delivery of our products, travelling expenses and commission paid to our sales and marketing staff. The table below sets out a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000** (unaudited)	**RMB'000**
Transportation and port expenses *(Note 1)*	20,720	39,785	51,352	14,128	24,665
Commission expenses *(Note 2)*	5,364	7,259	6,651	2,112	3,619
Travelling expenses	12,120	12,280	12,547	4,061	5,925
Marketing and promotion expenses	1,179	1,550	1,971	459	1,271
Office charges	1,196	1,150	1,393	599	581
Others	531	753	835	538	502
Total	41,110	62,777	74,749	21,897	36,563

Notes:

1. Transportation and port expenses mainly represent costs incurred for delivering our products to places designated by our customers.

2. Commission expenses mainly represent commission paid to our sales and marketing staff.

Our distribution and selling expenses amounted to approximately RMB41.1 million, RMB62.8 million, RMB74.7 million, RMB21.9 million and RMB36.6 million for the three years ended 31 December 2018 and the four months ended 30 April 2018 and 2019, respectively. The increase in the distribution and selling expenses for the year ended 31 December 2017 as compared to the year ended 31 December 2016 was mainly due to (i) the increase of approximately RMB19.1 million in our transportation and port expenses for the year ended 31 December 2017; and (ii) the increase of approximately RMB1.9 million in commission expenses for the year ended 31 December 2017.

The further increase in the distribution and selling expenses for the year ended 31 December 2018 was mainly due to the increase in our transportation and port expenses of approximately RMB11.6 million as a result of our customers' increased requests for delivery.

The increase in our distribution and selling expenses for the four months ended 30 April 2019 as compared to the same period in 2018 was mainly attributable to the increased transportation and port expenses of approximately RMB10.5 million as a result of delivery services performed at the requests of certain major customers during the four months ended 30 April 2019.

Administrative expenses

Our administrative expenses primarily consist of salaries, allowances and other benefits, depreciation and amortisation, business entertainment expenses and travelling expenses.

The table below sets out a breakdown of our administrative expenses for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
				(unaudited)	
Salaries, allowances and other benefits	17,188	18,358	19,169	5,780	6,457
Depreciation and amortization (including investment properties)	8,712	6,816	6,173	1,985	1,841
Business entertainment expenses	435	527	770	438	429
Travelling expenses	3,031	2,346	2,489	1,100	1,177
Taxes	3,646	3,460	3,171	954	1,021
Office charges/maintenance	5,594	5,426	5,563	1,758	2,556
Bank charges	341	910	596	318	369
Consultancy fee	1,355	2,284	2,636	947	363
Others	971	897	990	327	234
Total	41,273	41,024	41,557	13,607	14,447

During the three years ended 31 December 2018 and four months ended 30 April 2018 and 2019, our administrative expenses were relatively stable amounting to approximately RMB41.3 million, RMB41.0 million, RMB41.6 million, RMB13.6 million and RMB14.4 million, respectively. Our salaries, allowances and other benefits mainly comprised salaries, allowances and other benefits paid to our staff of different departments. Our depreciation and amortisation expenses mainly include depreciation and amortisation of our office buildings and investment properties.

Research expenditure

Our research expenditure primarily consist of staff costs of research personnel, depreciation and amortisation, technical service expenditure and materials consumed in research activities.

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Research expenditure					
Staff cost	4,542	5,128	6,181	1,788	2,072
Depreciation and amortisation	1,450	1,452	1,167	411	386
Technical consultancy fee	19,162	17,659	17,587	5,789	6,959
Materials consumed	5,730	4,886	4,492	1,447	1,595
Office charges	1,519	1,597	2,496	455	674
Others	176	775	454	—	8
Total research expenditure	32,579	31,497	32,377	9,890	11,694

We recorded research expenditure of approximately RMB32.6 million, RMB31.5 million, RMB32.4 million, RMB9.9 million and RMB11.7 million during the three years ended 31 December 2018 and four months ended 30 April 2018 and 2019, respectively. Our research expenditure decreased slightly by 3.4% from approximately RMB32.6 million for the year ended 31 December 2016 to approximately RMB31.5 million for the year ended 31 December 2017. Our research expenditure increased by 2.9% to approximately RMB32.4 million for the year ended 31 December 2018 mainly due to the increase in our staff costs of research personnel of approximately RMB1.1 million as a result of the increase in average salaries of our research staff during 2018. The increase for the four months ended 30 April 2019 as compared to the same period in 2018 was mainly attributable to the increased technical consultancy fee of approximately RMB1.2 million.

We recorded technical consultancy fees of approximately RMB19.2 million, RMB17.7 million, RMB17.6 million, RMB5.8 million and RMB7.0 million during the Track Record Period. These include fees for joint-research with external institutions, project technical support consultation, and research on new technology of manufacturing process and industrial design of our products.

Provision/reversal of loss allowance on trade and other receivables and contract assets

The table below sets out a breakdown of our loss allowance of trade receivables and other receivables and contract assets reversed or recognised, as at the dates indicated:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Provision (reversal) of loss allowance of trade receivables	3,322	385	2,002	(877)	1,898
Provision (reversal) of loss allowance of other receivables	5,561	147	(227)	70	(4)
Provision of loss allowance of contract assets	—	—	739	395	422
Total provision (reversal) of loss allowance	8,883	532	2,514	(412)	2,316

For details of our method adopted to estimate the amount of loss allowance, please refer to "Critical accounting judgements and key sources of estimation uncertainty — Critical judgements in applying accounting policies — Estimated impairment of financial assets and contract assets" in this section of the prospectus.

Income tax expense

The table below sets out a breakdown of our income tax expense for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
PRC Enterprise Income Tax ("EIT")	10,126	12,677	10,443	460	5,005
Deferred tax (credit) charge	(3,598)	(3,350)	4,089	724	(2,059)
Total income tax expense	6,528	9,127	14,532	1,184	2,946

Current tax

We are subject to income tax calculated at the applicable tax rates in accordance with the relevant laws and regulations of each tax jurisdiction we operate or are domiciled in.

Under the current laws and regulations of the Cayman Islands and the BVI, we are not subject to any income tax or capital gains tax in the Cayman Islands and the BVI.

No provision of Hong Kong profit tax was made during the Track Record Period as our Group had no assessable profit subject to Hong Kong profit tax during the Track Record Period.

EIT is calculated based on the statutory profits of our PRC subsidiaries in accordance with the applicable PRC tax laws and regulations, after adjusting certain income and expense items, which are not taxable or deductible for income tax purposes. Jiangsu Pengfei, an indirect wholly-owned subsidiary of our Company, obtained the "High Technology Enterprise" certificate* (高新技術企業證書) in 2015, thus entitling it to a preferential tax rate of 15% for a period from 1 January 2015 to 31 December 2017 under the relevant PRC tax laws and regulations. Jiangsu Pengfei applied for and obtained a new "High Technology Enterprise" certificate in 2019 therefore continued to enjoy the preferential tax rate of 15% for a further term of three years from 1 January 2018 to 31 December 2020. The remaining PRC subsidiaries of our Company were subject to EIT at a rate of 25% during the Track Record Period.

For the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, the income tax expenses incurred by our Group amounted to approximately RMB6.5 million, RMB9.1 million, RMB14.5 million, RMB1.2 million and RMB2.9 million, respectively and our effective tax rates was 16.3%, 13.7%, 16.5%, 17.3% and 17.6%.

Our Directors confirm that during the Track Record Period, we: (a) have made all required tax filings under the relevant tax laws and regulations and have paid all outstanding tax liabilities due; and (b) we were not subject to any other dispute or potential dispute with any tax authorities.

Profit and total comprehensive income for the year/period

As a result of the foregoing, our profit and total comprehensive income increased significantly by 71.7% from approximately RMB33.6 million for the year ended 31 December 2016 to approximately RMB57.7 million for the year ended 31 December 2017. It then increased by 27.0% to RMB73.3 million for the year ended 31 December 2018. Our profit and total comprehensive income increased by 143.7% from approximately RMB5.6 million for the four months ended 30 April 2018 to approximately RMB13.8 million for the same period in 2019.

REVIEW OF HISTORICAL RESULTS OF OPERATIONS

Four months ended 30 April 2019 compared to four months ended 30 April 2018

Revenue

Our total revenue increased by 63.2% to approximately RMB399.9 million for the four months ended 30 April 2019 from approximately RMB245.1 million for the four months ended 30 April 2018. The increase was mainly attributable to the increased revenue generated from both our manufacturing of equipment business and construction of production line business.

Manufacturing of equipment business

Revenue from manufacturing of equipment business increased by RMB79.1 million or 38.8% to approximately RMB283.0 million for the four months ended 30 April 2019 from approximately RMB203.9 million for the four months ended 30 April 2018 mainly attributable to the increase in revenue from sale of rotary kiln systems partially offset by the decrease in revenue from sale of grinding equipment system.

Sale of rotary kiln systems. Revenue from sale of rotary kiln system increased by RMB140.6 million or 165.1% to approximately RMB225.7 million for the four months ended 30 April 2019 from approximately RMB85.2 million for the four months ended 30 April 2018 mainly due to our sales made to a few major customers in Mainland China with considerably large revenue contribution during the four months ended 30 April 2019 as compared to customers in the same period of 2018.

Sale of grinding equipment systems. Revenue generated from the sale of grinding equipment system decreased by RMB63.3 million or 57.4% to approximately RMB47.0 million for the four months ended 30 April 2019 from approximately RMB110.3 million for the four months ended 30 April 2018 mainly attributable to the decreased demand of customers in the building materials industry.

Others. Other revenue from sale of scrap materials increased by RMB1.8 million or 21.5% to approximately RMB10.3 million for the four months ended 30 April 2019 from approximately RMB8.5 million for the four months ended 30 April 2018. As the scrap materials are generated during our production process, the increase of revenue was generally in line with our actual production volume of the corresponding period during the Track Record Period. For further details, please refer to "Business — Production facilities and production process — Production capacity and utilisation rate" in this prospectus.

Installation services business

Revenue from our installation services business increased by RMB4.3 million or 140.2% to approximately RMB7.3 million for the four months ended 30 April 2019 from approximately RMB3.0 million for the four months ended 30 April 2018. This increase was mainly due to the increased demand of installation services from customers under our manufacturing of equipment business for the four months ended 30 April 2019.

Construction of production line business

Revenue from our construction of production line business increased by RMB71.5 million or 187.5% to approximately RMB109.6 million for the four months ended 30 April 2019 from approximately RMB38.1 million for the four months ended 30 April 2018. This increase was mainly attributable to an increase in revenue of approximately RMB108.5 million from our Kazakhstan Cement Production Line which commenced construction in April 2018 and in full swing during the four months ended 30 April 2019, offset by the absence of revenue contribution of our Turkey Cement Production Line during the four months ended 30 April 2019 as a result of the completion of such project in September 2018.

Cost of sales and services

Our cost of sales and services increased by RMB120.5 million or 62.3% to approximately RMB313.9 million for the four months ended 30 April 2019 from approximately RMB193.4 million for the four months ended 30 April 2018 mainly due to the increase in cost of sales and services of both our manufacturing of equipment business and the construction of production line business. Cost of raw materials, being the largest component of our cost of sales and services increased by approximately RMB95.7 million or 65.4% to approximately RMB241.9 million for the four months ended 30 April 2019 from approximately RMB146.3 million for the same period in 2018, which was in line with our increased revenue for the same period.

Gross profit and gross profit margin

As a result of the forgoing, our overall gross profit increased by RMB34.3 million or 66.4% to approximately RMB86.0 million for the four months ended 30 April 2019 from RMB51.7 million for the four months ended 30 April 2018 and our gross profit margin remained stable at 21.1% and 21.5%, respectively for the four months ended 30 April 2018 and 2019.

Manufacturing of equipment business

Gross profit margin for our manufacturing of equipment business decreased to 20.6% for the four months ended 30 April 2019 from 22.8% for the four months ended 30 April 2018 primarily due to sales made to a few major customers during the four months ended 30 April 2019 which accounted for approximately 54.9% of revenue generated from manufacturing of equipment business with lower gross profit margin with a view to maintain a stable and long term business relationship with such customers.

Installation services business

We did not record any gross profit for our installation services business during the Track Record Period. For further details, please refer to the paragraph headed "Discussion of selected items in consolidated statements of profit or loss and other comprehensive income — Gross profit and gross profit margin — Installation services business" above in this section of the prospectus.

Construction of production line business

Gross profit margin for our construction of production line business increased to 25.3% for the four months ended 30 April 2019 from 13.5% for the four months ended 30 April 2018. Such increase was mainly attributable to our Kazakhstan Cement Production Line which accounted for 98.7% of our gross profit of our construction of production line business for the four months ended 30 April 2019 with a gross profit margin of 25.2%.

Other income

Our other income decreased by 37.1% to approximately RMB0.8 million for the four months ended 30 April 2019 from approximately RMB1.3 million for the four months ended 30 April 2018 as we did not record any interest income from independent third parties during the four months ended 30 April 2019 and as a result of decreased bank interest income during the same period.

Other gains and losses

We record other losses of approximately RMB0.9 million for the four months ended 30 April 2018 and approximately RMB1.6 million for the four months ended 30 April 2019. This was mainly due to an increase in net foreign exchange losses of approximately RMB0.5 million and other losses of approximately RMB0.4 million being partially offset by an increase in investment gain on financial assets at FVTPL of approximately RMB0.3 million during the four months ended 30 April 2019 as compared to the same period in 2018.

Selling and distribution expenses

Our selling and distribution expenses increased by 67.6% to approximately RMB36.6 million for the four months ended 30 April 2019 from approximately RMB21.9 million for the four months ended 30 April 2018 mainly due to the increased transportation and port expenses of approximately RMB10.5 million as a result of delivery services performed at the requests of some of our major customers during the four months ended 30 April 2019.

Administrative expenses

Our administrative expenses increased by 5.9% to approximately RMB14.4 million for the four months ended 30 April 2019 from approximately RMB13.6 million for the four months ended 30 April 2018 mainly attributable to the increased salaries, allowances and other benefits, office charges and consultancy fee during the four months ended 30 April 2019.

Research expenditure

Our research expenditure increased by 18.2% to approximately RMB11.7 million for the four months ended 30 April 2019 from approximately RMB9.9 million for the four months ended 30 April 2018 attributable to the increased technical consultancy fee of approximately RMB1.2 million as a result of the increased technical consultancy fee incurred for technical support consultation for our production line projects.

Provision/reversal of loss allowance on trade, other receivables and contract assets

We provided for loss allowance on trade, other receivables and contract assets of approximately RMB2.3 million for the four months ended 30 April 2019 mainly due to the increased balance of trade receivables and contract assets as at 30 April 2019.

Income tax expenses

Our income tax expenses increased by 148.8% to approximately RMB2.9 million for the four months ended 30 April 2019 from approximately RMB1.2 million for the four months ended 30 April 2018. Our effective tax rate was 17.3% and 17.6% for the four months ended 30 April 2018 and 2019. The relatively higher effective tax rate for the four months ended 30 April 2018 and 2019 was mainly due to the non-deductible expenses arising from the Listing.

Profit and comprehensive income for the period

As a result of the foregoing, our profit and total comprehensive income increased by 143.7% to approximately RMB13.8 million for the four months ended 30 April 2019 from approximately RMB5.6 million for the four months ended 30 April 2018.

Year ended 31 December 2018 compared to year ended 31 December 2017

Revenue

Our total revenue increased by RMB70.1 million or 7.4% to approximately RMB1,016.2 million for the year ended 31 December 2018 from approximately RMB946.1 million for the year ended 31 December 2017. The increase was mainly attributable to the increased revenue from our manufacturing of equipment business.

Manufacturing of equipment business

Revenue from manufacturing of equipment business increased by RMB126.7 million or 19.4% to approximately RMB780.4 million for the year ended 31 December 2018 from approximately RMB653.7 million for the year ended 31 December 2017 mainly attributable to the increase of revenue from sale of rotary kiln system.

Sale of our products in the rotary kiln system. Revenue from sale of our products in the rotary kiln system increased by RMB135.9 million or 39.6% to approximately RMB479.4 million for the year ended 31 December 2018 from approximately RMB343.5 million for the year ended 31 December 2017 mainly due to the increased sales from Mainland China for the year ended 31 December 2018. Such increase was resulted from our effort in diversifying our business into non-building materials industries since 2017 in coping with the impact of the implementation of the 2016 Guiding Opinions and the national energy conservation and consumption reduction policies.

Sale of our products in the grinding equipment system. Revenue generated from the sale of our products in the grinding equipment system decreased by RMB17.7 million or 6.0% to approximately

RMB277.5 million for the year ended 31 December 2018 from approximately RMB295.2 million for the year ended 31 December 2017 mainly attributable to the the decreased demand of grinding equipment from building materials industry resulting from the impact of the 2016 Guiding Opinions.

Others. Other revenue from sale of scrap materials increased by RMB8.4 million or 55.6% to approximately RMB23.5 million for the year ended 31 December 2018 from approximately RMB15.1 million for the year ended 31 December 2017. As the scrap materials are generated during our production process, the increase of revenue was generally in line with our increased production volume of the corresponding period during the Track Record Period.

Installation services business

Revenue from our installation services business increased by RMB4.9 million or 28.7% to approximately RMB22.0 million for the year ended 31 December 2018 from approximately RMB17.1 million for the year ended 31 December 2017. This increase was mainly due to the increased demand of installation services from customers under our manufacturing of equipment business for the year ended 31 December 2018.

Construction of production line business

Revenue from our construction of production line business decreased by RMB61.5 million or 22.3% to approximately RMB213.8 million for the year ended 31 December 2018 from approximately RMB275.3 million for the year ended 31 December 2017. This decrease was mainly attributable to the combined effect of (a) a decrease in our revenue of approximately RMB191.0 million from approximately RMB256.1 million for the year ended 31 December 2017 to approximately RMB65.1 million for the year ended 31 December 2018 as our Turkey Cement Production Line, which was in full swing in the year ended 31 December 2017, was completed in September 2018; (b) our Kazakhstan Cement Production Line which commenced construction in April 2018 contributed revenue of approximately RMB138.5 million for the year ended 31 December 2018; and (c) our contract of Uzbekistan Active Lime Plant that commenced in April 2018 contributed revenue of approximately RMB9.9 million.

Cost of sales and services

Our cost of sales and services increased by RMB48.1 million or 6.4% to approximately RMB799.8 million for the year ended 31 December 2018 from approximately RMB751.7 million for the year ended 31 December 2017 mainly due to the increase in cost of raw materials of manufacturing of equipment business partially offset by the decrease in cost of sales and services of installation services business. Cost of raw materials was the largest component of our cost of sales and services and decreased by RMB9.9 million to approximately RMB543.4 million for the year ended 31 December 2018 from approximately RMB553.3 million for the year ended 31 December 2017. Such decrease was mainly due to the decrease in cost of raw materials of our construction of production line business as we provided mainly civil construction services for our Kazakhstan Cement Production Line and did not incur substantial cost of raw materials. This was partially offset by the increase in cost of raw materials of our manufacturing of equipment business which was in line with the increased revenue during the same period.

Gross profit and gross profit margin

As a result of the forgoing, our overall gross profit increased by RMB22.0 million or 11.3% to approximately RMB216.4 million for the year ended 31 December 2018 from approximately RMB194.4 million for the year ended 31 December 2017 and our gross profit margin increased slightly to 21.3% for the year ended 31 December 2018 from 20.5% for the year ended 31 December 2017.

Manufacturing of equipment business

Gross profit margin for our manufacturing of equipment business decreased to 21.7% for the year ended 31 December 2018 from 23.6% for the year ended 31 December 2017 primarily due to lower proportion of our sales outside mainland China with higher profit margin as compared to our mainland China sales given the less competitive environment and our international brand recognition in the overseas market offsetting the effect of improvement in our production efficiency.

Installation services business

We did not record any gross profit for our installation services business during the Track Record Period. For further details, please refer to the paragraph headed "Discussion of selected items in consolidated statements of profit or loss and other comprehensive income — Gross profit and gross profit margin — Installation services business" above in this section of the prospectus.

Construction of production line business

Gross profit margin for our construction of production line business increased to 22.2% for the year ended 31 December 2018 from 14.7% for the year ended 31 December 2017. Such increase was mainly attributable to our Kazakhstan Cement Production Line which accounted for 73.7% of the total gross profit of our construction of production line business for the year ended 31 December 2018 with a gross profit margin of 25.2%.

Other income

Our other income increased by RMB18.8 million or 219.5% to approximately RMB27.3 million for the year ended 31 December 2018 from approximately RMB8.6 million for the year ended 31 December 2017 mainly due to the increase in government subsidies of approximately RMB20.2 million for the same period. The increased government subsidies received during the year ended 31 December 2018 represented mainly subsidies amounting to approximately RMB10.7 million in relation to the expenses incurred by our Group for the Listing.

Other gains and losses

We record other gains of approximately RMB1.2 million for the year ended 31 December 2017 and approximately RMB8.3 million for the year ended 31 December 2018. This was mainly due to (a) the turn of a net foreign exchange losses of approximately RMB12.5 million to a net foreign exchange gains of approximately RMB4.7 million during the year ended 31 December 2018 and (b) an increase in investment gain on financial assets at FVTPL of approximately RMB0.6 million to approximately RMB3.4 million for the year ended 31 December 2018 from approximately RMB2.8 million for the year ended 31 December 2017 which represent our investment gain in certain financial products issued by independent financial institutions or banks in the PRC.

Selling and distribution expenses

Our distribution and selling expenses increased by RMB12.0 million or 19.1% to approximately RMB74.7 million for the year ended 31 December 2018 from approximately RMB62.8 million for the year ended 31 December 2017 mainly due to the increase in our transportation and port expenses of approximately RMB11.6 million as a result of our increased requests from our customers for delivery. Our transportation and port expenses incurred was interrelated with our revenue during the same period, however subject to various combination of delivery method requested by our customers on a case by case basis as our products can be either collected by our customers at our site or delivered to place designated by our customers.

Administrative expenses

Our administrative expenses remained stable at approximately RMB41.6 million for the year ended 31 December 2018 and approximately RMB41.0 million for the year ended 31 December 2017.

Research expenditure

Our research expenditure increased by RMB0.9 million or 2.9% to approximately RMB32.4 million for the year ended 31 December 2018 from approximately RMB31.5 million for the year ended 31 December 2017 mainly due to the increase in our staff costs of research personnel of approximately RMB1.1 million as a result of the increased average salaries of our research staff during 2018.

Provision of loss allowance on trade, other receivables and contract assets

Provision of loss allowance on trade, other receivables and contract assets of an approximately RMB2.5 million for the year ended 31 December 2018 as compared to approximately RMB0.5 million for the year ended 31 December 2017 mainly due to the increased balance of our trade receivables and contract assets as at 31 December 2018.

Income tax expenses

Our income tax expenses increased by RMB5.4 million or 59.3% to approximately RMB14.5 million for the year ended 31 December 2018 from approximately RMB9.1 million for the year ended 31 December 2017. Our effective tax rate was 13.7% and 16.5% for the year ended 31 December 2017 and 2018. The comparatively lower effective tax rate for the year ended 31 December 2017 was mainly due to the utilisation of deductible temporary differences and tax losses previously not recognised. The comparatively higher effective tax rate for the year ended 31 December 2018 was mainly due to the non-deductible expenses relating to the Listing incurred by the Company.

Profit and total comprehensive income for the year

As a result of the foregoing, our profit and total comprehensive income increased by approximately RMB15.6 million or 27.0% to approximately RMB73.3 million for the year ended 31 December 2018 from approximately RMB57.7 million for the year ended 31 December 2017.

Year ended 31 December 2017 compared to year ended 31 December 2016

Revenue

Our total revenue increased by approximately RMB169.5 million or 21.8% to approximately RMB946.1 million for the year ended 31 December 2017 from approximately RMB776.7 million for the year ended 31 December 2016. The increase was mainly due to (a) an increase of approximately RMB78.1 million in revenue generated from our manufacturing of equipment business and; (b) an increase of approximately RMB105.1 million in revenue from construction of production line business.

Manufacturing of equipment business

Revenue from manufacturing of equipment business increased by approximately RMB78.1 million to approximately RMB653.7 million for the year ended 31 December 2017 from approximately RMB575.6 million for the year ended 31 December 2016 mainly attributable to the increase of revenue from sale of our products in the rotary kiln and grinding equipment systems.

Sale of our products in the rotary kiln system. Revenue from sale of our products in the rotary kiln system increased by approximately RMB27.9 million or 8.8% to approximately RMB343.5 million for the year ended 31 December 2017 from approximately RMB315.6 million for the year ended 31 December 2016 mainly due to the increased revenue generated for "Belt an Road" countries from approximately RMB1.0 million to approximately RMB21.6 million.

Sale of our products in the grinding equipment system. Revenue generated from the sale of our products in the grinding equipment system increased by approximately RMB48.8 million or 19.8% to approximately RMB295.2 million for the year ended 31 December 2017 from approximately RMB246.4 million for the year ended 31 December 2016 mainly attributable to the increase in revenue generated from building materials industry outside China as a result of (i) our effort in research and development to improve the performance of our grinding equipment and relevant processing techniques for applications in the building materials industry; and (ii) the "Belt and Road" initiative which has generated significant demand for infrastructure investment as well as construction materials producing equipment.

Others. Other revenue from sale of scrap materials increased by RMB1.5 million or 11.0% to approximately RMB15.1 million for the year ended 31 December 2017 from approximately RMB13.6 million for the year ended 31 December 2016. As the scrap materials are generated during our production process, the increase of revenue was generally in line with our actual production volume of the corresponding period during the Track Record Period.

Installation services business

Revenue from our installation services business decreased by RMB13.7 million or 44.5% to approximately RMB17.1 million for the year ended 31 December 2017 from approximately RMB30.8 million for the year ended 31 December 2016. This decrease was mainly due to the decreased demand of installation services from customers under our manufacturing of equipment business for the year ended 31 December 2017.

Construction of production line business

Revenue from our construction of production line business increased by RMB105.0 million or 61.7% to approximately RMB275.3 million for the year ended 31 December 2017 from approximately RMB170.3 million for the year ended 31 December 2016. This increase was mainly attributable to the combined effect of (a) an increase in our revenue of approximately RMB246.4 million from approximately RMB9.7 million for the year ended 31 December 2016 to approximately RMB256.1 million for the year ended 31 December 2017 for our Turkey Cement Production Line, the contract of which commenced in November 2016, was in full swing in the year ended 31 December 2017 and completed in September 2018; and (b) a decrease in our revenue of approximately RMB75.8 million from approximately RMB76.2 million for the year ended 31 December 2016 to approximately RMB0.4 million for the year ended 31 December 2017 for our Uzbekistan Cement Production Line, which was in full swing and completed in the year ended 31 December 2016; and (c) a decrease in our revenue of approximately RMB24.3 million for the year ended 31 December 2017 as a result of the completion of the Bangladesh Cement Production Line in the year ended 31 December 2017.

Cost of sales and services

Our cost of sales and services increased by approximately RMB117.3 million or 18.5% to approximately RMB751.7 million for the year ended 31 December 2017 from approximately RMB634.4 million for the year ended 31 December 2016 mainly due to the increase in our cost of raw materials. Our cost of raw materials was the largest component of our cost of sales and services and increased by approximately RMB92.0 million or 20.0% to approximately RMB553.3 million for the year ended 31 December 2017 from approximately RMB461.3 million for the year ended 31 December 2016. Such increase was in line with our increase in revenue for the same period of time.

Gross profit and gross profit margin

As a result of the forgoing, our overall gross profit increased by approximately RMB52.1 million or 36.6% to approximately RMB194.4 million for the year ended 31 December 2017 from approximately RMB142.3 million for the year ended 31 December 2016 and our gross profit margin increased slightly to 20.5% for the year ended 31 December 2017 from 18.3% for the year ended 31 December 2016.

Manufacturing of equipment business

Gross profit margin for our manufacturing of equipment business increased to 23.6% for the year ended 31 December 2017 from 16.4% for the year ended 31 December 2016 primarily due to (a) higher proportion of sales outside Mainland China with higher gross profit margin as compared with our China sales due to competitive environment and our brand recognition in the overseas market; and (b) the improvement in production efficiency resulting from higher utilisation rate of our production plant and thereby led to a decrease in our manufacturing overhead per unit product.

Installation services business

We did not record any gross profit for our installation services business during the Track Record Period. For further details, please refer to the paragraph headed "Discussion of selected items in consolidated statements of profit or loss and other comprehensive income — Gross profit and gross profit margin — Installation services business" above in this section of the prospectus.

Construction of production line business

Gross profit margin for our construction of production line business decreased to 14.7% for the year ended 31 December 2017 from 27.9% for the year ended 31 December 2016. Such decrease was mainly attributable to our Turkey Cement Production Line which accounted for 86.2% of the total gross profit for our construction of production line business for the year ended 31 December 2017 with a lower gross profit margin of approximately 13.5%.

Other income

Our other income increased by RMB1.2 million or 16.2% to approximately RMB8.6 million for the year ended 31 December 2017 from approximately RMB7.4 million for the year ended 31 December 2016 mainly due to the increase of approximately RMB1.7 million in government subsidies received from the PRC government in 2017 from approximately RMB2.0 million for the year ended 31 December 2016 to approximately RMB3.7 million for the year ended 31 December 2017. The increased government subsidies we received during the year ended 31 December 2017 mainly represented subsidies in relation to expenses incurred by our Group for the Listing amounting to approximately RMB1.0 million.

Other gains and losses

Our other gains and losses decreased by approximately RMB13.4 million or 91.5% to approximately RMB1.2 million for the year ended 31 December 2017 from approximately RMB14.6 million for the year ended 31 December 2016 mainly due to the net foreign exchange losses recorded of approximately RMB12.5 million due to the depreciation of USD against RMB which affected our monetary assets denominated in USD partially offset by the gain on disposal of subsidiaries of approximately RMB10.9 million during the year ended 31 December 2017.

Selling and distribution expenses

Our distribution and selling expenses increased by RMB21.7 million or 52.8% to approximately RMB62.8 million for the year ended 31 December 2017 from approximately RMB41.1 million for the year ended 31 December 2016 mainly due to (i) the increase of approximately RMB19.1 million in our transportation and port expenses for the year ended 31 December 2017; and (ii) the increase of approximately RMB1.9 million in commission expenses for the year ended 31 December 2017. Our transportation and port expenses incurred was interrelated with our revenue during the same period, however subject to various combination of delivery method requested by our customers on a case by case basis as our products can be either collected by our customers at our site or delivered to place designated by our customers. The increase in our commission expenses was in line with our increased revenue for the same period.

Administrative expenses

Our administrative expenses decreased slightly by RMB0.3 million or 0.7% to approximately RMB41.0 million for the year ended 31 December 2017 from approximately RMB41.3 million for the year ended 31 December 2016 but remained relatively stable.

Research expenditure

Our research expenditure decreased slightly by RMB1.1 million or 3.4% to approximately RMB31.5 million for the year ended 31 December 2017 from approximately RMB32.6 million for the year ended 31 December 2016 but still remained stable as compared to the year ended 31 December 2016.

Provision of loss allowance on trade and other receivables and contract assets

We recognised an approximately RMB0.5 million impairment loss for the year ended 31 December 2017. The decrease in impairment loss recognised for the year ended 31 December 2017 as compared to the year ended 31 December 2016 was mainly due to decrease of total trade receivables as a result of payment collection.

Income tax expenses

Our income tax expenses increased by RMB2.6 million or 40.0% to approximately RMB9.1 million for the year ended 31 December 2017 from approximately RMB6.5 million for the year ended 31 December 2016. Our effective tax rate was 16.3% and 13.7% for the year ended 31 December 2016 and 2017. The comparatively lower effective tax rate for the year ended 31 December 2017 was mainly due to utilisation of deductible temporary differences and the losses previously not recognised.

Profit and total comprehensive income for the year

As a result of the foregoing, our profit and total comprehensive income increased significantly by RMB24.1 million or 71.7% to approximately RMB57.7 million for the year ended 31 December 2017 from approximately RMB33.6 million for the year ended 31 December 2016.

DISCUSSION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets out our consolidated statements of financial position as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, which has been extracted from and should be read in conjunction with the Accountants' Report in Appendix I to this prospectus:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	266,707	233,977	212,184	202,166
Investment properties	44,199	15,460	14,001	13,576
Intangible assets	199	167	109	132
Right-of-use assets	38,624	28,653	40,005	40,810
Deposits paid for acquisition of property, plant and equipment	7,274	—	—	—
	357,003	278,257	266,299	256,687
Current assets				
Inventories	160,946	248,663	419,135	495,366
Trade, bills and other receivables	425,165	435,669	578,403	594,244
Contract assets	30,557	47,024	66,424	76,670
Contract costs	10,565	9,895	12,724	22,935
Value-added tax recoverable	10,901	12,573	3,497	15,084
Prepayments to suppliers	76,649	78,505	92,364	142,217
Amounts due from related parties	—	51,398	—	—
Financial assets at fair value through profit or loss ("FVTPL")	—	304,600	3,426	215,471
Term deposits	29,396	—	—	—
Restricted bank deposits	21,267	47,858	13,597	26,412
Bank balances and cash	228,302	96,589	233,881	162,872
	993,748	1,332,774	1,423,451	1,751,271

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Current liabilities				
Trade, bills and other payables	363,934	521,205	668,621	643,941
Contract liabilities	592,417	603,868	692,381	1,047,076
Amount due to a related party	802	—	817	801
Dividends payable	—	2,299	19,270	—
Tax payable	5,480	4,522	5,114	886
Bank borrowing	—	3,000	—	—
	962,633	1,134,894	1,386,203	1,692,704
Net current assets	31,115	197,880	37,248	58,567
Total assets less current liabilities	388,118	476,137	303,547	315,254
Capital and reserves				
Paid-in/share capital	37,316	88,702	51,386	51,386
Reserves	342,331	384,093	245,585	259,462
Equity attributable to owners of the Company	379,647	472,795	296,971	310,848
Non-controlling interests	260	(1,319)	(1,064)	(1,175)
Total equity	379,907	471,476	295,907	309,673
Non-current liability				
Deferred tax liabilities	8,211	4,661	7,640	5,581
	388,118	476,137	303,547	315,254

Property, plant and equipment

As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, our property, plant and equipment comprised of:

(a) buildings for production, office and ancillary use with net carrying values of approximately RMB152.7 million, RMB138.9 million, RMB132.6 million and RMB129.3 million, respectively;

(b) plant and machinery with net carrying values of approximately RMB106.4 million, RMB89.4 million, RMB74.9 million and RMB68.4 million, respectively;

(c) office equipment with net carrying values of approximately RMB1.0 million, RMB0.3 million, RMB0.3 million and RMB0.3 million, respectively;

(d) motor vehicles with net carrying values of approximately RMB6.5 million, RMB5.3 million, RMB4.4 million and RMB3.8 million, respectively; and

(e) construction in progress, comprising mainly warehouses, equipment and ancillary facilities, with net carrying values of approximately RMB0.2 million, RMB0.1 million, nil and RMB0.4 million, respectively.

The carrying amount of our property, plant and equipment decreased by 12.3% from approximately RMB266.7 million as at 31 December 2016 to approximately RMB234.0 million as at 31 December 2017, mainly arising from the depreciation provided for the period and the disposal of a subsidiary resulting in a decrease of building, plant and machinery in 2017. Our property, plant and equipment continued to decrease by 9.3% to approximately RMB212.2 million as at 31 December 2018, mainly due to the depreciation provided for the period offset by the additions of buildings through the acquisition of a subsidiary and purchase of plant and machinery. The decrease by approximately 4.7% from approximately RMB212.2 million as at 31 December 2018 to approximately RMB202.2 million as at 30 April 2019 was mainly attributable to the depreciation provided for the period offset by purchase of plant and machinery made.

Investment properties

Investment properties consist of certain properties leased to third parties for commercial and industrial uses. Fair value has been arrived at based on a valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, a firm of independent qualified professional valuers not connected with our Group, which have appropriate qualifications and recent experience in the valuation of similar investment properties.

The carrying amount of our investment properties decreased from approximately RMB44.2 million as at 31 December 2016 to approximately RMB15.5 million as at 31 December 2017 mainly due to decrease in investment properties through disposal of a subsidiary as part of the Reorganisation during the year ended 31 December 2017. It then further decreased to approximately RMB14.0 million as at 31 December 2018 mainly due to depreciation of the investment properties. The decrease by approximately 3.0% from approximately RMB14.0 million as at 31 December 2018 to approximately RMB13.6 million as at 30 April 2019 was mainly attributable to depreciation provided for the period.

For detailed discussion on fair value of our investment properties, please refer to note 16 of the Accountants' Report in Appendix I and valuation report in Appendix III to this prospectus.

Right-of-use assets

Carrying value of our right-of-use assets amounted to approximately RMB38.6 million, RMB28.7 million, RMB40.0 million and RMB40.8 million as at 31 December 2016, 2017 and 2018 and 30 April 2019, respectively.

Our right-of-use assets mainly comprised land use rights over state-owned land in the PRC that are amortised on a straight-line basis over the lease term of 50 years. Carrying value of ourright-of-use assets decreased by 25.8% from approximately RMB38.6 million as at 31 December 2016 to approximately RMB28.7 million as at 31 December 2017, mainly due to the disposal of a subsidiary during the year ended 31 December 2017. Carrying value of our right-of-use assets increased by 39.6% to RMB40.0 million as at 31 December 2018, mainly due to acquisition of land use rights through the acquisition of a subsidiary and the acquisition of land use rights from local government. It further increased by 0.2% to approximately RMB40.8 million as at 30 April 2019 as a result of the acquisition of land use rights from local government during the same period.

Contract assets

Contract assets primarily relate to our Group's right to billing for work completed and not billed because the rights are conditional upon specified payment milestones at the end of each reporting period.

The table below sets out a breakdown of our contract assets as at the dates indicated:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Construction of production line	1,048	—	18,149	26,191
Manufacturing of equipment	29,461	45,133	40,996	52,961
Installation service	48	1,891	9,779	440
	30,557	47,024	68,924	79,592
Less: Loss allowance for contract assets	—	—	(2,500)	(2,922)
	30,557	47,024	66,424	76,670

Our contract assets increased by 53.6% from approximately RMB30.6 million as at 31 December 2016 to approximately RMB47.0 million as at 31 December 2017 mainly due to increased retention money to be received from our manufacturing of equipment business as the warranty period of which has not passed. Our contract assets further increased by 41.3% to approximately RMB66.4 million for the year ended 31 December 2018 due to the increased value of our works performed for our Kazakhstan Cement Production Line as at 31 December 2018 with right to billing and not billed. Our Group has received the payment in full in January 2019 as the specified payment milestone was achieved. The increase by approximately 15.4% from approximately RMB66.4 million as at 31 December 2018 to approximately RMB76.7 million as at 30 April 2019 was mainly attributable to the increased value of work performed for the Kazakhstan Cement Production Line as at 30 April 2019 with conditional right to billing.

As of 31 August 2019, approximately RMB30.9 million or 40.3% of our contract assets as at 30 April 2019 has been transferred to trade receivables upon specific milestone payments have been achieved.

Inventories

The table below sets out a breakdown of our inventories as at the dates indicated and our average inventory turnover days for the periods indicated:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	85,877	98,563	159,848	140,387
Work-in-progress	72,814	149,248	258,411	354,103
Finished goods	2,255	852	876	876
Total	160,946	248,663	419,135	495,366

	Year ended 31 December			Four months ended 30 April
	2016	2017	2018	2019
Inventory turnover (days) *(Note)*	112	99	152	175

Note: Average inventory turnover days equals to the average of the opening and closing balances of our inventories divided by our cost of sales and multiplied by 365 days/120 days.

Our Group has in place an inventory management system that tracks all incoming and outgoing inventory relating to each purchase/service order and/or the common-usage raw materials so as to ensure that an optimal inventory level is maintained at all times to satisfy the needs of our customers without over-stocking. We also carry out stock takes at least once a year. We set up different warehouses for all types of inventories according to the requirements of product storage, and configure different measures for inventories with the relevant product identification.

Our overall inventories increased by 54.6% from approximately RMB160.9 million as at 31 December 2016 to approximately RMB248.7 million as at 31 December 2017 and further increased by 68.5% to approximately RMB419.1 million as at 31 December 2018. It then increased by 18.2% to approximately RMB495.4 million as at 30 April 2019. During the Track Record Period, the movement in the amount of overall inventories is consistent with the movement of the work-in-progress. It is our business model to maintain raw materials and ancillary materials necessary for our production requirements and not to keep excessive inventory of finished products.

Our inventory turnover days for the three years ended 31 December 2018 and the four months ended 30 April 2019 was 112 days, 99 days, 152 days and 175 days. The inventory turnover days were stable except for the year ended 31 December 2018 and the four months ended 30 April 2019. This was mainly due to the increased balance of work-in-progress maintained which was in line with the increased ending value of backlog of our manufacturing of equipment business as at 31 December 2018 and 30 April 2019.

Raw materials

Principal raw materials for our manufacturing of equipment business and the construction of production line business are steel materials including steel plates, castings and forgings, and our principal parts and components include motors, reducers and bearings. Our raw materials balances increased steadily during the three years ended 31 December 2018 amounting to approximately RMB85.9 million, RMB98.6 million, RMB159.8 million, respectively and decreased by 12.2% to approximately RMB140.4 million as at 30 April 2019. The relative high balance of our raw materials as at 31 December 2018 was mainly due to procurement of an increased amount of raw materials by our Group in anticipation of the progress of our production line projects and manufacturing of equipment which was in line with the increased ending value of backlog as at 31 December 2018. The decrease in balance of our raw materials as at 30 April 2019 was mainly resulted from the increased use of raw materials in our production.

Work-in-progress

Work-in-progress mainly comprises cylinders, driving device, shafting, main frame and supporting device. As we recognise revenue from construction of production line business over time by reference to the stage of completion using input method, our inventories costs incurred for the construction of production line business are recognised as cost of sales and services instead of work-in-progress. As such, the entire balances of our work-in-progress as at 31 December 2016, 2017, 2018 and 30 April 2019 related to our manufacturing of equipment business. Our work-in-progress increased by 104.9% from approximately RMB72.8 million as at 31 December 2016 to approximately RMB149.2 million as at 31 December 2017 and further increased by 73.2% to approximately RMB258.4 million as at 31 December 2018. It then increased by 37.0% to approximately RMB354.1 million as at 30 April 2019. Such increase is in line with the increased ending value of backlog of our manufacturing of equipment business during the Track Record Period.

Finished goods

Our Group maintained a low level of finished goods as normally our production equipment products were assembled at our customers' sites due to their large size and products may be customised upon requests from our customers. Our finished goods balance were approximately RMB2.3 million, RMB0.9 million, RMB0.9 million and RMB0.9 million as at 31 December 2016, 2017 and 2018 and 30 April 2019 mainly comprised of finished products ready for delivery from our manufacturing of equipment business.

As of 31 August 2019, approximately RMB222.4 million or 44.9% of our inventories as at 30 April 2019 were subsequently used.

During the Track Record Period, no allowance for inventory provision was provided. For further details of our inventory control and management policies, please refer to “Business — Suppliers, procurement and inventory management — Inventory management” in this prospectus.

Trade, bills and other receivables

The table below sets out a breakdown of our trade and other receivables as at the dates indicated and our average trade receivable turnover days for the periods indicated:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB’000	RMB’000	RMB’000	RMB’000
Trade receivables	189,500	156,366	187,949	221,269
Less: Loss allowance for trade receivables	(13,365)	(9,225)	(14,271)	(14,583)
	176,135	147,141	173,678	206,686
Bills receivables	167,409	263,368	382,603	367,396
Total trade receivables and bills receivables	343,544	410,509	556,281	574,082
Other receivables and prepayments				
Other receivables	7,574	8,824	8,578	7,305
Prepaid expenses	452	1,328	818	7,542
Loan to independent third parties	73,595	10,008	9,249	800
Consideration receivable	—	5,000	—	—
Deferred issue costs	—	—	3,762	4,796
	81,621	25,160	22,407	20,443
Less: Loss allowance for other receivables	—	—	(285)	(281)
	81,621	25,160	22,122	20,162
	425,165	435,669	578,403	594,244

Trade receivables

Our trade receivables mainly comprised outstanding balances to be received from our customers under our manufacturing of equipment, installation services and construction of production line businesses.

As at 31 December 2016, 2017, 2018 and 30 April 2019, we had trade receivables, net of loss allowance of approximately RMB176.1 million, RMB147.1 million, RMB173.7 million and RMB206.7 million, representing 17.7%, 11.0%, 12.2% and 11.8% of our total current assets, respectively. Our trade receivables decreased by 16.5% from approximately RMB176.1 million as at 31 December 2016 to approximately RMB147.1 million as at 31 December 2017 mainly due to (a) increased overseas sales where our Group usually requires such customers to settle payments by letter of credit; and (b) our active collection of the trade receivables for the purpose of credit risks management. Our trade receivables increased by 18.1% to approximately RMB173.7 million as at 31 December 2018, mainly due to one of our production line project customers failing to make payment in accordance with agreed schedule before the performance of our work during the same period which to our knowledge was due to the prolonged payment approval process of the bank financing such project. In view of our established relationship with this customer and its credit history, we continued to perform our work despite that it is our usual practice to perform work only after receipt of payment from our customer. Such payment has been received in full in January 2019.

The increase in our trade receivables, net of loss allowance, by approximately 3.2% from approximately RMB556.3 million as at 31 December 2018 to approximately RMB574.1 million as at 30 April 2019 was mainly attributable to the delay in settlement from one of our production line customers resulting from the prolonged approval procedures of its financing bank. In May 2019, our Group, due to the expected delay in settlement from this customer, entered into a supplemental agreement with such customer pursuant to which our Group agreed to defer an amount of RMB280,000,000 (the "**Deferred Payment**"), being the outstanding payment upon completion of the construction of such production line, carried out a fixed interest rate of 8.41% per annum. The Deferred Payment would be settled in every three months by twelve installments starting from 30 June 2020. Any receivable balance, apart from the Deferred Payment, from this customer should be settled as originally scheduled. Our Group has agreed such deferred payment arrangement with this customer after taking into account, among others, (i) the credibility of the customer; (ii) the Group's business relationship with such customer, and (iii) the security obtained by the Group including corporate guarantee from such customer's holding company and affiliated company as well as share charges provided by such holding company and asset pledge provided by such customer.

The following is an aged analysis of trade receivables, net of loss allowance, presented based on the date when our Group obtains the unconditional rights for payment at the end of each reporting period.

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
0 to 1 year	75,430	62,318	118,377	157,693
1 to 2 years	42,522	37,260	19,606	11,904
over 2 years	58,183	47,563	35,695	37,089
	176,135	147,141	173,678	206,686

The table below sets out the trade, bills receivables and contract assets turnover days for the Track Record Period:

	Year ended 31 December			Four months ended 30 April
	2016	**2017**	**2018**	**2019**
Trade receivable turnover (days)*(Note 1)*	83	62	58	57
Bills receivable turnover (days)*(Note 2)*	71	83	116	113
Contract assets turnover (days)*(Note 3)*	18	15	20	21
Trade, bills receivable and contract assets turnover (days)*(Note 4)*	172	160	194	191

Note 1: Average trade receivable turnover days equals to the average of the opening and closing balances of our trade receivables divided by our revenue and multiplied by 365 days/120 days.

Note 2: Average bills receivable turnover days equals to the average of the opening and closing balances of our bills receivables divided by our revenue and multiplied by 365 days/120days.

Note 3: For illustration purpose only, average contract assets turnover days equals to the average of the opening and closing balances of our contract assets divided by our revenue and multiplied by 365 days/120 days.

Note 4: For illustration purpose only, average trade, bills receivable and contract assets turnover days equals to the average of the opening and closing balances of our trade, bills receivables and contract assets divided by our revenue and multiplied by 365 days/120days.

Our Group provided appropriate and sufficient amount of ECL on trade receivables. We determined ECL on trade receivables on an individual basis for customer with high credit risk based on our Group's historical credit loss experience of different customer portfolio (i.e, those trade receivables which had been past due over 2 years with no settlement within 1 year).

We determined ECL on the remaining trade receivables on a collective basis using a provision matrix, estimated by internal credit rating considering the geographical information of the customers and aging of the receivables. We applied an appropriate rate of credit loss to each category of our trade receivables (i.e., not credit impaired and credit impaired) which is estimated based on our historical credit loss experience according to our past default experience, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The identification of defaulted trade receivables, the grouping and category of trade receivables and the credit loss rate of each category of trade receivables used in our credit risk grading framework is regularly reviewed by us to ensure relevant information about specific debtors is updated and the provision of ECL is appropriate and sufficient.

As at 31 December 2016, 2017, 2018 and 30 April 2019, trade receivables, net of loss allowance, of approximately RMB176.1 million, RMB147.1 million, RMB173.7 million and RMB206.7 million, respectively, were past due. Trade receivables amounted to approximately RMB6.0 million was fully impaired, as management of our Group considered such trade receivables are defaulted and may not be recoverable since they have been past due over two years and with no settlement within one year as at 30 April 2019.

To the best knowledge of our Directors, there is no recoverability issue for the long outstanding trade receivables aged for more than one year. Our Directors are of the view that adequate expected loss provision has been made.

Balances of our long aged trade receivables, net of loss allowance, (i.e. those were more than two years based on the date when our Group obtains the unconditional rights for payment) were mainly due from a few independent customers, representing 56.5%, 60.9%, 60.2% and 60.2% of our trade receivables aged over two years as at 31 December 2016, 2017 and 2018 and 30 April 2019, respectively. Set out below are the movements of trade receivables, net of loss allowance by such customers during the Track Record Period.

	Entity A(2)	**Entity B**(3)	**Entity C**(4)	**Entity D**(5)	**Entity E**(6)	**Entity F**(7)	**Entity G**(8)	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Trade receivables aged over two years as at 31 December 2016	10,574	7,654	3,500	—	—	5,679	5,345	32,752
Brought forward from the previous year end(1)	—	—	—	—	—	—	—	—
Amount of settlement during the year ended 31 December 2017	(527)	—	—	—	—	(2,703)	(551)	(3,781)

	Entity A(2)	Entity B(3)	Entity C(4)	Entity D(5)	Entity E(6)	Entity F(7)	Entity G(8)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loss allowance for trade receivables	—	—	—	—	—	—	—	—
Trade receivables aged over two years as at 31 December 2017	10,047	7,654	3,500	—	—	2,976	4,794	28,971
Brought forward from the previous year end(1)	—	—	—	2,340	2,272	—	—	4,612
Amount of settlement during the year ended 31 December 2018	(1,330)	—	(500)	—	—	(2,961)	(4,794)	(9,585)
Loss allowance for trade receivables	(872)	(765)	(300)	(234)	(341)	(2)	—	(2,514)
Trade receivables aged over two years as at 31 December 2018	7,845	6,889	2,700	2,106	1,931	13	—	21,484
Brought forward from the previous year end(1)	—	—	—	—	1,541	—	—	1,541
Amount of settlement during the four months ended 30 April 2019	—	—	—	(500)	—	(15)	—	(515)
Loss allowance for trade receivables	—	—	—	50	(231)	2	—	179
Trade receivables aged over two years as at 30 April 2019	7,845	6,889	2,700	1,656	3,241	—	—	22,331
Amount of settlement after the Track Record Period but before the Latest Practicable Date	(1,473)	—	—	(650)	—	—	—	(2,123)

Notes:

(1) *Trade receivables brought forward represented certain trade receivables aged between one to two years as at the previous reporting date while became more than two years old as at the upcoming reporting date.*

(2) *To the best knowledge of the Directors, the long overdue balance in respect of Entity A, a state-owned enterprise in the PRC and an indirectly wholly-owned subsidiary of a company listed on the Shanghai Stock Exchange and the Stock Exchange, was resulted from the lengthy internal payment process and temporary stringent cash flow of this customer. Entity A has undertaken to our Group in repaying the outstanding amount in stages starting from the second quarter of 2019 and we expect such amount to be fully settled by the end of 2019. Based on ongoing communication with such customer, the Directors understand that payment is currently being internally processed and taking into account the background of such customer being a state-owned enterprise, information available in the public domain with respect to the financial condition of the listed group, and the undertaking given by such customer to settle the overdue balance, the Directors are of the view that there is no recoverability issue of the overdue balance from Entity A.*

(3) *To the best knowledge of the Directors, the long overdue balance in respect of Entity B was due to its stringent cash flow and internal restructuring undergone in recent years causing a delay in payment. After taking into account (i) ongoing communication with such customer regarding its financial condition; (ii) undertaking given by such customer to settle the overdue balance; and (iii) the corporate guarantee provided by a company controlled by one of the shareholders of Entity B in favour of Jiangsu Pengfei for all outstanding amount due from Entity B, the Directors are of the view that there is no recoverability issue of the overdue balance from Entity B.*

(4) *To the best knowledge of the Directors, the long overdue balance in respect of Entity C was attributable to its change of ownership whereby settlement of payment was prolonged.*

(5) *To the best knowledge of the Directors, overdue balance in respect of Entity D was mainly due to the delay in payments as a result of its stringent cash flow. Given that we have been receiving continuous payments from Entity D since February 2018 and we are not in dispute with such customer, the Directors are of the view that there is no recoverability issue of the overdue balance from Entity D.*

(6) *To the best knowledge of the Directors, overdue balance in respect of Entity E was mainly due to the delay in payments as a result of its stringent cash flow. The overdue balance related to retention money for our Uzbekistan Cement Production Line not released after the expiry of the warranty period. Through communication with this customer, our Directors understand that the production plant has only been operating stably since 2019 and proceeds from sales of cement were used by this customer to repay bank loan financing such project. Taking into account (i) the good payment history of such customer; (ii) ongoing business cooperation with project owner, being a related party of the owner of our Uzbekistan Active Lime Plant which was still under construction as at the Latest Practicable Date; and (iii) undertaking given by such customer to settle the overdue balance, the Directors are of the view that there is no recoverability issue of the outstanding balance from Entity E.*

(7) *The long overdue balance in respect of Entity F mainly related to overdue payments for purchase of certain equipment arising from a product quality claim made by this customer in relation to an equipment provided by a third party supplier of the Company. As at the Latest Practicable Date, such outstanding amount has been fully settled by Entity F.*

(8) To the best knowledge of the Directors, overdue balance in respect of Entity G was mainly due to the delay in payments as a result of its stringent cash flow and all outstanding amount has been fully settled by Entity G during the year ended 31 December 2018.

Set out below are the revenue contribution of such customers and their respective percentage to our total revenue during the Track Record Period:

	Year ended 31 December						Four months ended 30 April 2019	
	2016		2017		2018			
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%
Entity A.	—	—	—	—	1,487	0.1	—	—
Entity B.	—	—	—	—	—	—	20	—*
Entity C.	33	—*	—	—	—	—	—	—
Entity D.	7,834	1.0	—	—	—	—	—	—
Entity E *(Note)*.	76,247	9.8	373	—*	—	—	—	—
Entity F	—	—	—	—	—	—	—	—
Entity G.	—	—	—	—	—	—	—	—
Total	84,114	10.8	373	—*	1,487	0.1	20	—*

Note: Entity E is one of our top five customers (Customer B) during the year ended 31 December 2016. For further details of Customer B, please refer to paragraph headed "Business — Customers, sales and marketing — Information on our top five customers" in this prospectus.

* Value insignificant

Save as disclosed above, none of the entities mentioned above was our five largest customers during the Track Record Period.

We have entered into settlements agreements or received undertaking from all seven companies mentioned above to settle such overdue balances before the end of 2019. The Directors confirm, save as disclosed above, we have no dispute with these customers in respect of their respective outstanding trade receivables.

In view of (a) the settlement agreements entered into or undertaking given by the customers mentioned above pursuant to which they all agreed to settle their respective outstanding amounts in full by or before the end of 2019; (b) the ongoing settlement payments received from certain customers during the last 12 months; and (c) our past experience with these customers, our Directors believe that there is no significant change in the credit quality of such long aged trade receivables and consider the amounts to be recoverable.

As at the Latest Practicable Date, approximately RMB70.2 million or 34.0% of our trade receivables as at 30 April 2019 was subsequently settled. The following table sets out the ageing analysis of our trade receivables, net of loss allowance, as at 30 April 2019 presented based on the date when our Group obtains the unconditional rights for payment and the subsequent settlement until the Latest Practicable Date by ageing band:

	Trade receivables, net of loss allowance, as at 30 April 2019	**Subsequent settlement until the Latest Practicable Date**
	RMB'000	**RMB'000**
0 to 1 year	157,693	60,303
1 to 2 years	11,904	3,008
over 2 years	37,089	6,897
	206,686	70,208

Our production was generally implemented in stages depending on the amount of progress payment made by our customers.

We do not grant any credit period to our customers during the Track Record Period. We did not hold any collateral as security over such outstanding balances. During the Track Record Period, we wrote-off approximately RMB0.3 million, RMB4.5 million, RMB2.8 million and RMB1.6 million trade receivables for the relevant periods, respectively, as we did not expect such amount to be collectible.

Our decreasing trade receivable turnover days was in line with the increasing revenue during the Track Record Period.

Our trade, bills receivables and contract assets turnover days for the three years ended 31 December 2018 and four months ended 30 April 2019 was 172 days, 160 days, 194 days and 191 days, respectively. The fluctuation of our trade, bills receivables and contract assets turnover days during the three years ended 31 December 2018 were mainly affected by the increasing turnover days of our bills receivables during the corresponding period as a result of the increasing amount of receivables settled by bank acceptance bills. The relatively low turnover days for the year ended 31 December 2017 was mainly attributable to the decreased balance of trade receivables as at 31 December 2017 resulting from the increased overseas sales where our Group usually requires such customers to settle payments by letter of credit. Turnover days of our trade, bills receivables and contract assets for the four months ended 30 April 2019 remained relatively stable as compared to the year ended 31 December 2018.

Bills receivables

Our bills receivables mainly represent bank acceptance bills. As at 31 December 2016, 2017, 2018 and 30 April 2019, we had bills receivables of approximately RMB167.4 million, RMB263.4 million, RMB382.6 million and RMB367.4 million, representing 16.8%, 19.8%, 26.9% and 21.0% of our total current assets, respectively. Our bills receivables increased by 57.3% from approximately RMB167.4 million as at 31 December 2016 to approximately RMB263.4 million as at 31 December 2017 and further increased by 45.3% to approximately RMB382.6 million as at 31 December 2018, mainly due to increasing number of Mainland China customers who used bank acceptance bills to settle our invoice in order to facilitate their liquidity. Our bills receivables decreased slightly by approximately 4.0% from approximately RMB382.6 million as at 31 December 2018 to approximately RMB367.4 million as at 30 April 2019.

The table below sets out the aged analysis of our bills receivables based on the issue dates of such bills, as at the dates indicated:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
0 to 180 days	167,109	211,411	324,379	363,436
181 days to 1 year	300	51,957	58,224	3,960
	167,409	263,368	382,603	367,396

The table below sets out the maturity analysis of our bills receivables based on the remaining number of days to maturity of such bills, as at the dates indicated:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
0 to 180 days	166,999	251,825	379,893	299,018
181 days to 1 year	410	11,543	2,710	68,378
	167,409	263,368	382,603	367,396

Other receivables and prepayments

Our other receivables and prepayments mainly comprised of other receivables including staff advance; refundable tender deposit; prepaid expenses; loan to independent third parties and consideration receivables. As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, we had other receivables and prepayments net of loss allowance of approximately RMB81.6 million, RMB20.2 million, RMB22.1 million and RMB20.2 million, representing 8.2%, 1.9%, 1.6% and 1.2% of our total current assets, respectively. Our other receivables and prepayments, net of loss allowance decreased significantly by 69.2% from approximately RMB81.6 million as at 31 December 2016 to approximately RMB25.2 million as at 31 December 2017, mainly due to the decrease of loan to independent third parties of approximately RMB63.6 million. Our other receivables subsequently decreased by 12.1% to approximately RMB22.1 million as at 31 December 2018, mainly due to the consideration receivable for disposal of subsidiaries of approximately RMB5.0 million being received in full during the year ended 31 December 2018. The decrease in our other receivables and prepayments, net of loss allowance by approximately 8.9% from approximately RMB22.1 million as at 31 December 2018 to approximately RMB20.2 million as at 30 April 2019 was mainly attributable to the increased prepaid expenses made for the purpose of early preparation work before the commencement of one of our production line project.

As at 31 December 2016, 2017, 2018 and 30 April 2019, our Group's loan to independent third parties are unsecured, repayable on demand and carry at fixed interests ranged from 5.0% to 6.2%, 4.4% to 6.0% and 4.4% to 4.5%, and 4.4% per annum, respectively. As at 30 April 2019, we had an outstanding balance of loan to independent third parties of approximately RMB0.8 million. The remaining amount relates to our contribution to an emergency solidarity fund established by the local government.

We did not hold any collateral as security over such outstanding balances.

Prepayments to suppliers

Prepayment to suppliers mainly comprised advances made to certain suppliers, which included, among others, suppliers for steels manufacturer, suppliers for reducer, electric motors and third party contractor for installation works. Such advances were mostly utilised within the next 12 months after the end of each reporting year/period during the Track Record Period.

Our prepayments to suppliers increased by 2.4% from approximately RMB76.6 million as at 31 December 2016 to approximately RMB78.5 million as at 31 December 2017 which remained at a similar level as compared to the balance as at 31 December 2016. Our prepayments to suppliers further increased by 17.7% to approximately RMB92.4 million as at 31 December 2018, mainly due to the increased ending value of backlog as at 31 December 2018. The increase in our prepayments to suppliers by approximately 54.0% from approximately RMB92.4 million as at 31 December 2018 to approximately RMB142.2 million as at 30 April 2019 was in line with the increasing ending value of backlog as at 30 April 2019.

Amounts due from/(to) related parties

The amounts due from/to related parties were non-trade nature, unsecured, interest free. Our amounts due from related parties amounted to approximately nil, RMB51.4 million, nil and nil as at 31 December 2016, 2017, 2018 and 30 April 2019, respectively.

The amounts due from Ambon, PF International, PF Global amounting to in aggregate approximately RMB51.4 million as at 31 December 2017 represented the unpaid share capital of our Company and had been fully settled in the year ended 31 December 2018.

Our amounts due to a related party amounted to approximately RMB0.8 million, nil, RMB0.8 million and RMB0.8 million as at 31 December 2016, 2017, 2018 and 30 April 2019, respectively. The outstanding amount as at 30 April 2019 will be fully settled before Listing.

For further details, please refer to "Notes to historical financial information — 25. Amounts due from (to) related parties" in Appendix I to this prospectus.

Financial assets at fair value through profit or loss ("FVTPL")

The following table sets forth a breakdown of our financial assets at fair value through profit or loss included in current and non-current assets as at the dates indicated:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Unlisted money market funds	—	—	3,426	4,173
Unlisted financial products	—	304,600	—	211,298
	—	304,600	3,426	215,471

During the Track Record Period, we invested with our Group's available cash-in-hand which were idle funds as a result of timing mismatch between the receipt of advance payment and performance of procurement and production obligations occurring from time to time in certain money market funds and financial products issued by independent financial institutions or banks in the PRC before the relevant contractual obligations for procurement and production are due to be performed by us as part of our treasury measure for better short-term cash flows management purposes.

The unlisted financial products of approximately RMB304.6 million as at 31 December 2017 represents our short-term non-principal guaranteed investments with no guaranteed return in (a) wealth management products all issued by Bank of China Limited with investment amount of RMB57.0 million, RMB140.0 million and RMB100.0 million as at 31 December 2017; and (b) trust plans of assembled fund product issued by Hehe Asset Management (Shanghai) Co., Ltd. (和合資產管理(上海)有限公司) with investment amount of RMB5.0 million as at 31 December 2017. Such unlisted financial products were disposed during the year ended 31 December 2018. The unlisted financial products of approximately RMB211.3 million as at 30 April 2019 represents our short-term investments with no guaranteed return in wealth management products issued by Bank of China Limited and Bank of Jiangsu Co. Ltd. with an aggregate investment amount of RMB210.0 million. Term of investment of all the aforementioned financial products invested by our Group were less than six months.

The unlisted money market funds of approximately RMB3.4 million and RMB4.2 million as at 31 December 2018 and 30 April 2019 respectively represent our short-term non-principal guaranteed investments with no guaranteed return in a hybrid securities investment fund issued by Guotai Asset Management Co., Ltd. (國泰基金管理有限公司) with an investment amount of RMB5.0 million as at the Latest Practicable Date and is redeemable at our option.

The return of these investments was determined by reference to the performance of the underlying debt instruments and the expected return rate stated in the contracts. The annualised rate of return on the unlisted financial products held by our Group were approximately 1.6%, 4.9%, 4.3% and 4.4% for each of the three year ended 31 December 2018 and the four months ended 30 April 2019, respectively. The annualised rate of return on the unlisted money market funds held by our Group were approximately nil, -1.3%, -39.1% and 45.4% for each of the three years ended 31 December 2018 and the four months ended 30 April 2019, respectively. Due to the nature of unlisted money market funds held by our Group during the Track Record Period, being hybrid securities investment funds investing mainly in equity securities, their rate of return was subject to higher volatility. The hybrid securities investment fund held by our Group as at the Latest Praticable Date was purchased by us during the year ended 31 December 2018. Going forward and upon Listing, we will only invest in principal guaranteed money market funds and financial products of not more than three months investment period in accordance with our investment management policies as well as the enhanced internal control measures set out below. The gains from these financial assets at FVTPL are recognised as other investment gain. For further details of our other investment gain, please refer to the paragraph headed "Other gains and losses" in this section of the prospectus.

We are subject to interests risk, default risk and market risk associated with the investment in securities and wealth management products. We have adopted investment management policies since2015 to monitor and control the potential risks relating to our investment activities. Our investment activities are managed by members in our finance department. All initiatives in material investment activities are required to be submitted to the board together with detailed descriptions of the investment products and the feasibility analysis for approval. To better safeguard our Group against the interests risk, default risk and market risk associated with such form of short-term cash management through investment in financial assets (including listed and unlisted money market funds, financial products and wealth management products issued by banks in the PRC), have adopted the enhanced internal control measures as follows:

1. the investment committee with initial members consisting of our executive Directors and our Group's finance director (currently being Mr. Dai Xianru who is an executive Director) to control, review and approve any subscription of or investment in financial assets initiated by our finance department;

2. in determining whether and which financial assets to invest, the investment committee shall consider, on a case-by-case basis, by adopting principles that such investment shall comply with applicable laws and regulations, in line with our business strategy, shall not interfere with our business operations and such investments shall be beneficial to our Group;

3. all such financial assets invested by our Group shall be for short-terms of not more than three months investment period (unless such investment period is extended because of public holidays);

4. all investments in financial assets shall be capital guaranteed;

5. the aggregate amount of funds used to invest in financial assets shall at all times not exceed 30% of our Group's cash on hand at the relevant time and shall not be more than the total amount of operating cash outflow of our Group in the preceding 3 months at any relevant time. The financial department shall submit a report on a monthly basis on the status and details of the Group's investments in financial assets to the Board (including all the independent non-executive Directors) and whether the related internal control measures concerning investments in financial assets have been complied with; and

6. we have set up and maintained a separate bank account, which is designated for the sole purpose of the depositing and deployment of the net proceeds from the Share Offer such that the same will not be applied for any investment in financial assets.

Trade, bills and other payables

The table below sets out a breakdown of our Group's trade, bills and other payables as at the dates indicated and our average trade payable turnover days for the periods indicated:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	269,227	360,049	502,045	455,047
Bills payables	37,090	100,742	93,958	114,950
Other taxes payables	9,120	8,705	9,008	8,234
Amounts due to independent third parties	6,099	6,720	10,556	10,542
Accrued expense	708	656	196	615
Accrued issue costs and listing expenses	—	—	5,926	2,825
Accrued payroll and welfare	11,085	13,545	13,743	7,023
Unpaid incremental commission	26,559	27,862	32,412	43,932
Lease liabilities	119	104	89	84
Other payables	3,927	2,822	688	689
	363,934	521,205	668,621	643,941

	Year ended 31 December			Four months ended 30 April
	2016	2017	2018	2019
Trade payable turnover (days)*(Note 1)*	161	153	197	183

Note:

1. Average trade payable turnover days equals to the average of the opening and closing balances of our trade payables divided by our cost of sales and multiplied by 365 days/120 days.

Our trade, bills and other payables mainly represent our trade payables, bills payables, amounts due to independent third parties, accrued payroll and welfare, which amounted to approximately RMB363.9 million, RMB521.2 million, RMB668.6 million and RMB643.9 million as at 31 December 2016, 2017 and 2018, and 30 April 2019, respectively.

Trade and bills payables

Our trade and bills payables mainly represents the amounts payable to our suppliers for our purchases of raw materials such as steel materials, castings and forgings, reducer and installation service provider.

Our trade and bills payables increased by 50.4% to approximately RMB460.8 million as at 31 December 2017 from approximately RMB306.3 million as at 31 December 2016, mainly due to the increased amount of raw materials purchased resulting from the increased ongoing manufacturing of equipment projects as at 31 December 2017, which can be reflected from the increase in our ending value of backlog during the year ended 31 December 2017. Our trade and bills payables further increased by 29.3% to approximately RMB596.0 million as at 31 December 2018 mainly due to increased amount of raw materials purchased resulting from the increased ongoing manufacturing of equipment projects as at 31 December 2018, which can be reflected from the increase in our ending value of backlog. The decrease in our trade and bills payables by approximately 4.4% from approximately RMB596.0 million as at 31 December 2018 to approximately RMB570.0 million as at 30 April 2019 was mainly attributable to (a) settlement of payables to our major suppliers during the four months ended 30 April 2019; and (b) bank acceptance bills used by our Group to settle trade payables in 2018 has reached maturity resulting in a decrease of our trade payables as at 30 April 2019.

During the Track Record Period, our suppliers generally allowed us credit periods ranging from 0 to 365 days and certain suppliers allow longer credit period on a case-by-case basis.

The table below sets out the aged analysis of our trade payables based on invoice dates as at the dates indicated:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
0 to 1 year	238,153	314,516	462,984	411,965
1 year to 2 years	19,243	24,548	24,925	27,498
Over 2 years	11,831	20,985	14,136	15,584
	269,227	360,049	502,045	455,047

Our trade payable turnover days for the three years ended 31 December 2018 and four months ended 30 April 2019 was 161 days, 153 days, 197 days and 183 days. The relatively high trade payable turnover days for the year ended 31 December 2018 was mainly due to the settlement of our trade payable using our bills receivables during the year ended 31 December 2018.

Our Directors confirm that there were no material defaults in settlement of our trade payables during the Track Record Period.

As at 31 August 2019, approximately RMB190.2 million or 41.8% of our trade payables as at 30 April 2019 were subsequently settled after the Track Record Period.

The movements of our trade, bills and other payables during the Track Record Period were also attributed by accrued payroll and welfare and amount due to independent third parties. Our accrued payroll and welfare amounted to approximately RMB11.1 million, RMB13.5 million, RMB13.7 million and RMB7.0 million as at 31 December 2016, 2017, 2018 and 30 April 2019, respectively. Our amount due to independent third parties amounted to approximately RMB6.1 million, RMB6.7 million, RMB10.6 million and RMB10.5 million as at 31 December 2016, 2017, 2018 and 30 April 2019, respectively. The balance as at 30 April 2019 represents the Company's remaining balances of a loan of US$1,430,000 and an interest of US$171,000 (equivalent to approximately RMB10.5 million) in pursuant to a loan agreement dated 27 October 2018 and deeds of assignments on 11 November 2018 to an independent third party. The interest rate for such loan is 6% per annum as at 30 April 2019 and is unsecured and repayable on demand.

Our Directors confirm that there were no material defaults in settlement of our other payables during the Track Record Period.

Contract liabilities

Contract liabilities represent the amounts we received in advance pursuant to the relevant contracts entered with our customer mainly from our manufacturing of equipment and construction of production line businesses prior to our Group's performance of such contracts.

The table below sets out a breakdown of our contract liabilities as at the dates indicated:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts received in advance in respect of				
- Manufacturing of equipment *(Note i)*	464,466	499,607	672,815	801,783
- Construction of production line *(Note ii)*	127,951	104,261	19,566	245,293
	592,417	603,868	692,381	1,047,076

Notes:

(i) For sales of equipment, revenue is recognised when control of the production equipment has transferred to the customer, being at the point the equipment are accepted by the customer.

(ii) These are balances due to customers under construction of production line contracts. These arise if a particular milestone payment exceeds the revenue recognised by our Group at the end of each reporting period.

Our contract liabilities increased by 1.9% from approximately RMB592.4 million as at 31 December 2016 to approximately RMB603.9 million as at 31 December 2017 but remained stable as compared with 2016. Our contract liabilities then increased by 14.7% to approximately RMB692.4 million as at 31 December 2018, mainly due to the increased advance payment made by our customers pursuant to new contracts under our manufacturing of equipment business signed during the year ended 31 December 2018 offsetting by the decreased milestone payment received from our production line customers during the same period. The increase in our contract liabilities by approximately 51.2% from approximately RMB692.4 million as at 31 December 2018 to approximately RMB1,047.1 million as at 30 April 2019 was mainly attributable to the advance payment and milestone payment received from both our manufacturing of equipment and construction of production line business customers during the four months ended 30 April 2019.

LIQUIDITY AND CAPITAL RESOURCES

We fund our operations mainly through the following means, including: (a) payments received from our customers under our contracts entered with them and (b) banking facilities.

Our working capital requirements mainly comprised payments for: (a) raw materials; (b) sub-contracting fees; (c) staff costs; and (d) overhead.

During the Track Record Period, we did not experience any liquidity shortage, we managed our liquidity risks by maintaining adequate reserves, banking facilities, continuously monitoring our forecasted and actual cash flows and matching the maturity profiles of our assets and liabilities.

We may require additional cash resources in future due to various factors, including: (a) changing business conditions or other developments; and (b) investment and/or acquisition opportunities or other similar actions. We expect our future working capital and other liquidity requirements to be satisfied mainly through a combination of resources, including: (a) net cash inflow from our operating activities; (b) banking facilities made available to us; and (c) the proceeds from the Share Offer.

However, our ability to fund our working capital needs, repay our indebtedness and finance other obligations depends on our future operating performance and cash flow, which are in turn subject to the prevailing economic conditions, the level of spending by our customers and other factors, many of which are beyond our control. If our existing cash resources are insufficient to meet our requirements, we may seek to obtain extra credit facilities, or sell or issue equity securities, which might result in dilution of our Shareholders' shareholdings in our Company.

Cash flows

Our cash and cash equivalents (including our bank balances and cash and term deposit with original maturity of less than three months) amounted to approximately RMB233.3 million, RMB96.6 million, RMB233.9 million and RMB162.9 million as at 31 December 2016, 2017, 2018 and 30 April 2019, respectively. The following table sets out a summary of our cash flows for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
OPERATING ACTIVITIES					
Profit before tax	40,102	66,783	87,848	6,832	16,712
Adjustments for:					
Finance costs	353	1,605	1,204	199	180
Bank interest income	(1,135)	(1,141)	(889)	(223)	(149)
Interest income from independent third parties	(1,276)	(1,063)	(658)	(353)	—
Other investment gain	(159)	(2,845)	(3,438)	(2,426)	(2,760)
Depreciation of property, plant and equipment	6,890	6,439	5,751	1,875	1,764
Depreciation of investment properties	3,085	1,604	1,459	487	422
Amortisation of intangible assets	6	10	9	3	3
Depreciation of right-of-use assets	510	361	121	31	38
Loss (gain) on disposal of property, plant and equipment	5	(137)	(248)	(47)	—
Amortisation of contract costs	4,620	8,679	6,289	2,163	3,182
Gain on disposal of subsidiaries	(821)	(10,862)	—	—	—
Loss on deregistration of subsidiaries	494	100	—	—	—
Provision (reversal) of loss allowance on trade and other receivables and contract assets	8,883	532	2,514	(412)	2,316
Net foreign exchange (gain) loss	(13,304)	6,497	(3,512)	3,664	2,199
Operating cash flow before movements in working capital	48,253	76,562	96,450	11,793	23,907
Decrease (increase) in inventories	98,200	(56,197)	(139,573)	5,087	(66,148)
(Increase) decrease in trade, bills and other receivables	(49,091)	(85,436)	(150,484)	14,464	(26,318)
Decrease (increase) in contract assets	17,365	(16,467)	(21,900)	(6,871)	(10,668)
Increase in contract costs	(6,101)	(8,009)	(9,118)	(2,627)	(13,393)
(Increase) decrease in value-added tax recoverable	(4,710)	(2,227)	9,076	11,834	(11,587)
Increase in prepayments to suppliers	(33,974)	(2,346)	(13,859)	(18,358)	(49,853)

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(Decrease) increase in trade, bills and other payables	(10,444)	156,665	142,805	(153,051)	(23,937)
Increase in contract liabilities	66,086	11,451	88,513	82,172	354,695
Cash generated from (used in) operations	125,584	73,996	1,910	(55,557)	177,542
PRC Enterprise Income Tax paid	(7,056)	(13,635)	(9,851)	(4,518)	(9,233)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	118,528	60,361	(7,941)	(60,075)	168,309
INVESTING ACTIVITIES					
Proceeds on disposal of property, plant and equipment	14	1,603	438	73	—
Net cash (outflow) inflow arising from disposal of subsidiaries	(29,293)	62,119	5,000	5,000	—
Placement of term deposits	—	(60,000)	—	—	—
Withdrawal of term deposits	10,000	83,000	—	—	—
Placement of restricted bank deposits	(144,800)	(135,997)	(202,755)	(35,342)	(36,000)
Withdrawal of restricted bank deposits	131,414	109,406	237,016	27,507	23,185
Purchase of property, plant and equipment	(9,881)	(1,934)	(9,933)	(2,571)	(1,601)
Purchase of intangible assets	(171)	(29)	—	—	(40)
Payments for right-of-use assets	(565)	(2,482)	(10,010)	—	(1,057)
Consideration paid for the acquisition of assets through acquisition of a subsidiary	—	—	(6,659)	(6,659)	—
Bank interest received	912	2,537	889	223	149
Interest income from independent third parties	1,276	1,063	658	212	—
Purchase of financial assets at FVTPL	—	(328,000)	(459,000)	(205,000)	(553,400)
Disposal of financial assets at FVTPL	65,325	26,245	763,612	400,928	344,115
Loan to independent third parties	(70,506)	(8,649)	(28,449)	—	—
Repayment received from loan to independent third parties	16,580	72,236	29,208	417	8,449
Advance to related parties	—	(12)	(2,825)	—	—
Repayments received from advance to related parties	633	—	2,837	—	—
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(29,062)	(178,894)	320,027	184,788	(216,200)

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
FINANCING ACTIVITIES					
New bank borrowings raised	—	50,000	—	—	—
Repayment of bank borrowings	—	(47,000)	(3,000)	(3,000)	—
Interest paid	(349)	(1,601)	(464)	(45)	—
Issue of shares of the Company	—	—	37,663	18,843	—
Loan received from independent third parties	—	621	23,543	—	—
Repayments of loan from independent third parties	—	—	(6,720)	—	—
Advance from related parties	—	—	817	247	—
Repayments to related parties	—	(802)	—	—	—
Repayments of lease liabilities	(19)	(19)	(19)	(7)	(7)
Issue cost paid	—	—	(2,322)	—	(1,758)
Capital contribution from a non-controlling shareholder	—	—	100	—	—
Cash paid for Group Reorganisation	—	—	(36,997)	—	—
Deemed distribution to owners of the Company	—	—	(3,739)	—	—
Dividend paid to owners of the Company	(13,043)	(14,659)	(184,883)	(39,736)	(19,270)
NET CASH USED IN FINANCING ACTIVITIES	(13,411)	(13,460)	(176,021)	(23,698)	(21,035)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	76,055	(131,993)	136,065	101,015	(68,926)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	146,743	233,302	96,589	96,589	233,881
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	10,504	(4,720)	1,227	(2,054)	(2,083)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD, REPRESENTED BY	233,302	96,589	233,881	195,550	162,872
Bank balances and cash	228,302	96,589	233,881	195,550	162,872
Term deposits with original maturity of less than 3 months	5,000	—	—	—	—
	233,302	96,589	233,881	195,550	162,872

Net cash from operating activities

During the Track Record Period, our cash from operating activities comprised mainly payments received from our customers for the sale of equipment, provision of installation services and the construction of production line used in operating activities during the Track Record Period were mainly attributable to payments for purchase of raw materials, sub-contracting fees for our manufacturing of equipment, installation services and construction of production line businesses.

Net cash from operating activities reflects our profit before tax adjusted for: (a) non-cash items, mainly comprising depreciation of property, plant and equipment, depreciation of investment properties amortisation of contract costs and provision of loss allowance on trade and other receivables and contract assets; (b) changes in working capital, mainly comprising decrease and increase in inventories, trade, bills, and other receivables, prepayments to suppliers and contract liabilities; and (c) items unrelated to operating activities such as finance costs and foreign exchange gain and loss. During the three years ended 31 December 2018 and four months ended 30 April 2018 and 2019, our operating cash flow before movements in working capitals was approximately RMB48.3 million, RMB76.6 million, RMB96.5 million, RMB11.8 and RMB23.9 million.

For the year ended 31 December 2016, we had net cash from operating activities of approximately RMB118.5 million, which was primarily contributed by a decrease in inventories of approximately RMB98.2 million and an increase in contract liabilities of approximately RMB66.1 million. These cash flow was offset by an increase in prepayment to suppliers of approximately RMB34.0 million and a decrease in trade, bills and other payables of approximately RMB10.4 million.

For the year ended 31 December 2017, we had net cash from operating activities of approximately RMB60.3 million, which was primarily contributed by an increase in trade, bills and other payables of approximately RMB156.7 million. This cash flow was offset by an increase in inventories of approximately RMB56.2 million and an increase in trade, bills and other receivables of approximately RMB85.4 million. The increase in trade, bills and other payables was primarily due to increased amount of raw materials purchased resulting from the increased ongoing manufacturing of equipment projects as at 31 December 2017, which can be reflected from the increase in our ending value of backlog.

For the year ended 31 December 2018, we had net cash used in operating activities of approximately RMB7.9 million, which was primarily contributed by an increase in inventories of approximately RMB139.6 million and an increase in trade, bills and other receivables of approximately RMB150.5 million. This cash flow was offset by an increase in trade, bills and other payables of approximately RMB142.8 million and an increase in contract liabilities of approximately RMB88.5 million. We have experienced a net cash outflow from operating activities for the year ended 31 December 2018 as a result of (a) increased inventory purchase along with the increased ending value of backlog of our manufacturing of equipment business; (b) prolonged payment approval process of one production line project customer; and (c) increased number of domestic customers who have settled payments by bank acceptance bill. With a view to improving our cash flow position, we will actively follow up with our customers for payment and negotiate with our suppliers for alternative payment method including bank acceptance bills.

For the four months ended 30 April 2019, we had net cash from operating activities of approximately RMB168.3 million, which was primarily contributed by an increase in contract liability of approximately RMB354.7 million. This cash flow was partially offset by (a) an increase in inventories of approximately RMB66.1 million; (b) an increase in prepayments to suppliers of approximately RMB49.9 million; and (c) a decrease in trade, bill and other payables of approximately RMB23.9 million.

Please refer to "Financial information — Discussion of selected items in consolidated statements of financial position" for further details and analysis of our working capital.

Net cash from (used in) investing activities

During the Track Record Period, our net cash from and used in investing activities comprised mainly: (a) payment or prepayment for the purchases of property, plant and equipment; (b) placement of restricted bank deposits; (c) withdrawal of restricted bank deposits; and (d) purchase of financial products.

For the year ended 31 December 2016, our net cash used in investing activities was approximately RMB29.1 million comprising primarily: (a) loan to independent third parties of approximately RMB70.5 million and (b) net cash outflow arising from disposal of subsidiaries of approximately RMB29.3 million, partially offset by proceeds from disposal of financial assets at FVTPL of approximately RMB65.3 million.

For the year ended 31 December 2017, our net cash used in investing activities was approximately RMB178.9 million comprising primarily payments for purchase of financial assets designated as FVTPL of approximately RMB328.0 million, partially offset by (a) repayment received from loan to independent third parties of approximately RMB72.2 million; (b) net cash inflow arising from disposal of subsidiaries of approximately RMB62.1 million; and (c) proceeds from disposal of financial assets as FVTPL of approximately RMB26.2 million.

For the year ended 31 December 2018, our net cash from investing activities was approximately RMB320.0 million comprising primarily proceeds from disposal of financial assets at FVTPL of approximately RMB763.6 million, partially offset by payments for purchase of financial assets at FVTPL of approximately RMB459.0 million.

For the four months ended 30 April 2019, we had net cash used in investing activities of approximately RMB216.2 million comprising primarily payments for purchase of financial assets at FVTPL of approximately RMB553.4 million, partially offset by proceeds from disposal of financial assets at FVTPL of approximately RMB344.1 million.

Net cash used in financing activities

During the Track Record Period, our net cash used in financing activities comprised mainly: (a) new bank borrowing raised; (b) repayment of bank borrowings; and (c) interest and dividend payments.

For the year ended 31 December 2016, our net cash used in financing activities amounted to approximately RMB13.4 million, comprising primarily dividend paid to owners of the Company of approximately RMB13.0 million.

For the year ended 31 December 2017, our net cash used in financing activities amounted to approximately RMB13.4 million, comprising primarily dividend paid to owners of the Company of approximately RMB14.7 million.

For the year ended 31 December 2018, our net cash used in financing activities amounted to approximately RMB176.0 million, primarily comprising dividend paid to owners of the Company of RMB184.9 million partially offset by loan received from independent third parties of approximately RMB23.5 million net of repayment of loan from independent third parties of approximately RMB6.7 million.

For the four months ended 30 April 2019, we had net cash used in financing activities of approximately RMB21.0 million, primarily comprising dividend paid to owners of the Company of approximately RMB19.3 million.

Sufficiency of working capital

Taking into account the financial resources available to us, including our available facilities, cash and cash equivalents on hand, cash flows generated from our operations and the estimated proceeds from the Share Offer, and in the absence of unforeseen circumstances, our Directors are of the opinion that we have available sufficient working capital for our present requirements and for at least 12 months from the date of this prospectus.

Current assets and current liabilities

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

	As at 31 December			As at 30 April	As at 31 August
	2016	2017	2018	2019	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets					
Inventories	160,946	248,663	419,135	495,366	523,908
Trade, bills and other receivables	425,165	435,669	578,403	594,244	926,701
Contract assets	30,557	47,024	66,424	76,670	54,160
Contract costs	10,565	9,895	12,724	22,935	21,598
Value-added tax recoverable	10,901	12,573	3,497	15,084	3,195
Prepayments to suppliers	76,649	78,505	92,364	142,217	108,603
Amounts due from related parties	—	51,398	—	—	—
Financial assets at fair value through profit or loss ("FVTPL")	—	304,600	3,426	215,471	155,519
Term deposits	29,396	—	—	—	—
Restricted bank deposits	21,267	47,858	13,597	26,412	14,808
Bank balances and cash	228,302	96,589	233,881	162,872	194,063
	993,748	1,332,774	1,423,451	1,751,271	2,002,555
Current liabilities					
Trade, bills and other payables	363,934	521,205	668,621	643,941	775,722
Contract liabilities	592,417	603,868	692,381	1,047,076	1,110,656
Amount due to a related party	802	—	817	801	843
Dividends payable	—	2,299	19,270	—	—
Tax payable	5,480	4,522	5,114	886	5,704
Bank borrowings	—	3,000	—	—	—
	962,633	1,134,894	1,386,203	1,692,704	1,892,925
Net current assets	31,115	197,880	37,248	58,567	109,630

We had net current assets of approximately RMB31.1 million, RMB197.9 million, RMB37.2 million and RMB58.6 million as at 31 December 2016, 2017, 2018 and 30 April 2019, respectively.

Our current assets mainly consist of inventories, trade, bills and other receivables, contract assets and bank balances and cash. Our current liabilities mainly consist of trade, bills and other payables and contract liabilities.

Our net current asset increased from approximately RMB31.1 million as at 31 December 2016 to approximately RMB197.9 million as at 31 December 2017 primarily attributable to increase of approximately RMB87.7 million in the balance of our inventories as at 31 December 2017 as compared to 31 December 2016 and an increase of approximately RMB304.6 million in the balance of financial assets at fair value through profit or loss as at 31 December 2017 as compared to 31 December 2016 which was offset by a decreased bank balance and cash of approximately RMB131.7 million and an increased trade, bills and other payables of approximately RMB157.3 million.

Our net current asset then decreased from approximately RMB197.9 million as at 31 December 2017 to approximately RMB37.2 million as at 31 December 2018 primarily attributable to an increase of approximately RMB147.4 million in the balance of our trade, bills and other payables as at 31 December 2018 as compared to 31 December 2017 partially offset by an increase of approximately RMB137.3 million in the balance of our bank balances and cash and an increase of approximately RMB142.7 million in our balance of our trade, bills and other receivables as at 31 December 2018 as compared to 31 December 2017.

The increase in our net current asset by approximately 57.2% from approximately RMB37.2 million as at 31 December 2018 to approximately RMB58.6 million as at 30 April 2019 was mainly attributable to an increase of approximately RMB212.0 million in the balance of financial assets at fair value through profit or loss as at 30 April 2019 as compared with 31 December 2018 which was partially offset by an increase of approximately RMB354.7 million in the balance of our contract liabilities as at 30 April 2019 as compared with 31 December 2018.

INDEBTEDNESS

As at the close of business on 31 August 2019, being the latest practicable date for the purpose of this indebtedness statement, our Group had the following indebtedness:

Non-trade related amount due to an independent third party

As at 31 August 2019, our Group had non-trade related amount due to an independent third party with amount of approximately RMB11.3 million, which was unsecured and unguaranteed.

Non-trade related amount due to a related party

As at 31 August 2019, our Group had non-trade related amount due to a related party with amount of approximately RMB0.8 million, which was unsecured and unguaranteed.

Lease liability

As at 31 August 2019, our Group, as a lessee, had lease liability with amount of approximately RMB0.1 million, which was unsecured and unguaranteed.

Banking facilities

As at 31 August 2019, we had banking facilities of approximately RMB560.0 million, of which approximately RMB205.1 million were utilised. The utilised banking facilities as at 31 August 2019 represented bank guarantee of approximately RMB169.1 million and bank acceptance bill amounted to approximately RMB36.0 million. As at 31 August 2019, our Group had unutilised banking facilities amounted to approximately RMB354.9 million.

Our banking facilities as at 31 August 2019 contain covenants as is commonly found in lending arrangement with financial institutions. Among other customary covenants, we are required to notify the lender in time, if our operating system or form of management changes or may change, including but not limited to carrying out split, merger, joint ventures, sino-foreign joint ventures, reorganisation, reform, listing, reduction of registered capital, changes in ownership, transfer of significant assets and debt, a substantial increase in the debt financing, dissolution, revocation, winding-up, or being involved in material litigation or arbitration cases and other actions that may adversely affect our Group's financial position and ability to perform its obligations under such facilities.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any difficulty in obtaining credit facilities or withdrawal of facilities, request for early repayment, default in payments or breach of financial covenants of our loans and borrowings. We have been able to repay our loans and borrowings whenever they are due and payable. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had no material default with regard to covenants and/or breaches of covenants under our loans and borrowings. Our Directors also confirm that there are no material covenants in our existing loans and borrowings that impose a substantial limitation on our ability to obtain further financing.

Save as disclosed above and apart from intra-group liabilities disclosed in the prospectus, we did not have other outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans issued and outstanding or agreed to be issued, loans from government, debt securities or other similar indebtedness, finance lease on hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or material contingent liabilities outstanding as at 31 August 2019, being the latest practicable date for the purpose of this indebtedness statement.

Material change in indebtedness

Our Directors confirm that, as at the Latest Practicable Date, there was no material change in our Group's indebtedness since 31 August 2019. Our Directors have further confirmed that, as at the Latest Practicable Date, we did not have any plans to raise any material debt financing shortly after the Listing.

PROPERTY VALUATION

Jones Lang LaSalle Corporate Appraisal and Advisory Limited has valued the properties held by us as of 31 July 2019. The particulars of our owned properties and valuation certificates issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited are set forth in Appendix III to this prospectus.

A reconciliation of the net book value of our properties as of 30 April 2019 as set forth in Accountants' Report in Appendix I to their fair value as of 31 July 2019 as stated in the property valuation report in Appendix III is set forth below:

	Amount
	RMB'000
Net book value of our property interests as at 30 April 2019:	
Buildings included in property, plant and equipment	129,251
Investment properties	13,579
Right-of-use assets	40,810
Additions for the three months ended 31 July 2019:	
Buildings included in property, plant and equipment	—
Investment properties	—
Right-of-use assets	—
Less: Depreciation and amortization for the three months ended 31 July 2019	4,142
	179,498
Valuation surplus	137,262
Valuation as at 31 July 2019 as set forth in Appendix III to this prospectus	316,760

OFF-BALANCE SHEET TRANSACTIONS

Save as disclosed in paragraph headed "Commitment" in this section of the prospectus, we have not entered into any material off-balance sheet transactions or arrangements during the Track Record Period and up to the Latest Practicable Date.

KEY FINANCIAL RATIOS

The table below sets out the key financial ratios for our Group as at the dates/for the periods indicated:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
				(annualised)
Key financial ratio				
Gross profit margin *(Note 1)*	18.3%	20.5%	21.3%	21.5%
Net profit margin *(Note 2)*	4.1%	6.2%	7.1%	3.5%
Current ratio *(Note 3)*	103.3%	117.5%	102.7%	103.5%
Quick ratio *(Note 4)*	86.6%	95.6%	72.5%	74.2%
Gearing ratio *(Note 5)*	255.7%	241.0%	469.3%	546.3%
Return on assets *(Note 6)*	2.4%	3.6%	4.3%	2.1%
Return on equity *(Note 7)*	8.4%	12.4%	24.4%	13.4%

Notes:

1. Gross profit margin is calculated based on our gross profit divided by the total revenue for the respective year/period.

2. Net profit margin equals to our profit and total comprehensive income for the year/period attributable to owners of the Company divided by our revenue for the year/period, multiplied by 100%.

3. Current ratio equals to our total current assets divided by our total current liabilities as at the respective dates, multiplied by 100%.

4. Quick ratio equals to our total current assets less our inventories divided by our total current liabilities as at the respective dates, multiplied by 100%.

5. Gearing ratio equals to our total liabilities divided by our equity attributable to owners of the Company as at the respective dates, multiplied by 100%.

6. Return on assets equals to our profit and total comprehensive income for the year/period attributable to owners of the Company divided by the closing balance of our total assets, multiplied by 100%.

7. Return on equity equals to our profit and total comprehensive income for the year/period attributable to owners of the Company divided by the closing balance of our equity attributable to owners of the Company, multiplied by 100%.

Current ratio and quick ratio

Our current ratio increased from 103.3% for the year ended 31 December 2016 to 117.5% for the year ended 31 December 2017 mainly due to the increase in our current assets resulting from the increase in our inventories and financial assets at FVTPL offsetting by the decrease in our bank balances and cash as at 31 December 2017 as compared to 31 December 2016. Our current ratio then decreased to 102.7% mainly due to the increase of our current liabilities as a result of the increase in dividend payables as at 31 December 2018 as compared to 31 December 2017. It then increased to 103.5% as at 30 April 2019 due to the increase in our current assets resulting from the increase in our financial assets are FVTPL as at 30 April 2019 as compared to 31 December 2018.

Our quick ratio increased from 86.6% for the year ended 31 December 2016 to 95.6% for the year ended 31 December 2017 mainly due to the increased balance of our financial assets at FVTPL as at 31 December 2017 as compared to 31 December 2016. It then decreased to 72.5% for the year ended 31 December 2018 mainly due to the increase in our dividend payables as at 31 December 2018 as compared to 31 December 2017. It then increased to 74.2% as at 30 April 2019 due to the increased balance of our financial assets at FVTPL as at 30 April 2019 as compared to 31 December 2018.

Gearing ratio

Our gearing ratio decreased from 255.7% as at 31 December 2016 to 241.0% as at 31 December 2017. The decrease in gearing ratio was due to the continuing increase in our net profit for the year ended 31 December 2016 and 31 December 2017.

Our gearing ratio increased to 469.3% as at 31 December 2018 as a result of the declaration of dividend of approximately RMB201.9 million during the same period.

It then increased to 546.3% as at 30 April 2019 as a result of the increased balance of our contract liabilities as at 30 April 2019 as compared to 31 December 2018.

Return on assets

Our return on assets increased from 2.4% for the year ended 31 December 2016 to 3.6% for the year ended 31 December 2017, mainly due to the increase in our net profit for the year attributable to owners of the Company. Our return on assets further increased to 4.3% for the year ended 31 December 2018, mainly due to the increase in our net profit for the year attributable to owners of the Company. During the four months ended 30 April 2019, our return on assets decreased to 2.1% due to the decrease in annualised net profit for the year 2019 as compared to the actual net profit of 2018.

Return on equity

Our return on equity increased from 8.4% for the year ended 31 December 2016 to 12.4% for the year ended 31 December 2017, mainly due to increase in net profit attributable to owners of the Company and the declaration of dividends of approximately RMB17.0 million. Our return on equity further increased to 24.4% for the year ended 31 December 2018, mainly due to the increase in our net profit for the year attributable to owners of the Company offset by the declaration of dividend of approximately RMB201.9 million. During the four months ended 30 April 2019, our return on equity decreased to 13.4% due to the decrease in annualised net profit for the year 2019 as compared to the actual net profit of 2018.

LISTING EXPENSES

The total listing expenses (including underwriting commission) in respect of the Share Offer is estimated to be approximately RMB36.8 million (equivalent to approximately HK$43.0 million) (based on the mid-point of our indicative Offer Price Range and assuming that the Over-allotment Option is not exercised). Out of the amount to be borne by our Group, approximately RMB12.9 million of our total listing expenses is expected to be accounted for as a deduction from equity upon the Listing, whereas the remaining approximately RMB23.9 million is expected to be charged to our consolidated statements of profit or loss and other comprehensive income. Up to 30 April 2019, approximately RMB15.1 million has been recognised and charged to our consolidated statements of profit or loss and other comprehensive income.

Potential investors should note that our financial performance for the year ending 31 December 2019 is expected to be adversely affected by our estimated non-recurring listing expenses mentioned above, and may or may not be comparable to our financial performance in the past.

DIVIDENDS

Our Board is responsible for submitting proposals in respect of dividend payments, if any, to our Shareholders for approval at general meetings. A decision to declare any dividends and the amount of such dividends depend on various factors, including our results of operation, cash flows, financial condition, future business prospects, statutory and contractual restrictions on the payment of dividends by us and other factors that our Board considers relevant.

During the Track Record Period, we declared cash dividends in the aggregate amount of approximately RMB12.8 million, RMB17.0 million, RMB201.9 million and nil for the relevant periods, respectively. We expect to pay a dividend of no less than 30% of the profit after tax upon Listing each year. The payment and amounts of dividends, if any, depend on our results of operations, cash flows, financial position, statutory and regulatory restrictions on the dividends paid by us, future prospects and others factors which we consider relevant.

Holders of our Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the shares. The declaration, payment and amount of dividends will be subject to our discretion. The proposed payment of dividends is also subject to the absolute discretion of our Board, and, after Listing, any declaration of final dividend for the year will be subject to the approval of our Shareholders. The Board will review the dividend policy on an annual basis.

CAPITAL EXPENDITURES

During the Track Record Period, we incurred capital expenditures primarily for the acquisition of property, plant and equipment, purchase of intangible assets and right-of-use assets. Our capital expenditures were approximately RMB10.6 million, RMB4.4 million, RMB19.9 million and RMB2.7 million for each of the three years ended 2018 and the four months ended 30 April 2019, respectively.

The following table sets forth the components of our capital expenditures for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Property, plant and equipment	9,881	1,934	9,933	2,571	1,601
Intangible assets	171	29	—	—	40
Right-of-use assets	565	2,482	10,010	—	1,057
Total	10,617	4,445	19,943	2,571	2,698

We anticipate our capital expenditure for the two years ending 31 December 2020 to be approximately RMB88.6 million, for purchasing new machinery and constructing a new production plant. For further details, please refer to the section headed "Future plans and use of proceeds" in this prospectus.

COMMITMENTS

Operating lease commitments

Please refer to "Notes to the historical financial information — 35. Operating lease" in Appendix I to this prospectus for further details on our capital commitments.

Capital commitments

Please refer to "Notes to the historical financial information — 37. Capital commitments" in Appendix I to this prospectus for further details on our capital commitments.

PROPERTY INTERESTS

Please refer to the section headed "Business — Properties" in this prospectus for further details of our Group's property interests.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into certain related party transactions. In the opinion of the Directors, these related party transactions were conducted in accordance with terms as agreed between us and the respective related parties. Our Directors have confirmed that all related party transactions during the Track Record Period were conducted on normal commercial terms that are reasonable and in the interest of our Group as a whole. Our Directors have further confirmed that these related party transactions would not distort our results of operations for the Track Record Period or make our historical results not reflective of our future performance. Please refer to "Notes to the historical financial information — 42. Related party transactions in Accountants" Report in Appendix I to this prospectus for more information.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

Please refer to the unaudited pro forma financial information in Appendix II to this prospectus for the details of our unaudited pro forma adjusted combined net tangible assets.

MARKET RISKS

During the Track Record Period, we were mainly subject to currency risk, interest rate risk, credit risk and liquidity risk. Please refer to "Notes to the historical financial information — 40. Financial instruments" in Appendix I to this prospectus for further details of our risks.

DISTRIBUTABLE RESERVES

As at the Latest Practicable Date, our Company had no distributable reserve available for distribution.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Save as disclosed in this prospectus, our Directors confirm that as at the Latest Practicable Date, they are not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.18 of the Listing Rules.

RECENT DEVELOPMENT

Our business, revenue model and cost structure remained largely unchanged subsequent to the Track Record Period and up to the Latest Practicable Date.

Subsequent to the Track Record Period and as at the Latest Practicable Date, we entered into 207 additional manufacturing of equipment contracts with an aggregate new contract value of approximately RMB597.9 million. Out of the 207 manufacturing of equipment contracts, 16 of them were sizable contracts with contract value over RMB10.0 million which involve primarily sales of our products in the rotary kiln systems and grinding equipment systems. As at the Latest Practicable Date, we had five construction of production line projects which were still under construction and a revenue of approximately RMB109.6 million had been recognised during the four months ended 30 April 2019. For further details, please refer to section headed "Business — Construction of production line business" in this prospectus.

As at the Latest Practicable Date, the aggregate value of projects in the backlogs of our manufacturing of equipment business and installation services, and construction of production line business accounted for approximately RMB1,828.0 million and RMB1,115.2 million, respectively.

We received government subsidies of approximately RMB23.8 million during the year ended 31 December 2018. Given the non-recurring nature of the government subsidies, we do not expect that we will receive such significant amount of government subsidies during the year ending 31 December 2019. Moreover, the percentage increase in our selling and distribution expenses for the year ending 31 December 2019 is expected to exceed the growth of our revenue for the same year. In light of the above and among others, the prospective investors should note that the financial performance of our Group for the year ending 31 December 2019 is expected to remain stable as compared to the year ended 31 December 2018.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in this prospectus, our Directors confirm 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. Our Directors also confirm that there are no events since 30 April 2019 which would materially affect the information set out in the Accountants' Report in Appendix I to this prospectus.

FUTURE PLANS

Further information on our business strategies is set forth in the section headed "Business — Business strategies" in this prospectus.

PROPOSED USE OF NET PROCEEDS FROM THE SHARE OFFER

Based on the mid-point of the indicative range of the Offer Price of HK$1.315, the net proceeds from the Share Offer (after deducting underwriting fees and estimated expenses in connection with the Share Offer and assuming that the Over-allotment Option is not exercised) will be HK$121.4 million. The table below sets forth the estimated amount of net proceeds from the Share Offer:

	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
Assuming that the Offer Price would be HK$1.58 (being the high-end of the indicative range of the Offer Price)	Approximately HK$153.3 million	Approximately HK$181.9 million
Assuming that the Offer Price would be HK$1.315 (being the mid-point of the indicative range of the Offer Price)	Approximately HK$121.4 million	Approximately HK$145.2 million
Assuming that the Offer Price would be HK$1.05 (being the low-end of the indicative range of the Offer Price)	Approximately HK$89.4 million	Approximately HK$108.4 million

Assuming that the Offer Price would be HK$1.315, being the mid-point of the indicative range of the Offer Price, we intend to use the net proceeds, which is approximately HK$121.4 million, from the Share Offer for the following purposes:

I. Investing in a project for manufacturing rotary kilns possessing the latest roasting and pyrolysis technology

HK$95.6 million, or 78.7% of the total net proceeds from the Share Offer, will be used for investing in a project for manufacturing the rotary kilns possessing the latest roasting and pyrolysis technology for (i) roasting non-ferrous metals in metallurgy industry; (ii) coal pyrolysis in chemical industry; and (iii) the treatment of various types of solid waste in environmental protection industry. We expect such investment will allow us to have an additional annual production capacity of around 30 rotary kilns. This will mean that our annual production capacity of rotary kilns is expected to increase by 45%, from our current annual production capacity of 66 units to 96 units as a result of such investment. The following sets forth further information on such investment:

(a) HK$57.8 million will be used for purchasing new machinery as set out in the table below:

Machine type	Quantity
Lathe	8
Gear hobbing machine	1
Boring and milling machine	3
Overhead crane	10
Gantry milling	3
Other ancillary machinery	10
Total	**35**

(b) HK$34.8 million will be used for constructing a new production plant with three units of an estimated gross floor area of 15,652 sq.m. (approximately 91m x 172m) located at the vicinity of our North Plant area. We have obtained the certificate for the registration of our investment project in the latest roasting and pyrolysis technology in Jiangsu Province on 11 April 2019 for the purpose of seeking approval from the relevant government department of the above project, and the land use rights certificate dated 6 May 2019 for the land parcel to be used for the construction of new production plant. We expect the construction of the new production plant will commence in the last quarter of 2019 which is expected to be completed in 12 months and such new production plant is expected to commence commercial production of rotary kilns in the last quarter of 2020.

(c) HK$3.0 million will be used for (1) recruiting six technicians and/or experts with experience in the research and development of the latest roasting and pyrolysis technology; (2) product quality testing fees at external laboratories; and (3) patent application and registeration and other related fees.

Analysis of breakeven and investment payback period regarding the construction of a new production plant

Our Directors expect that the new production plant will commence production in the third quarter of 2020. The breakeven period and the investment payback period are expected to be approximately one year and three and a half years, respectively, after completion of the construction of the new production plant. The expected breakeven period is determined based on (i) the cost in constructing a new production plant manufacturing new rotary kilns which will possess the latest roasting and pyrolysis technology, (ii) the expected revenue to be generated from the sales of our new rotary kilns; and (iii) the expected utilization rate of this new production plant reaching approximately 80% one year after the new production plant commences production and being fully utilized two years after the new production plant commences production.

The expected investment payback period is determined based on the expected level of utilization of the new production plant, the cash flow generated from the revenue and the cash flow used for the capital expenditure in such new production plant and operational costs, expenses and taxes relating to the manufacturing of equipment business relating to the manufacturing of our rotary kilns produced by our new production plant.

II. Increasing productivity and efficiency

HK$8.4 million, or 7.0% of the total net proceeds from the Share Offer, will be used for one multi-tasking machine tool with a diameter of eight meters or above which is able to provide boring, milling and turning functions to enhance productivity and efficiency in manufacturing our products for our rotary kiln and grinding equipment systems. We expect to purchase the machine tool in 2019.

III. Research and development

HK$8.2 million, or 6.8% of the total net proceeds from the Share Offer, will be used for research and development of the latest roasting and pyrolysis technology applicable to rotary kilns:

(i) Research and development of efficient rotary kiln pyrolysis for the treatment of co-processing solid waste

HK$3.6 million will be used for joint-research for a term of two and a half years with a process engineering institute in the PRC for the research and development of (a) rotary kiln pyrolysis for the treatment of co-processing solid waste; (b) enhancing heat transfer technology of rotary kiln; (c) multi-heat source heating and prevention and control of pollutant technology; and (d) flexible control technology of rotary kiln pyrolysis using synergistic treatment.

With respect to such joint-research, we aim at (a) applying and obtaining five national patents including two inventions; (b) publishing three research papers; (c) completing one set of rotary kiln technology for co-processing solid waste; and (d) formulating two technical solutions for different productivity of the rotary kiln technology developed.

(ii) Research and development of efficient low-rank coal cleaning pyrolysis technology

HK$2.5 million will be used for joint-research for a term of two and a half years with a renowned university in the PRC for the purpose of using high efficient low-rank coal cleaning pyrolysis technology to formulate a number of core technologies, including (a) low-rank coal drying pyrolysis integration; (b) hybrid heat exchange technology; and (c) slewing ring ball sealing technology, etc., so as to achieve the clean use of low-rank coal efficient pyrolysis.

With respect to such joint-research, we aim at (a) applying and obtaining four national patents including two inventions; (b) publishing two research papers; and (c) establishing two sets of low-rank coal high-efficiency pyrolysis cleaning technology equipment with different specifications.

(iii) Research and development of high-efficient energy-saving lithium calcination rotary kiln system

HK$1.6 million will be used for joint-research for a term of two years with a renowned university in the PRC for the purpose of using rotary kiln system for ore calcination process to melt calcining lithium into metallic lithium. This involves (a) continuous calcination process; (b) re-ceramic of ceramic liner; (c) dynamic roll heating of raw materials; and (d) dynamic sealing device so as to achieve high efficiency and energy saving of smelting system.

With respect to such joint-research, we aim at (a) applying and obtaining three national patents, including one invention; (b) publishing two research papers; and (c) establishing one set of energy-saving lithium calcined rotary kiln system which will increase production efficiency.

(iv) Drafting technical requirements for lime rotary kiln calcining equipment

HK$0.5 million will be used for participating in the national drafting committee as well as the international drafting committee for setting the technical requirements for lime calcination rotary kiln.

IV. Marketing

HK$4.3 million, or 3.5% of the total net proceeds from the Share Offer, will be used for the marketing activities where, (i) HK$2.9 million will be used for participating in local and international exhibitions and conferences; and (ii) HK$1.4 million will be used for upgrading and optimizing our website to increase the number of readable languages so as to increase the accessibility of our website to international customers; and arranging advertisements and promotional videos, in order to enhance our Company's image and brand awareness of our products.

V. General working capital

The remaining balance of approximately HK$4.9 million, or 4.0% of the total net proceeds from the Share Offer of the net proceeds will be used as working capital.

In the event that the Offer Price is set at the highest point or the lowest point of the Offer Price Range, the net proceeds of the Share Offer will increase by approximately HK$32.0 million or decrease by approximately HK$32.0 million, respectively (assuming that the Over-allotment Option is not exercised). Under such circumstances, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis. Assuming the Offer Price of HK$1.315 per Offer Share, being the mid-point of the Offer Price Range, we expect that our implementation plan will be fully financed by the net proceeds from the Share Offer. In the event that the Offer Price is set below the mid-point of the Offer Price Range, we may finance our implementation plan with a combination of bank borrowings and own capital after having applied the net proceeds.

If the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds of approximately HK$23.8 million, assuming an Offer Price of HK$1.315 per Share, being the midpoint of the indicative Offer Price Range stated in this prospectus. If the Offer Price is set at the high-end of the indicative Offer Price Range, being HK$1.58, the additional estimated net proceeds upon full exercise of the Over-allotment Option will increase by approximately HK$28.6 million. If the Offer Price is set at the low-end of the indicative Offer Price Range, being HK$1.05, the additional estimated net proceeds upon full exercise of the Over-allotment Option will increase by approximately HK$19.0 million. In the event the Over allotment Option is exercised in full, we intend to apply the additional net proceeds for the above purposes in the proportions stated above.

IMPLEMENTATION PLAN

The following table sets forth a summary of our implementation plan from the Listing Date up to and including end of 2021:

Business strategy	Implementation plan	Expected timing of completion	Use of proceeds
Investing in a project for manufacturing rotary kilns possessing the latest roasting and pyrolysis technology	• Purchasing new machinery	By third quarter of 2020	HK$57.8 million
	• Constructing a new production plant for manufacturing rotary kilns possessing the latest roasting and pyrolysis technology	By third quarter of 2020	HK$34.8 million
	• Recruiting six technicians and/or experts Product quality testing Patent application and registration	By end of 2021	HK$3.0 million
Increasing productivity and efficiency	• Purchasing one multi-tasking machine tool with a diameter of eight meters or above	By third quarter of 2020	HK$8.4 million
Research and development	• Joint-research with a process engineering institute in the PRC for the research and development of efficient rotary kiln pyrolysis for the treatment of co-processing solid waste	By end of 2021	HK$3.6 million

Business strategy	Implementation plan	Expected timing of completion	Use of proceeds
	• Joint-research with a renowned university in the PRC for the purpose of using high efficient low-rank coal cleaning pyrolysis technology to formulate a number of core technologies	By end of 2021	HK$2.5 million
	• Joint-research with a renowned university in the PRC for the research and development of high-efficient energy-saving lithium calcination rotary kiln system	By end of 2021	HK$1.6 million
	• Participating in the national and the international drafting committees for setting the technical requirements for lime calcination rotary kiln	By third quarter of 2020	HK$0.5 million
Marketing	• Participating in local and international exhibitions and conferences	By third quarter of 2021	HK$2.9 million
	• Upgrading and optimizing our website to increase the number of readable languages	By third quarter of 2021	HK$1.4 million

According to the above implementation plan, it is expected that the net proceeds will be first applied by the Group commencing from the fourth quarter of 2019.

BASES AND KEY ASSUMPTIONS OF THE BUSINESS PLANS

The business objectives set out by our Directors are based on the following bases and key assumptions:

a) our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;

b) there will be no material changes in existing laws and regulations, or other governmental policies relating to our Group, or in the political, economic or market conditions in which our Group operates;

c) there will be no material changes in the bases or rates of taxation applicable to the activities of our Group;

d) the Share Offer will be completed in accordance with and as described in the section headed "Structure and Conditions of the Share Offer" in this prospectus;

e) our Group will be able to retain its key staff in the management and the main operational departments;

f) there will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group;

g) our Group will not be materially affected by any risk factors set out in the section headed "Risk Factors" in this prospectus; and

h) our Group will be able to continue its operation in substantially the same manner as it has been operating during the Track Record Period and our Group will also be able to carry out its development plans without disruptions adversely affecting our operations or business objectives in any way.

HONG KONG UNDERWRITERS

Essence International Securities (Hong Kong) Limited

Solomon JFZ (Asia) Holdings Limited

Global Group Securities Limited

Nobleseed Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company has agreed to offer the Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions set out in this prospectus and the Application Forms. Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Listing Committee and such listing and permission not subsequently being revoked and certain other conditions set out in the Hong Kong Underwriting Agreement (including the Sole Global Coordinator, for itself and on behalf of the other Hong Kong Underwriters, and our Company agreeing to the final Offer Price), the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) by or before 14 November 2019, the Share Offer will not proceed and will lapse. The Hong Kong Underwriting Agreement is conditional upon and subject to, among others, the International Underwriting Agreement having been signed and becoming unconditional.

Grounds for termination

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to the termination by the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters), in its sole and absolute opinion, with immediate effect by giving notice in writing to our Company if any of the following events occurs at or prior to 8:00 a.m. on the Listing Date:

(a) there has come to the notice of the Sole Global Coordinator:

(i) that any statement contained in this prospectus, the Application Forms, the formal notice and/or the Hong Kong underwriting documents and/or the international underwriting documents and/or any notices, announcements, advertisements, communications or any other documents issued or used by or on behalf of our Company in connection with the Share Offer (including any supplement or amendment thereto) (collectively the "**Relevant Documents**") was, when it was issued, or has become untrue, incorrect, misleading or deceptive in any material respect or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the other Underwriters), fair and honest and based on reasonable assumptions; or

(ii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute an omission therefrom; or

(iii) any breach of any of the obligations imposed or to be imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (in each case, other than on the part of any of the Underwriters); or

(iv) any event, act or omission which gives or is likely to give rise to any liability of any of the Company, the executive Directors and the Controlling Shareholders (the "**Warrantors**") pursuant to provisions under the indemnity clause in the Hong Kong Underwriting Agreement or under the International Underwriting Agreement; or

(v) any change or development involving a prospective adverse change in the assets, liabilities, general affairs, management, business prospects, shareholders' equity, profits, losses, operating results, position or conditions (financial, trading or otherwise) or performance of our Group ("**Group Company**"); or

(vi) any breach of, or any event or circumstance rendering untrue or incorrect in any material respect, any of the representations, warranties, agreements and undertakings to be given by the Warrantors respectively in terms set out in the Hong Kong Underwriting Agreement (the "**Warranties**"); or

(vii) the approval by the Listing Committee of the listing of, and permission to deal in, the Shares (including any additional Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(viii) our Company withdraws any of the Relevant Documents or the Share Offer; or

(ix) any person (other than the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of this prospectus, the Application Forms, the formal notice and/or the international underwriting documents or to the issue of any of such documents; or

(x) that a petition or an order is presented for the winding up or liquidation of any Group Company or any Group Company makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding up of any Group Company or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any Group Company or anything analogous thereto occurs in respect of any Group Company; or

(xi) an authority or a political body or organisation in any relevant jurisdiction has commenced any investigation or other action, or announced an intention to investigate or take other action, against any of the Directors and senior management members of our Group as set out in the section headed "Directors, Senior Management, and Employees" in this prospectus; or

(xii) a portion of the orders in the book building process, at the time the International Underwriting Agreement is entered into or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or cancelled, the Sole Global Coordinator, in its sole and absolute discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Share Offer; or

(xiii) any loss or damage has been sustained by any Group Company (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) in its sole and absolute discretion has an adverse effect on our Group; or

(b) there shall develop, occur, exist or come into effect:

(i) any local, national, regional, international event or circumstance, or series of events or circumstances, beyond the reasonable control of the Underwriters (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, economic sanctions which have not been announced as at the date of entering into of the Hong Kong Underwriting Agreement, outbreaks of diseases, pandemics or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza A (H5N1), Swine Flu (H1N1), Middle East Respiratory Syndrome or such related or mutated forms) or accidents, interruption or delay in transportation), in or to the extent affecting any of Hong Kong, the PRC the Cayman Islands, the BVI or any other jurisdictions relevant to any Group Company or the Share Offer (the "**Specific Jurisdictions**"); or

(ii) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any local, regional, national, international, financial, economic, political, military, industrial, fiscal, legal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets); or

(iii) any moratorium, suspension or restriction on trading in securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq National Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Tokyo Stock Exchange; or

(iv) any new law(s), rule(s), statute(s), ordinance(s), regulation(s), guideline(s), opinion(s), notice(s), circular(s), order(s), judgement(s), decree(s) or ruling(s) of any governmental authority ("**Law(s)**"), or any change or development involving a prospective change in existing Laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing Laws by any court or other competent authority, in each case, in or affecting any of the Specific Jurisdictions; or

(v) the imposition of any general moratorium on commercial banking activities, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or

(vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions which have not been announced as at the date of entering into of the Hong Kong Underwriting Agreement; or

(vii) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment Laws (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency), in or affecting any of the Specific Jurisdictions or affecting an investment in the Shares; or

(viii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or

(ix) any litigation or claim of any third party being threatened or instigated against any Group Company; or

(x) any of the Directors and members of senior management of our Company as set out in the section headed "Directors, Senior Management and Employees" in this prospectus being charged with an indictable offence or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company; or

(xi) the chairman or chief executive officer of our Company vacating his office; or

(xii) the commencement by any governmental, regulatory or political body or organisation of any action against a Director in his capacity as such or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action; or

(xiii) a contravention by any Group Company or any Director of the Listing Rules, the Companies Ordinance or any other Laws applicable to the Share Offer; or

(xiv) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or the Over-allotment Shares pursuant to the terms of the Share Offer; or

(xv) non-compliance of this prospectus and the other Relevant Documents or any aspect of the Share Offer with the Listing Rules or any other Laws applicable to the Share Offer; or

(xvi) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus and/or any other documents in connection with the Share Offer pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

(xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any Group Company or in respect of which any Group Company is liable prior to its stated maturity; or

which in each case individually or in aggregate in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters):

(i) has or is or will or may or could be expected to have an adverse effect on the assets, liabilities, business, general affairs, management, shareholders' equity, profits, losses, operating results, financial, trading or other condition or prospects or risks of our Company or our Group taken as a whole or on any present or prospective shareholder of our Company in his, her or its capacity as such; or

(ii) has or will or may have or could be expected to have an adverse effect on the success, marketability or pricing of the Share Offer or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or

(iii) makes or will make or may make it inadvisable, inexpedient or impracticable for any part of the Hong Kong Underwriting Agreement or the Share Offer to be performed or implemented or proceeded with as envisaged or to market the Share Offer or shall otherwise result in an interruption to or delay thereof; or

(iv) 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 which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

We have undertaken to the Stock Exchange that (except pursuant to the Capitalisation Issue, the Share Offer, the exercise of the Over-allotment Option) at any time during the period commencing on the date of this prospectus and ending on the expiry of the six-month period after the Listing Date, we shall not, without the prior consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules, allot and issue or agree to allot or issue any Shares or other securities convertible into our equity securities of our Company (including warrants or other convertible securities) whether or not of a class already listed or enter into any agreement to issue any Shares or securities within six months from the Listing Date (whether or not such issue of Shares will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that except pursuant to the Share Offer, the Over-allotment Option or the Stock Borrowing Agreement, it shall not and shall procure that the registered holders controlled by each of our Controlling Shareholders shall not:

(a) in the period commencing on the date by reference (the "**Reference Date**") to which disclosure of the shareholdings in our Company is made in this prospectus in relation to the Share Offer and ending on the date (the "**End Date**") which is six months from the Listing Date on which dealings in the shares of our Company commence on the Stock Exchange, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save as pursuant to a pledge or charge as security 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) in respect of, any of our securities that it is shown to be beneficially owned by the Controlling Shareholders in this prospectus (the "**Relevant Securities**"); or

(b) in the period of six months commencing from the End Date, dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances (save as pursuant to a pledge or charge as security 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) in respect of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Each of our Controlling Shareholders has further undertaken to us and the Stock Exchange that, within the period commencing on the Reference Date and ending on the date which is 12 months from the Listing Date, he/it will:

(a) when he/it pledges or charges any securities in our Company beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong), immediately inform us in writing of such pledge or charge together with the number of our securities so pledged or charged; and

(b) when he/it receives indications, either verbal or written, from the pledgee or charge that any of the pledged or charged securities beneficially owned by him/it will be disposed of, immediately inform us in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the matters mentioned in the paragraphs (a) and (b) above by any of our Controlling Shareholders and subject to the requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Undertakings to the Hong Kong Underwriters

Undertakings by our Company

Except pursuant to the Share Offer (including any Shares which may be issued pursuant to the Capitalisation Issue, the Over-allotment Option), 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**"), our Company hereby undertakes to each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, and the Hong Kong Underwriters not to, and to procure each other Group Company not to, without the prior written consent of the Sole Sponsor, the Sole Global Coordinator (for itself and on behalf of the other 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 a pledge, charge, lien, mortgage, option, restriction, right of first refusal, security interest, claim, pre-emption rights, equity interest, third party rights or interests or rights of the same nature as that of the foregoing or other encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect ("**Encumbrance**") over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any shares or other securities of such other Group Company, 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 other warrants or other rights to purchase, any Shares or any shares of such other Group Company, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, with a depositary in connection with the issue of depositary receipts or repurchase any Shares or other securities of our Company or any shares or other securities of such other Group Company, 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 any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable); or

(c) enter into any transaction with the same economic effect as any transactions specified in (a) or (b) above; or

(d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

(e) in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other Group Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

We have also undertaken that we will not, and will procure each other Group Company not to, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction, such that any of the Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company during the period of six months immediately following the expiry of the First Six-Month Period (the "**Second Six-Month Period**").

In the event that, during the Second Six-Month Period, our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

Undertakings by our Controlling Shareholders

Each of the Controlling Shareholders hereby jointly and severally undertakes to each of our Company, the Stock Exchange, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, and the other Hong Kong Underwriters that, except pursuant to the Stock Borrowing Agreement and in compliance with the requirements under Rule 10.07(3) of the Listing Rules, without the prior written consent of the Sole Sponsor, the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters):

(a) at any time during the First Six-Month Period, he/it shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for him/her/it and the companies controlled by him/her/it (together, the "**Controlled Entities**") shall not:

(i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, (other than any pledge or charge of our Company's issued share capital after the consummation of the Share Offer (assuming the Over-allotment Option is not exercised) 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 in compliance with Rule 10.07 of the Listing Rules), hypothecate, lend, grant or sell any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of 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) beneficially owned by her or it directly or indirectly through its Controlled Entities (the "**Relevant Securities**"), or deposit any Relevant Securities with a depositary in connection with the issue of depositary receipts; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of the Relevant Securities;

(iii) enter into or effect any transaction with the same economic effect as any of the transactions referred to in sub-paragraphs (i) or (ii) above; or

(iv) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to in sub-paragraphs (i), (ii) or (iii) above, which any of the foregoing transactions referred to in sub-paragraphs (i), (ii), (iii) or (iv) is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);

(b) at any time during the Second Six-Month Period, it/he shall not, and shall procure that the Controlled Entities shall not, enter into any of the transactions referred to in (a)(i), (a)(ii) or (a)(iii) above or offer to or agree to or announce any intention to enter into 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, it/he would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be controlling shareholders (as defined in the Listing Rules) of our Company;

(c) in the event that he/it enters into any of the transactions specified in (a)(i), (a)(ii) or (a)(iii) above or offer to or agrees to or announce any intention to effect any such transaction within the Second Six-Month Period, he/it shall take all reasonable steps to ensure that he/it will not create a disorderly or false market for any Shares or other securities of our Company; and

(d) he/it shall, and shall procure that the relevant registered holder(s) and other Controlled Entities shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by him/it or by the registered holder(s) and/or other Controlled Entities of any Shares or other securities of our Company.

Each of the Controlling Shareholders further undertakes to each of our Company, the Stock Exchange, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the other Hong Kong Underwriters that, within the period from the date by reference to which disclosure of their shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/it will:

(a) when he/it pledges or charges any securities or interests in the Relevant Securities in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company and the Sole Sponsor in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and

(b) when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Sponsor in writing of such indications.

Underwriters' interests in our Group

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement or as otherwise disclosed in this prospectus, as at the Latest Practicable Date, none of the Underwriters was interested directly or indirectly in any of our Shares or securities or any shares or securities of any other member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any of our Shares or securities or any shares or securities of any other member of our Group.

Following the completion of the Share Offer, the Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement and International Underwriting Agreement.

The Sole Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The International Offering

In connection with the International Offering, we expect to enter into the International Underwriting Agreement on the Price Determination Date with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally and not jointly, agree to purchase the International Offer Shares or procure purchasers for the International Offer Shares initially being offered pursuant to the International Offering. Please refer to the section headed "Structure of the Share Offer — The International Offering" in this prospectus.

Under the International Underwriting Agreement, we intend to grant to the International Underwriters the Over-allotment Option, exercisable in whole or in part at one or more times, at the sole and absolute discretion of the Sole Global Coordinator on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until 30 days from the last day for the lodging of applications under the Hong Kong Public Offering to require us to issue and allot up to an aggregate of 18,750,000 additional Offer Shares, representing 15% of the Offer Shares initially available under the Share Offer and at the Offer Price, to cover any over-allocations in the International Offering, if any.

Total commission and expenses

We will pay the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) an underwriting commission of 3.5% on the aggregate Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering (excluding any International Offer Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Share reallocated to the International Offering), out of which the Underwriters will pay all sub-underwriting commission, if any. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Sole Global Coordinator and the relevant International Underwriters, but not the Hong Kong Underwriters.

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK$1.315 per Offer Share (being the mid-point of the indicative range of the Offer Price), the aggregate commissions and fees, together with the Stock Exchange listing fee, the SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing, and other fees and expenses relating to the Share Offer, are estimated to amount to HK$43.0 million in total payable by us.

Indemnity

We have undertaken to indemnify and keep indemnified on demand (on an after-tax basis) and hold harmless each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, and the Hong Kong Underwriters (for themselves and on trust for its directors, officers, employees, agents, assignees and affiliates) from and against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Restrictions on the Offer Shares

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. We will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules is made within seven days of the expiration of the stabilising period.

THE SHARE OFFER

This prospectus is published in connection with the Hong Kong Public Offering as part of the Share Offer. The Share Offer comprises:

— the Hong Kong Public Offering of 12,500,000 Shares, subject to adjustment as mentioned below, in Hong Kong as described below under "Hong Kong Public Offering"; and

— the International Offering of 112,500,000 Shares, subject to adjustment and the Over-allotment Option as mentioned below, outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, as described in the sub-section headed "International Offering" this section below.

Investors may apply for our Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for our International Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of our International Offer Shares to institutional and professional investors and other investors in such jurisdictions as permitted under the applicable laws and regulations. The International Underwriters are soliciting from prospective investors indications of interest in acquiring our International Offer Shares in the International Offering. Prospective investors will be required to specify the number of International Offer Shares they would be prepared to acquire either at different prices or at a particular price.

Our Shares will be traded in board lots of 2,000 each.

The Offer Shares will represent approximately 25% of the enlarged issued share capital of the Company immediately after completion of the Share Offer without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.7% of the enlarged issued share capital immediately after the completion of the Share Offer and the exercise of the Over-allotment Option as set out in the paragraph headed "International Offering — Over-allotment Option" below.

The number of Offer Shares between the Hong Kong Public Offering and the International Offering to be offered under the Share Offer respectively may be subject to reallocation as set forth in the sections headed "Pricing and Allocation" and "Hong Kong Public Offering — Reallocation and clawback" below. References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate only to the Hong Kong Public Offering.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date, when market demand for our Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, 8 November 2019 and in any event, no later than Thursday, 14 November 2019.

The Offer Price will not be more than HK$1.58 per Offer Share and is expected to be not less than HK$1.05 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative range of the Offer Price stated in this prospectus.

If, based on the level of interest expressed by prospective institutional and professional investors and other investors during the book-building process, the Sole Global Coordinator (for itself and on behalf of the Underwriters) consider the number of our Offer Shares being offered under the Share Offer and/or the indicative range of the Offer Price to be inappropriate, the Sole Global Coordinator (for itself and on behalf of the Underwriters) may reduce the initial number of our Offer Shares and/or the indicative range of the Offer Price below that stated in this prospectus at any time on or before the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering on Thursday, 7 November 2019, cause to publish on the websites of the Stock Exchange at **www.hkexnews.hk** and our Company at **www.pengfei.com.cn** a notice of the reduction. Such notice will also include confirmation or revision, as appropriate, of the Share Offer statistics as currently set forth in the section headed "Summary and Highlights" in this prospectus and any other financial information which may change as a result of such reduction. As soon as practicable of such reduction of the number of Offer Shares and/or the indicative Offer Price Range, we will also issue a supplemental prospectus updating investors of such reduction together with an update of all financial and other information in connection with such change and, where appropriate, extend the period under which the Hong Kong Public Offering was open for acceptance, and give potential investors who had applied for the Offer Shares the right to withdraw their applications. In the absence of any such notice and supplemental prospectus so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price Range stated in this prospectus.

Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the initial number of our Offer Shares and/or the indicative range of the Offer Price may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Upon issue of such reduction notice, the revised range of the Offer Price will be final and conclusive and the Offer Price, if agreed upon, will be fixed within such revised range of the Offer Price. In the absence of any notice being published of a reduction in the initial number of our Offer Shares and/or the indicative range of the Offer Price stated in this prospectus on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon, will under no circumstances be set forth below the indicative range of the Offer Price as stated in this prospectus.

Our Shares to be offered in the Share Offer may, in certain circumstances, be reallocated as between the Hong Kong Public Offering and International Offering at the discretion of the Sole Global Coordinator. Allocation of our International Offer Shares will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the Listing. Such allocation may be made to professional, institutional or corporate investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid Shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of Hong Kong Offer Shares to applicants under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for byapplicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The final Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, the basis of allocations of our Hong Kong Offer Shares and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available in a variety of channels in the manner described in the section headed "How to Apply for the Hong Kong Offer Shares — 11. Publication of results" in this prospectus.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for our Hong Kong Offer Shares under the Hong Kong Public Offering will be conditional on, inter alia:

(a) the granting of approval by the Listing Committee for the listing of, and permission to deal in, our Shares in issue, our Offer Shares to be issued pursuant to the Share Offer (including any Shares which may be issued under the exercise of the Over-allotment Option) and Shares to be issued under the Capitalisation Issue, and such listing and permission not having been revoked prior to the commencement of dealings in our Offer Shares on the Stock Exchange;

(b) the Offer Price having been determined on or around the Price Determination Date;

(c) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and

(d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreements having become unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective Hong Kong Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the 30th day after the date of this prospectus.

If, for any reason, the Offer Price is not agreed by Thursday, 14 November 2019 between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us, the Share Offer will not proceed and will lapse.

If the above conditions are not fulfilled or waived before the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published on the websites of the Stock Exchange at **www.hkexnews.hk** and our Company at **www.pengfei.com.cn** on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set forth in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for our Offer Shares are expected to be issued on Thursday, 14 November 2019 but will only become valid certificates of title at 8:00 a.m. on the Listing Date, provided that (a) the Share Offer has become unconditional in all respects and (b) neither of the Underwriting Agreements has been terminated in accordance with its terms.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

HONG KONG PUBLIC OFFERING

Number of Hong Kong Offer Shares

We are initially offering 12,500,000 Shares at the Offer Price, representing 10% of the initial number of the Offer Shares, for subscription by members of the public in Hong Kong. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the number of Hong Kong Offer Shares will represent 2.5% of the enlarged number of our Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue, assuming that the Over-allotment Option is not exercised.

Allocation

For allocation purposes only, the initial number of our Hong Kong Offer Shares (after taking into account any adjustment in the number of Offer Shares allocated between the Share Offer) will be divided equally into two pools: Pool A comprises 6,250,000 Hong Kong Offer Shares and Pool B comprises 6,250,000 Hong Kong Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with an aggregate subscription price of HK$5 million or less (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) will fall into Pool A and all valid applications that have been received for Hong Kong Offer Shares with an aggregate subscription price of more than HK$5 million (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) and up to the total value of Pool B will fall into Pool B. For the purpose of this paragraph only, the "subscription price" for our Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Investors should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Hong Kong Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or in both pools will be rejected. No application will be accepted from applicants for more than 6,250,000 Hong Kong Offer Shares (being 50% of the initial number of Hong Kong Offer Shares).

Reallocation and clawback

The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation on the following basis:

(a) if both the Hong Kong Offer Shares and the International Offer Shares are undersubscribed, the Share Offer shall not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements;

(b) if the Hong Kong Offer Shares are undersubscribed and the International Offer Shares are oversubscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate;

(c) when the International Offer Shares are fully subscribed or oversubscribed, and:

    (i) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 25,000,000 Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 37,500,000 Offer Shares, representing approximately 30% of the number of the Offer Shares initially available under the Share Offer;

(ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 37,500,000 Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 50,000,000 Offer Shares, representing approximately 40% of the number of the Offer Shares initially available under the Share Offer; and

(iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 50,000,000 Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 62,500,000 Offer Shares, representing approximately 50% of the number of the Offer Shares initially available under the Share Offer.

in each case the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator deems appropriate.

(d) pursuant to the Stock Exchange's Guidance Letter HKEX-GL91-18:

(i) if the International Offer Shares are undersubscribed and if the Hong Kong Offer Shares are oversubscribed, irrespective of the number of times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering in such circumstances; or

(ii) if the International Offer Shares are fully subscribed or oversubscribed, and if the Hong Kong Offer Shares are fully subscribed or oversubscribed but the number of Shares validly applied for under the Hong Kong Public Offering represents less than 15 times of the number of the Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering,

then, provided that the final Offer Price is fixed at the low-end of the indicative Offer Price Range (i.e. HK$1.05 per Offer Share) stated in this prospectus, in accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, up to 12,500,000 Offer Shares may be reallocated from the International Offering to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offering, so that the total number of Offer Shares available for subscription under the Hong Kong Public Offering will be increased up to 25,000,000 Shares, and such limit represents 20% of the number of the Offer Shares initially available under the Share Offer. References in this prospectus to Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

Applications

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Hong Kong Offer Shares under the Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest of, any International Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the undertaking and/or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK$1.58 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% amounting to a total of HK$3,191.85 for one board lot of 2,000 shares. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK$1.58, being the maximum Offer Price, we will refund the respective difference (including brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further information is set forth in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

INTERNATIONAL OFFERING

Number of International Offer Shares

The number of Offer Shares to be initially offered for subscription under the International Offering will be 112,500,000 Offer Shares (subject to adjustment and the Over-allotment Option), representing 90% of our Offer Shares under the Share Offer and 22.5% of the enlarged number of Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue assuming that the Over-allotment Option is not exercised. The International Offering is subject to the Hong Kong Public Offering becoming unconditional.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizable demand for such Offer Shares in Hong Kong and other jurisdiction outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of the International Offer Shares under the International Offering will be effected in accordance with the "book-building" process described in the section headed "Pricing and allocation" in this prospectus and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the Listing. Such allocation is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid professional and institutional Shareholder base for the benefit of our Company and our Shareholders as a whole.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and our Offer Shares (including the additional Offer Shares which may be made available under the exercise of the Over-allotment Option) and our Shares to be issued under the Capitalisation Issue.

Save as disclosed in this prospectus, no part of our Share is listed or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

OVER-ALLOTMENT OPTION

We expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering. Under the Over-allotment Option, the Sole Global Coordinator will have the right to require us to allot and issue up to an aggregate of 18,750,000 additional new Shares, representing in aggregate of 15% of our Offer Shares initially available under the Share Offer to, cover over-allocations in the International Offering, if any. These Shares will be issued at the Offer Price. An announcement will be made if the Over-allotment Option is exercised.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over allocations in connection with the Share Offer, the Stabilizing Manager may choose to borrow, whether on its own or through its affiliates, up to 18,750,000 Shares, representing 15% of our Offer Shares, from Ambon Holding Limited to cover over allocation under the stock borrowing arrangement (being the maximum number of Offer Shares which may be issued upon exercise of the Over-allotment Option), or acquire Shares from other sources, including exercising the Over-allotment Option.

If such stock borrowing arrangement with Ambon Holding Limited is entered into, it will only be effected by the Stabilizing Manager or its agent for settlement of over allocation in the International Offering and such arrangement is not subject to the restrictions of Rule 10.07(1) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Share Offer, the Stabilizing Manager, its affiliates or any person acting for it, as stabilizing manager for itself and on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period up to the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for it, to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it, and may be discontinued at any time.

Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 18,750,000 Shares, which is 15% of the initial number of our Offer Shares.

Stabilizing actions permitted in Hong Kong under the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong), as amended, include: (a) over-allocation for the purpose of preventing or minimising any reduction in the market price of our Shares; (b) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares; (c) purchasing or subscribing for, or agreeing to purchase or subscribe for, our Shares under the Over-allotment Option in order to close out any position established under (a) or (b) above; (d) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares; (e) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (f) offering or attempting to do anything described in (b), (c), (d) or (e) above.

Specifically, prospective applications for and investors in our Shares should note that:-

— the Stabilizing Manager, its affiliates or any person acting for it, may, in connection with the stabilizing action, maintain a long position in our Shares;

— there is no certainty regarding the extent to which and the time period for which the Stabilizing Manager, its affiliates or any person acting for it, will maintain such a position;

— liquidation of any such long position by the Stabilizing Manager, its affiliates or any person acting for it, may have an adverse impact on the market price of our Shares;

— no stabilizing action can be taken to support the price of our Shares for longer than the stabilizing period which will begin on the Listing Date, and is expected to expire on 5 December 2019, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;

— the price of our Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and

— stabilizing bids must be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, our Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong), as amended, will be made within seven days of the expiration of the stabilisation period.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 15 November 2019, it is expected that dealings in Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 15 November 2019. The Shares will be traded in board lots of 2,000 Shares under the stock code 3348.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date.

We expect that we will, on or about Thursday, 14 November 2019, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Offering.

The terms of the underwriting arrangements are summarised in the section headed "Underwriting" in this prospectus.

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at **www.hkeipo.hk** or in the IPO App; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, 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:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **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 an existing beneficial owner of Shares in our Company and/or any our subsidiaries;
- are a Director or chief executive officer of our Company and/or any of our subsidiaries;
- are an associate (as defined in the Listing Rules) of any of the above;
- are a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.hkeipo.hk** or the IPO App.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 31 October 2019 until 12:00 noon on Thursday, 7 November 2019 from:

(i) any of the following offices of the Hong Kong Underwriters:

Essence International Securities (Hong Kong) Limited
39th Floor, One Exchange Square, Central, Hong Kong

Solomon JFZ (Asia) Holdings Limited
19A, 19/F, Eton Building, 288 Dex Voeux Road Central, Central, Hong Kong

Global Group Securities Limited
Level 17, 33 Des Voeux Central, Hong Kong

Nobleseed Securities Limited
Unit 802-7, 8/F Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong

(ii) any of the designated branches of the following receiving bank:

Bank of China (Hong Kong) Limited

District	Branch name	Address
Hong Kong Island	Chai Wan Branch	Block B, Walton Estate, 341-343 Chai Wan Road, Chai Wan, Hong Kong
Kowloon	Tsim Sha Tsui Branch	24-28 Carnarvon Road, Tsim Sha Tsui, Kowloon
New Territories	Tuen Mun San Hui Branch	G13-G14 Eldo Court, Heung Sze Wui Road, Tuen Mun, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 31 October 2019 until 12:00 noon on Thursday, 7 November 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

The period during which an application for our Hong Kong Offer Shares can be lodged pursuant to the terms of this prospectus and the Application Forms will expire on Thursday, 7 November 2019. Such period is longer than the time period usually adopted in other initial public offering transactions in Hong Kong. See the section headed "How to apply for Hong Kong Offer Shares" in this prospectus for the channels that you may use for subscribing for our Hong Kong Offer Shares.

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to BANK OF CHINA (HONG KONG) NOMINEES LIMITED — CHINA PENGFEI 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:

Thursday, 31 October 2019 — 9:00 a.m. to 5:00 p.m.
Friday, 1 November 2019 — 9:00 a.m. to 5:00 p.m.
Saturday, 2 November 2019 — 9:00 a.m. to 1:00 p.m.
Monday, 4 November 2019 — 9:00 a.m. to 5:00 p.m.
Tuesday, 5 November 2019 — 9:00 a.m. to 5:00 p.m.
Wednesday, 6 November 2019 — 9:00 a.m. to 5.00 p.m.
Thursday, 7 November 2019 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 7 November 2019, the last application day or such later time as described in "Effect of Bad Weather or Extreme Conditions on the Opening of the Applications 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 the **HK eIPO White Form** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise our Company, the Sole Global Coordinator, the Joint Bookrunners and/or the Joint Lead Managers (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 us (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;

(vi) agree that none of our Company, the Sole 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 Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving bank, 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 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 register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or our agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the Share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that our Company, the Sole 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;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC 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 "Who can apply" 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** or the IPO App.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website or in the IPO App. 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 or the IPO App, you authorise the **HK eIPO White Form** Service Provider to apply on the terms 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 service

You may submit your application to the **HK eIPO White Form** Service Provider at **www.hkeipo.hk** or in the IPO App (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, 31 October 2019 until 11:30 a.m. on Thursday, 7 November 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 7 November 2019 or such later time under the "Effect of Bad Weather or Extreme Conditions on the Opening of the Applications Lists" in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form** service, 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** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator, and our Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- declare that only one set of electronic application instructions has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as their agent;

- confirm that you understand that our Company, our Directors, 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;

- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of our Company, 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 Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Offer Shares;
- agree with our Company, for ourselves and for the benefit of each Shareholder (and so that the Company will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- 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 Offer Share initially paid on application, refund of the application monies(including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and 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 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 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(1)

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- **Thursday, 31 October 2019 — 9:00 a.m. to 8:30 p.m.**
- **Friday, 1 November 2019 — 8:00 a.m. to 8:30 p.m.**
- **Saturday, 2 November 2019 — 8:00 a.m. to 1:00 p.m.**
- **Monday, 4 November 2019 — 8:00 a.m. to 8:30 p.m.**
- **Tuesday, 5 November 2019 — 8:00 a.m. to 8:30 p.m.**
- **Wednesday, 6 November 2019 — 8:00 a.m. to 8:30 p.m.**
- **Thursday, 7 November 2019 — 8:00 a.m. to 12:00 noon**

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Thursday, 31 October 2019 until 12:00 noon on Thursday, 7 November 2019 (24 hours daily, except on 7 November 2019, the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Thursday, 7 November 2019, the last application day or such later time as described in "Effect of Bad Weather or Extreme Conditions on the Opening of the Application Lists" in this section.

Note:

(1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, 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, the Directors, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor 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 to CCASS Phone System/CASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Thursday, 7 November 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:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **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:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 2,000 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** or in the IPO App.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed "Structure and Conditions of the Share Offer — Pricing and Allocation" in this prospectus.

10. EFFECT OF BAD WEATHER OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above;
- a "black" rainstorm warning; or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 7 November 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 Thursday, 7 November 2019 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, 14 November 2019 on our Company's website at **www.pengfei.com.cn** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the our website at **www.pengfei.com.cn** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Thursday, 14 November 2019;

- from the designated results of allocations websites at **www.tricor.com.hk/ipo/result** and **www.hkeipo.hk/IPOResult** or the "Allotment Result" function in the IPO App with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, 14 November 2019 to 12:00 midnight on Wednesday, 20 November 2019;

- by telephone enquiry line by calling +852 3691-8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 14 November 2019 to Tuesday, 19 November 2019 (excluding Saturday and Sunday);

- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 14 November 2019 to Saturday, 16 November 2019 at all the receiving bank's designated 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 Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Share Offer".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to **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 (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or our agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, 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.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or

- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website or in the IPO App;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Hong Kong Underwriting Agreement does not become unconditional or is terminated;
- our Company, the Sole Global Coordinator, and the Joint Bookrunners and the Joint Lead Managers believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$1.58 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure and Conditions of the Share Offer — Conditions of the Hong Kong Public 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 Thursday, 14 November 2019.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in 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 Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or around Thursday, 14 November 2019. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 15 November 2019 provided that the Share Offer has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the Hong Kong Branch 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 Thursday, 14 November 2019 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not 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 Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be 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 Share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 14 November 2019, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above 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 Thursday, 14 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 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 Thursday, 14 November 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- ***If you apply through a designated CCASS participant (other than a CCASS investor participant)***

  For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- ***If you are applying as a CCASS investor participant***

  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 us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 14 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.

(iii) 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 Share certificate(s) from the Hong Kong Branch 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 Thursday, 14 November 2019, or such other date as notified by us in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 14 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 despatched 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.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 14 November 2019, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Thursday, 14 November 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 14 November 2019 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 14 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 statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 14 November 2019.

15. ADMISSION OF THE SHARES INTO CCASS

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

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

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

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

The following is the text of a report set out on pages I-1 to I-101 received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA PENGFEI GROUP LIMTED AND ESSENCE CORPORATE FINANCE (HONG KONG) LIMITED

Introduction

We report on the historical financial information of China PengFei Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-101, which comprises the consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 April 2019, the statements of financial position of the Company as at 31 December 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 statements of cash flows of the Group for each of the three years ended 31 December 2018 and the four months ended 30 April 2019 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-101 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 31 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 (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 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 (the "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 the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 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 of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2016, 2017 and 2018 and 30 April 2019, of the Company's financial position as at 31 December 2017 and 2018 and 30 April 2019 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the four months ended 30 April 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange 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 13 to the Historical Financial Information which contains information about the dividends declared and paid by a subsidiary of the Company in respect of the Track Record Period and states that no dividend was declared or paid by the Company since its incorporation.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 October 2019

HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and were audited by us in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Four months ended 30 April	
		2016	2017	2018	2018	2019
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	6	776,661	946,143	1,016,201	245,064	399,902
Cost of sales and services		(634,400)	(751,723)	(799,836)	(193,369)	(313,879)
Gross profit		142,261	194,420	216,365	51,695	86,023
Other income	7	7,434	8,554	27,332	1,262	794
Other gains and losses	8	14,605	1,244	8,324	(944)	(1,577)
Selling and distribution expenses		(41,110)	(62,777)	(74,749)	(21,897)	(36,563)
Administrative expenses		(41,273)	(41,024)	(41,557)	(13,607)	(14,447)
Research expenditure		(32,579)	(31,497)	(32,377)	(9,890)	(11,694)
(Provision) reversal of loss allowance on trade and other receivables and contract assets, net		(8,883)	(532)	(2,514)	412	(2,316)
Listing expenses		—	—	(11,772)	—	(3,328)
Finance costs	9	(353)	(1,605)	(1,204)	(199)	(180)
Profit before tax	10	40,102	66,783	87,848	6,832	16,712
Income tax expense	11	(6,528)	(9,127)	(14,532)	(1,184)	(2,946)
Profit and total comprehensive income for the year/period		33,574	57,656	73,316	5,648	13,766
Profit (loss) and total comprehensive income (expenses) for the year/period attributable to:						
- Owners of the Company		31,842	58,720	72,506	6,132	13,877
- Non-controlling interests		1,732	(1,064)	810	(484)	(111)
		33,574	57,656	73,316	5,648	13,766
Earnings per share	14					
- Basic (RMB cents)		8.49	15.66	19.33	1.64	3.70

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 April
		2016	2017	2018	2019
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	15	266,707	233,977	212,184	202,166
Investment properties	16	44,199	15,460	14,001	13,579
Intangible assets		199	167	109	132
Right-of-use assets	17	38,624	28,653	40,005	40,810
Deposits paid for acquisition of property, plant and equipment		7,274	—	—	—
		357,003	278,257	266,299	256,687
Current assets					
Inventories	21	160,946	248,663	419,135	495,366
Trade, bills and other receivables	22	425,165	435,669	578,403	594,244
Contract assets	18	30,557	47,024	66,424	76,670
Contract costs	19	10,565	9,895	12,724	22,935
Value-added tax recoverable		10,901	12,573	3,497	15,084
Prepayments to suppliers		76,649	78,505	92,364	142,217
Amounts due from related parties	25A	—	51,398	—	—
Financial assets at fair value through profit or loss ("FVTPL")	26	—	304,600	3,426	215,471
Term deposits	27	29,396	—	—	—
Restricted bank deposits	28	21,267	47,858	13,597	26,412
Bank balances and cash	28	228,302	96,589	233,881	162,872
		993,748	1,332,774	1,423,451	1,751,271
Current liabilities					
Trade, bills and other payables	29	363,934	521,205	668,621	643,941
Contract liabilities	31	592,417	603,868	692,381	1,047,076
Amount due to a related party	25B	802	—	817	801
Dividends payable		—	2,299	19,270	—
Tax payable		5,480	4,522	5,114	886
Bank borrowing	30	—	3,000	—	—
		962,633	1,134,894	1,386,203	1,692,704
Net current assets		31,115	197,880	37,248	58,567
Total assets less current liabilities		388,118	476,137	303,547	315,254
Capital and reserves					
Paid-in/share capital	32	37,316	88,702	51,386	51,386
Reserves		342,331	384,093	245,585	259,462
Equity attributable to owners of the Company		379,647	472,795	296,971	310,848
Non-controlling interests		260	(1,319)	(1,064)	(1,175)
Total equity		379,907	471,476	295,907	309,673
Non-current liability					
Deferred tax liabilities	20	8,211	4,661	7,640	5,581
		388,118	476,137	303,547	315,254

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As at 31 December		As at 30 April
		2017	2018	2019
	Notes	RMB'000	RMB'000	RMB'000
Non-current asset				
Investment in a subsidiary	43A	—*	59,987	59,987
Current assets				
Amounts due from related parties	25A	51,386	—	—
Other receivables	22	—	3,762	4,796
Bank balances and cash	28	—	118	114
		51,386	3,880	4,910
Current liabilities				
Amount due to a related party	25B	—	604	592
Other payables	29	—	16,482	13,367
Amount due to a subsidiary	24	—	9,608	17,070
		—	26,694	31,029
Net current assets (liabilities)		51,386	(22,814)	(26,119)
Total assets less current liability		51,386	37,173	33,868
Capital and reserves				
Share capital	32	51,386	51,386	51,386
Reserves	43B	—	(14,213)	(17,518)
Total equity		51,386	37,173	33,868

* *Less than RMB1,000.*

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company						
	Paid-in/ share capital	Capital surplus reserve	Other reserve	Retained profits	Subtotal	Non-controlling interests	Total
	RMB'000	RMB'000 (note a)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	37,316	49,145	—	274,191	360,652	(1,472)	359,180
Profit and total comprehensive income for the year	—	—	—	31,842	31,842	1,732	33,574
Transferred to capital surplus reserve	—	5,757	—	(5,757)	—	—	—
Dividends recognised as distribution (note 13)	—	—	—	(12,847)	(12,847)	—	(12,847)
At 31 December 2016	37,316	54,902	—	287,429	379,647	260	379,907
Profit (loss) and total comprehensive income (expenses) for the year	—	—	—	58,720	58,720	(1,064)	57,656
Transferred to capital surplus reserve	—	16,108	—	(16,108)	—	—	—
Dividends recognised as distribution (note 13)	—	—	—	(16,958)	(16,958)	—	(16,958)
Issue of shares of the Company	51,386	—	—	—	51,386	—	51,386
Deregistration of subsidiaries	—	—	—	—	—	(515)	(515)
At 31 December 2017	88,702	71,010	—	313,083	472,795	(1,319)	471,476
Effect arising on adoption of IFRS 9 (note 3)	—	—	—	(6,843)	(6,843)	(202)	(7,045)
Adjusted balance at 1 January 2018	88,702	71,010	—	306,240	465,952	(1,521)	464,431
Profit and total comprehensive income for the year	—	—	—	72,506	72,506	810	73,316
Transferred to capital surplus reserve	—	19,460	—	(19,460)	—	—	—
Dividends recognised as distribution (note 13)	—	—	—	(201,854)	(201,854)	—	(201,854)
Effect of Group Reorganisation (note b)	(37,316)	—	319	—	(36,997)	—	(36,997)
Deemed distributions to shareholders (note c)	—	—	—	(3,739)	(3,739)	—	(3,739)
Partial disposal of equity interest of a subsidiary to non-controlling interests (note d)	—	—	956	—	956	(306)	650
Capital contribution from non-controlling shareholders to a subsidiary (note d)	—	—	147	—	147	(47)	100
At 31 December 2018	51,386	90,470	1,422	153,693	296,971	(1,064)	295,907
Profit (loss) and total comprehensive income (expenses) for the period	—	—	—	13,877	13,877	(111)	13,766
At 30 April 2019	51,386	90,470	1,422	167,570	310,848	(1,175)	309,673

	Attributable to owners of the Company						
	Paid-in/ share capital	Capital surplus reserve	Other reserve	Retained profits	Subtotal	Non-controlling interests	Total
	RMB'000	RMB'000 (note a)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)							
At 31 December 2017	88,702	71,010	—	313,083	472,795	(1,319)	471,476
Effect arising on adoption of IFRS 9 (note 3)	—	—	—	(6,843)	(6,843)	(202)	(7,045)
Adjusted balance at 1 January 2018	88,702	71,010	—	306,240	465,952	(1,521)	464,431
Profit (loss) and total comprehensive income (expenses) for the period	—	—	—	6,132	6,132	(484)	5,648
Dividends recognised as distribution (note 13)	—	—	—	(37,437)	(37,437)	—	(37,437)
At 30 April 2018	88,702	71,010	—	274,935	434,647	(2,005)	432,642

Notes

a: In accordance with the articles of association of the subsidiaries established in the People's Republic of China ("the PRC"), the subsidiaries are required to transfer at least 10% of their profit after tax in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC before any distribution of dividends to owner each year to capital surplus reserve until the reserve reaches 50% of their respective registered capital. The capital surplus reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional capital of the subsidiaries. Jiangsu Pengfei Group Limited* (江蘇鵬飛集團股份有限公司) ("Jiangsu Pengfei") had made voluntary contribution to capital surplus reserve when the reserve reaches 50% of its registered capital.

b: On 8 September 2018, as a step of the Group Reorganisation (as defined in note 1), Jiangsu Pengfei Group Nantong Heavy Equipment Company Limited* (江蘇鵬飛集團南通重型設備有限公司) ("Heavy Equipment PRC"), acquired an aggregate of 6.5341% and 8.0894%, respectively, equity interests of Jiangsu Pengfei from 38 individual shareholders of Jiangsu Pengfei and Mr. Wang (as defined in note 1) for an aggregate cash consideration of RMB36,997,000. The difference of the consideration and the amount of the paid-in capital of Jiangsu Pengfei prior to the completion of the Group Reorganisation in the amount of RMB319,000, had been credited to other reserve.

c: In respect of Heavy Equipment PRC's acquisition of 6.5341% and 8.0894% equity interests of Jiangsu Pengfei from 38 individual shareholders of Jiangsu Pengfei and Mr. Wang, individual income tax totalling RMB3,739,000 imposed on the 38 individual shareholders and Mr. Wang were borne by the Group and was therefore accounted as deemed distributions to them, accordingly.

d: Pursuant to shareholders' resolution of Jiangsu Pengfei Group Haian Construction Equipment Company Limited* (江蘇鵬飛集團海安建材設備有限公司) ("Pengfei Equipment") dated 1 September 2018, Jiangsu Pengfei transferred an aggregate of 6.43% equity interest in Pengfei Equipment to 9 individual shareholders of Pengfei Equipment at a cash consideration of RMB650,000. Pursuant to the same shareholders' resolution, an independent third party contributed RMB100,000 to Pengfei Equipment and the Group's equity interest in Pengfei Equipment had been further diluted by 0.65% and the Group's equity interest in Pengfei Equipment decreased from 73.21% to 66.13%.

* *English name is for identification purpose only*

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
OPERATING ACTIVITIES					
Profit before tax	40,102	66,783	87,848	6,832	16,712
Adjustments for:					
Finance costs	353	1,605	1,204	199	180
Bank interest income	(1,135)	(1,141)	(889)	(223)	(149)
Interest income from independent third parties	(1,276)	(1,063)	(658)	(353)	—
Other investment gain	(159)	(2,845)	(3,438)	(2,426)	(2,760)
Depreciation of property, plant and equipment	6,890	6,439	5,751	1,875	1,764
Depreciation of investment properties	3,085	1,604	1,459	487	422
Amortisation of intangible assets	6	10	9	3	3
Depreciation of right-of-use assets	510	361	121	31	38
Loss (gain) on disposal of property, plant and equipment	5	(137)	(248)	(47)	—
Amortisation of contract costs	4,620	8,679	6,289	2,163	3,182
Gain on disposal of subsidiaries	(821)	(10,862)	—	—	—
Loss on deregistration of subsidiaries	494	100	—	—	—
Provision (reversal) of loss allowance on trade and other receivables and contract assets	8,883	532	2,514	(412)	2,316
Net foreign exchange (gain) loss	(13,304)	6,497	(3,512)	3,664	2,199
Operating cash flow before movements in working capital	48,253	76,562	96,450	11,793	23,907
Decrease (increase) in inventories	98,200	(56,197)	(139,573)	5,087	(66,148)
(Increase) decrease in trade, bills and other receivables	(49,091)	(85,436)	(150,484)	14,464	(25,474)

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Decrease (increase) in contract assets	17,365	(16,467)	(21,900)	(6,871)	(10,668)
Increase in contract costs	(6,101)	(8,009)	(9,118)	(2,627)	(13,393)
(Increase) decrease in value-added tax recoverable	(4,710)	(2,227)	9,076	11,834	(11,587)
Increase in prepayments to suppliers	(33,974)	(2,346)	(13,859)	(18,358)	(49,853)
(Decrease) increase in trade, bills and other payables	(10,444)	156,665	142,805	(153,051)	(23,937)
Increase in contract liabilities	66,086	11,451	88,513	82,172	354,695
Cash generated from (used in) operations	125,584	73,996	1,910	(55,557)	177,542
PRC Enterprise Income Tax paid	(7,056)	(13,635)	(9,851)	(4,518)	(9,233)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	118,528	60,361	(7,941)	(60,075)	168,309
INVESTING ACTIVITIES					
Proceeds on disposal of property, plant and equipment	14	1,603	438	73	—
Net cash (outflow) inflow arising from disposal of subsidiaries (note 33)	(29,293)	62,119	5,000	5,000	—
Placement of term deposits	—	(60,000)	—	—	—
Withdrawal of term deposits	10,000	83,000	—	—	—
Placement of restricted bank deposits	(144,800)	(135,997)	(202,755)	(35,342)	(36,000)
Withdrawal of restricted bank deposits	131,414	109,406	237,016	27,507	23,185
Purchase of property, plant and equipment	(9,881)	(1,934)	(9,933)	(2,571)	(1,601)
Purchase of intangible assets	(171)	(29)	—	—	(40)
Payments for right-of-use assets	(565)	(2,482)	(10,010)	—	(1,057)

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Consideration paid for the acquisition of assets through acquisition of a subsidiary (note 34)	—	—	(6,659)	(6,659)	—
Bank interest received	912	2,537	889	223	149
Interest income from independent third parties	1,276	1,063	658	212	—
Purchase of financial assets at FVTPL	—	(328,000)	(459,000)	(205,000)	(553,400)
Disposal of financial assets at FVTPL	65,325	26,245	763,612	400,928	344,115
Loan to independent third parties	(70,506)	(8,649)	(28,449)	—	—
Repayment received from loan to independent third parties	16,580	72,236	29,208	417	8,449
Advance to related parties	—	(12)	(2,825)	—	—
Repayments received from advance to related parties	633	—	2,837	—	—
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(29,062)	(178,894)	320,027	184,788	(216,200)
FINANCING ACTIVITIES					
New bank borrowings raised	—	50,000	—	—	—
Repayment of bank borrowings	—	(47,000)	(3,000)	(3,000)	—
Interest paid	(349)	(1,601)	(464)	(45)	—
Issue of shares of the Company	—	—	37,663	18,843	—
Loan received from independent third parties (notes 25(A) and 29))	—	621	23,543	—	—
Repayments of loan from independent third parties	—	—	(6,720)	—	—
Advance from related parties	—	—	817	247	—
Repayments to related parties	—	(802)	—	—	—
Repayments of lease liabilities	(19)	(19)	(19)	(7)	(7)
Issue cost paid	—	—	(2,322)	—	(1,758)
Capital contribution from a non-controlling shareholder	—	—	100	—	—
Cash paid for Group Reorganisation	—	—	(36,997)	—	—

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Deemed distribution to owners of the Company	—	—	(3,739)	—	—
Dividend paid to owners of the Company	(13,043)	(14,659)	(184,883)	(39,736)	(19,270)
NET CASH USED IN FINANCING ACTIVITIES	(13,411)	(13,460)	(176,021)	(23,698)	(21,035)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	76,055	(131,993)	136,065	101,015	(68,926)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	146,743	233,302	96,589	96,589	233,881
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	10,504	(4,720)	1,227	(2,054)	(2,083)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD, REPRESENTED BY	233,302	96,589	233,881	195,550	162,872
Bank balances and cash	228,302	96,589	233,881	195,550	162,872
Term deposits with original maturity of less than 3 months (note 27)	5,000	—	—	—	—
	233,302	96,589	233,881	195,550	162,872

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands on 31 July 2017. The addresses of the Company's registered office and the principal place of business are disclosed in the section headed "Corporate Information" in the Prospectus. The principal activities of the Group are production and sale of complete sets of equipment and construction of production line and provision of installation services.

Pursuant to a group reorganisation, as more fully explained in the section headed "History, Development and Reorganisation" in the Prospectus (the "Group Reorganisation"), which was completed on 8 September 2018, the Company became the holding company of the entities now comprising the Group.

The immediate and ultimate holding company of the Company is Ambon Holding Limited ("Ambon"), an investment holding company incorporated in the British Virgin Islands (the "BVI") with limited liability on 27 July 2017 holding approximately 55.3177% of the equity interests of the Company. PF International Group Limited ("PF International"), an investment holding company incorporated in the BVI with limited liability on 27 November 2017, and PF Global Limited ("PF Global"), an investment holding company incorporated in the BVI with limited liability on 27 November 2017, holding 32.5192% and 12.1631%, respectively, of the equity interest of the Company. Ambon was wholly owned by Mr. Jiaan Wang ("Mr. Wang", or the "Controlling Shareholder"). PF International and PF Global were owned by 7 and 31 individual shareholders, respectively.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared in accordance with the accounting policies set out in note 4 which conform with IFRSs.

Prior to the incorporation of the Company and the completion of the Group Reorganisation, the principal business of the Group had been operated by Jiangsu Pengfei and its subsidiaries. Historically, all the entities comprising the Group's business were controlled by the Controlling Shareholder. The shareholding structure of all the entities comprising the Group's business were the same before and after the completion of Group Reorganisation.

In preparation for the initial public offering and listing of the shares of the Company on the Stock Exchange ("Listing"), the Group underwent the Group Reorganisation as described below.

The major steps of Group Reorganisation comprised the following steps:

- On 31 July 2017, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of RMB600,000,000 divided into 600,000,000 shares of RMB 1 each. As at the date of its incorporation, the initial subscribing shareholder transferred the one issued share to Ambon at par and allotted and issued 51,385,899 issued shares to Ambon at par. The Company was owned as to 100% by Ambon. Out of the total capital contribution of RMB51,386,000, the Company received RMB18,843,000 and RMB18,820,000 in cash in April and May 2018, respectively, and the outstanding balance of RMB13,723,000 was offset against the Group's amounts due to shareholders (detailed in notes 25(A) and 29) during the year ended 31 December 2018;

- On 2 August 2017 and 11 August 2017, the Company incorporated its wholly-owned subsidiaries, including PengFei Holdings Limited ("Pengfei BVI") and China Heavy Equipment Engineering Limited (中國重器工程有限公司) ("Heavy Equipment HK"), respectively;

- On 20 December 2017, Ambon transferred 32.5192% and 12.1631% equity interest of the Company to PF International and PF Global at a consideration of RMB16,710,000 and RMB6,250,000, respectively. Upon completion of the transfer, the Company is owned as 55.3177%, 32.5192% and 12.1631% by Ambon, PF International and PF Global, respectively;

- On 14 March 2018, Heavy Equipment HK made capital contribution of US$8,200,000 (equivalent to RMB51,828,000) to Heavy Equipment PRC. On the same date, the sole shareholder of Heavy Equipment PRC prior to the capital contribution entered into an equity transfer agreement with Heavy Equipment HK, pursuant to which the then sole shareholder of Heavy Equipment PRC transferred its entire equity interest of Heavy Equipment PRC to Heavy Equipment HK at a cash consideration of US$1,360,000 (equivalent to RMB8,596,000). Upon completion of the transfer, Heavy Equipment PRC became a wholly-owned subsidiary of Heavy Equipment HK;

- On 22 August 2018, PF International and PF Global transferred 293 shares and 109 shares of the Company (equivalent to 0.0006% and 0.0002% of the issued share capital of the Company) to Ambon, respectively, both in consideration of RMB1;

- On 8 September 2018, being the completion date of Group Reorganisation, Heavy Equipment PRC entered into a capital contribution agreement, pursuant to which Heavy Equipment PRC agreed to contribute RMB300,000,000 to Jiangsu Pengfei prior to 8 September 2028. Heavy Equipment PRC obtained 85.3762% equity interest of Jiangsu Pengfei from this capital contribution agreement according to the articles of association of Jiangsu Pengfei dated 8 September 2018. Up to the date of this report, Heavy Equipment PRC did not make any capital contribution to Jiangsu Pengfei yet. On the same date, Heavy Equipment PRC entered into equity transfer agreements with 38 individual shareholders of Jiangsu Pengfei and Mr. Wang to transfer an aggregate of 6.5341% and 8.0894% equity interest of Jiangsu Pengfei, respectively, to Heavy Equipment PRC at an aggregate consideration of RMB36,997,000. On the same date, Nantong Golden Environmental

Protection Technology Company Limited* (南通金度環保科技有限公司) ("Nantong Golden"), a wholly-owned subsidiary of Heavy Equipment PRC, entered into an equity transfer agreement with Mr. Wang to transfer 0.0003% equity interest of Jiangsu Pengfei to Nantong Golden at a consideration of RMB648. The equity transfer consideration of RMB36,997,000 and RMB648 are fully settled in October 2018.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period include the results, changes in equity and cash flows of companies comprising the Group as if the group structure upon completion of Group Reorganisation had been in existence throughout the Track Record Period, or since their date of incorporation or acquisition, where there is a shorter period.

The consolidated statements of financial position of the Group as at 31 December 2016 and 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group at the carrying amounts shown in the financial statements of the group entities, as if the group structure upon completion of Group Reorganisation had been in existence at those dates taking into account the respective dates of incorporation or acquisition, where applicable.

The Historical Financial Information is presented in RMB, which is also the same as the functional currency of the Company.

3. APPLICATIONS OF NEW AND AMENDMENTS TO IFRSs

Application of new and revised IFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has applied all International Accounting Standards ("IASs"), IFRSs and amendments which are effective for the period beginning on 1 January 2019 including IFRS 16 "*Lease*" and IFRS 15 "*Revenue from Contracts with Customers*" which are effective for the accounting period beginning on 1 January 2018, consistently throughout the Track Record Period, except that the Group adopted IFRS 9 "*Financial Instruments*" on 1 January 2018 and applied IAS 39 "*Financial Instruments: Recognition and Measurement*" for each of the two years ended 31 December 2017.

IFRS 9 Financial Instruments and related amendments

Impacts and changes in accounting policies of application on IFRS 9 "Financial Instruments" and related amendments

In the year ended 31 December 2018, the Group has applied IFRS 9 and the related consequential amendments. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and other items subject to ECL assessment, and (3) general hedge accounting.

* *English name is for identification purpose only*

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits as at 1 January 2018, without restating the financial information for the year ended 31 December 2016 and 2017.

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets, financial liabilities and other asset subject to ECL and impacted upon adoption of IFRS 9 and IAS 39 at the date of initial application on 1 January 2018.

The Group

		Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39	Additional loss allowance recognised under IFRS 9 (note)	New carrying amount under IFRS 9
				RMB'000	RMB'000	RMB'000
Financial assets and liabilities:						
1.	Trade, bills and other receivables	Loans and receivables	Financial assets at amortised cost	434,341	(6,394)	427,947
2.	Financial assets at FVTPL	Financial assets at FVTPL	Financial assets mandatorily measured at FVTPL	304,600	—	304,600
3.	Amounts due from related parties	Loans and receivables	Financial assets at amortised cost	51,398	—	51,398
4.	Restricted bank deposits	Loans and receivables	Financial assets at amortised cost	47,858	—	47,858
5.	Bank balances and cash	Loans and receivables	Financial assets at amortised cost	96,589	—	96,589
6.	Trade, bills and other payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost	498,195	—	498,195
7.	Dividends payable	Financial liabilities at amortised cost	Financial liabilities at amortised cost	2,299	—	2,299
8.	Bank borrowings	Financial liabilities at amortised cost	Financial liabilities at amortised cost	3,000	—	3,000
Other asset subject to ECL:						
9.	Contract assets	N/A	N/A	47,024	(1,761)	45,263
					(8,155)	
	Recognition of deferred tax assets				1,110	
	Reduction of non-controlling interests				202	
	Total				(6,843)	

Note: The Group applies the IFRS 9 simplified approach to measure ECL on trade receivables and contract assets at lifetime ECL and general approach to measure ECL for all other financial assets.

As at 1 January 2018, the additional credit loss allowance of RMB8,155,000, together with the recognition of the corresponding deferred tax assets of RMB1,110,000, has been recognised against retained profits of RMB6,843,000 and non-controlling interests of RMB202,000 as at 1 January 2018. The additional loss allowance is charged against the respective allowance accounts of the respective assets.

The Company

		Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39	Additional loss allowance recognised under IFRS 9 (note)	New carrying amount under IFRS 9
1.	Amounts due from related parties	Loans and receivables	Financial assets at amortised cost	51,386	—	51,386

No loss allowances were recognised for restricted bank deposits, bank balances and bill receivables as they are placed in or issued by banks with good reputation. No loss allowance were recognised for amounts due from related parties as the related parties are with high credit quality and with no instance of default historically. Therefore, no additional loss allowance was recognised upon adoption of IFRS 9 under the general approach to measure ECL for these financial assets. All loss allowances for contract assets and trade and other receivables as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Contract assets	Trade and other receivables	Total
	RMB'000	RMB'000	RMB'000
At 31 December 2017 — IAS 39	—	9,225	9,225
Amounts remeasured through opening retained profits	1,761	6,394	8,155
At 1 January 2018	1,761	15,619	17,380

No financial assets are measured differently (other than due to change in impairment calculation) as a result of transition to IFRS 9.

There were no financial liabilities which the Group had previously designated as at FVTPL or measured at amortised cost under IAS 39 that were subject to reclassification, or which the Group has elected to reclassify upon the application of IFRS 9.

New and amendments to IFRSs issued but not yet effective

The Group has not early adopted the following new and amendments to IFRSs that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
IFRS 17	Insurance Contracts[2]
Amendments to IFRS 3	Definition of a Business[3]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

[1] Effective for annual periods beginning on or after a date to be determined

[2] Effective for annual periods beginning on or after 1 January 2021

[3] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

[4] Effective for annual periods beginning on or after 1 January 2020

The directors of the Company anticipate that the application of all these new and amendments to IFRSs will have no material impact on the Group's financial position and financial performance when they become effective.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with accounting policies which conform with IFRSs issued by the IASB. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis, except for financial assets at FVTPL, at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "*Inventories*" or value in use in IAS 36 "*Impairment of assets*".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The Historical Financial Information incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributable to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Investment in a subsidiary

Investment in a subsidiary is stated in the statements of financial position of the Company at cost less any identified impairment loss.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customers.

Control of the goods or services may be transferred over time or at a point in time. Control of the goods or services is transferred over time if:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations (i.e. certain sale of equipment contracts include the provision of installation services), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The Group's incremental costs mainly being the commission fee paid to the Group's employees or intermediaries.

The Group recognises such commission fee as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Over time recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the contract costs incurred to the satisfaction of a performance obligation relative to the estimated total contract costs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of the production line.

Leases

Definition of 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.

The Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of motor vehicles that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straightline basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line on the consolidated statements of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments included in the measurement of the lease liability represent the fixed payments of the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments. The Group presented the lease liabilities in "other payables" in note 29.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

All borrowing costs not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to government managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investment in a subsidiary, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investment is only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 "*Income Taxes*" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress/assets under installation as described below) are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than construction in progress/assets under installation less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and accumulated impairment losses, if any. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The Group's intangible assets represent software with estimated useful life of 5 years.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Research expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

Impairment on tangible and intangible assets and contract costs

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives and contract costs to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangible and intangible assets are estimated individually, or when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

Before the Group recognises an impairment loss for assets capitalised as contract costs under IFRS 15, the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the CGU to which they belong for the purpose of evaluating impairment of that CGU.

Recoverable amount is the higher of 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 (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated to the assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, which comprises all costs of purchases and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Costs of raw material are determined on a weighted average method and costs of work-in-progress and finished goods are determined on a specific identification basis based on the actual costs specific to each processing order incurred. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Warranties

Provisions for the expected cost of warranty obligations under the relevant sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Financial instruments under IAS 39 (before the adoption of IFRS 9 on 1 January 2018)

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables and financial assets at FVTPL. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is designated as at FVTPL.

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

The Group has designated investments in unlisted short-term financial products and investment funds as financial assets at FVTPL. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes in the "other gains and losses" line item. Fair value is determined in the manner described in note 40.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade, bills and other receivables, amounts due from related parties, term deposits, restricted bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivables is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities including trade, bills and other payables, amount due to a related party, amount due to a subsidiary, dividends payable and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Financial instruments (under IFRS 9)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated at FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets and other assets subject to ECL (including trade, bills and other receivables, amounts due from related parties, restricted bank deposits and bank balances and contract assets). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individual basis for customers with high credit risk and the remaining is collectively using provision matrix, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information includes the future prospects of the industries in which the Group's debtors operate as well as various external sources of forecast on macro-economic condition, such as gross domestic product ("GDP") growth rate.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a deregistration event. Any subsequent recoveries are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the original effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis to cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e., the Group's trade, bills and other receivables, contract assets, amounts due from related parties, restricted bank deposits and bank balances are each assessed for ECL on an individual basis);

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

The grouping is regularly reviewed by the management of the Group to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income 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 amortised cost of the financial asset.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

Financial liabilities subsequently measured at amortised cost

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the management of the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following is the critical judgements, apart from those involving estimations (see below), that the management of the Group has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Historical Financial Information.

Principal versus agent for revenue recognition on installation service

The Group is the contracting party to its customers in rendering the installation service and the Group is primarily responsible for fulfilling the promise to provide the installation service and has the discretion on establishing the contract price. Thus, the management of the Group considers the Group acts as principal and recognises revenue generated from the installation service on a gross basis. Having considered the cost and benefits in performing the installation service, the Group had subcontracted the installation service to independent third parties. Significant judgement is made by the management of the Group in determining whether the Group is acting as a principal or agent in its performance of the installation service.

During the three years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, the Group has recognised revenue amounting to RMB30,786,000, RMB17,140,000, RMB21,985,000, RMB3,035,000 (unaudited) and RMB7,290,000 from the rendering of installation service, respectively.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that has a significant risk of causing a material adjustment to the carrying amounts of assets within the next twelve months.

Revenue recognition on construction of production line

The Group recognises revenue on construction of production line by reference to the stage of completion of the contract activity at the end of each reporting period, when the outcome of a construction of production line contract can be estimated reliably. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed to date to the estimated total contract costs (i.e. input method).

Significant estimations are required in determining the stage of completion, the extent of the contract costs incurred and estimated total contract cost, as well as the recoverability of the contract costs incurred. In making these estimates, the management of the Group has relied on past experience and knowledge of project engineers employed by the Group.

The stage of completion of each construction of production line contract is assessed on a cumulative basis in each reporting period. Changes in estimate of contract costs, or the effect of a change in the estimate of the outcome of a contract could impact the amount of revenue and expense recognised in profit or loss in the year in which the change is made and in subsequent years. Such impact could potentially be significant.

During the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, the Group has recognised revenue amounting to RMB170,249,000, RMB275,302,000, RMB213,806,000, RMB38,118,000 (unaudited) and RMB109,606,000 from construction of production line contracts, respectively.

Price allocation for multiple performance obligations

Certain of the Group's sale of equipment contracts includes the provision of installation services to customers. For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

The management of the Group exercises judgement in determining the price allocation basis between the performance obligations of sale of equipment and installation service.

Estimated impairment of trade receivables and contract assets

The Group reviews its financial assets to assess impairment on a regular basis. The methodologies and assumptions used for estimating the impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Before the adoption of IFRS 9, the management of the Group estimates the amount of loss allowance using incurred credit loss model. The impairment loss amount of the individual trade receivable and contract asset is the net decrease in the present value of the estimated future cash flows, and the evidence of impairment may include observable data indicating that there is a measurable decrease in the estimated future cash flows of the individual trade receivable and contract asset. The Group periodically reviews its trade receivables and contract assets to assess impairment individually and collectively except that there are known situation demonstrating impairment losses have occurred during that period. The Group makes judgements as to whether there is any observable data indicating that an impairment loss should be recorded in the consolidated statements of profit or loss and other comprehensive income from a portfolio of trade receivables and contract assets before the decrease can be identified with an individual trade receivable and contract asset in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of the counterparty (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the portfolio. The management of the Group uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

Since the adoption of IFRS 9 on 1 January 2018, the management of the Group estimates the amount of loss allowance for ECL on trade receivables and contract assets based on the credit risk of the trade receivables and contract assets. The estimation of the credit risk of the trade receivables and contract assets involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

Useful lives and depreciation charges of property, plant and equipment and investment properties

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment, right-of-use assets and investment properties. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment, right-of-use assets and investment properties of similar nature and functions. The Group will increase or decrease the depreciation charge where useful lives are less or more than previously estimated lives.

As at 31 December 2016, 2017 and 2018 and 30 April 2019, the carrying amount of property, plant and equipment amounted to RMB266,707,000, RMB233,977,000, RMB212,184,000 and RMB202,166,000, respectively, the carrying amount of right-of-use assets amounted to RMB38,624,000, RMB28,653,000, RMB40,005,000 and RMB40,810,000, respectively, and the carrying amount of investment properties amounted to RMB44,199,000, RMB15,460,000, RMB14,001,000 and 13,579,000, respectively.

6. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable from the sale of goods, construction of production line and rendering of installation services, net of sales related taxes during the Track Record Period.

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Sale of equipment, recognised at a point in time	575,626	653,701	780,410	203,911	283,006
Revenue from construction of production line, recognised over time	170,249	275,302	213,806	38,118	109,606
Installation service, recognised over time	30,786	17,140	21,985	3,035	7,290
Total	776,661	946,143	1,016,201	245,064	399,902

Sale of equipment

The Group sells equipment directly to customers. The Group mainly sells equipment including related parts and components for various industries including building materials production, metallurgy, chemical and environmental protection. The key equipment manufactured by the Group consists of rotary kiln system and grinding equipment system.

Revenue is recognised at a point in time when the goods are accepted by the customers after delivery to the customers' premises, since only by that time the Group passes control of the equipment to the customers. The Group does not grant any credit period to its customers.

Customers are generally required to make an advance payment of 30% of the total contract sum before the Group commences any work, and this will give rise to contract liabilities at the start of a contract. During the course of production, customers will generally be required to make progress payment. Once the production process is completed, customers will be required to make delivery payment before delivery of the products. Generally, customers will be required to pay 90% to 95% of the total contract sum before delivery. Contract liabilities are recognised when milestone payments are received for sale of equipment in which revenue has yet been recognised.

The Group normally provides a warranty period of around 12 months from the date of acceptance by customers. For those contracts with warranty period provided, the outstanding balances representing the retention money of approximately 5% to 10% of the total contract sum initially recognised as contract assets upon delivery of goods and will be transferred to trade receivables and paid to the Group in the absence of warranty claim after the warranty period.

Construction of production line

The Group provides construction of production line services to customers of building materials industry, such as cement production line projects, and other industries including metallurgy and environmental protection. Most customers of the construction of production line business are located outside the PRC during the Track Record Period, including "Belt and Road" jurisdictions such as Bangladesh, Kazakhstan, Turkey and Uzbekistan.

Revenue from construction of production line is recognised as a performance obligation satisfied over time. The Group's performance under the construction contracts creates production lines without an alternative use to the Group. As the Group has an enforceable right to payment for performance performed to date, the Group recognises revenue over time for construction of production line services. Revenue is recognised for these construction of production line services based on the stage of completion of the contract using the input method.

Customers are generally required to make an advance payment of 30% of the total contract sum before the Group commences any work, this will give rise to contract liabilities at the start of a contract until the revenue recognised exceeds the amount of advance payment received. During the course of production, customers will generally be required to make progress payment. During the course of production, the Group will deliver the products required for the constitution of production line to the designated port or the customer's site by batches pursuant to the terms of the contract. In general, customers will be required to pay not less than 80% of the total contract sum corresponding to the relevant batch of products that the Group deliver before each delivery. If customers are satisfied with the production line installed, they will issue an acceptance certificate to the Group. The Group will receive no less than 90% of the total contract sum upon the acceptance certificate has been issued. The Group normally provides a retention period of 12 months after the operation of the production line and the issuance of the final acceptance certificate. For those contracts with retention period provided, the outstanding balances representing the retention money of approximately 5% to 10% of the total contract sum initially recognised as contract assets until the end of retention period and will be transferred to trade receivables and paid to the Group in the absence of warranty claim.

A contract asset, net of contract liability related to the same contract, is recognised over the period in which the construction of production line services are performed representing the Group's rights to consideration for the services performed because the rights to billing are conditional upon specified payment milestones. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically transfers the contract assets to trade receivables when the Group achieved the specific milestones of payments in the corresponding contracts.

Installation services

Revenue relating to the installation services is recognised over time throughout the installation period because the Group's performance enhances an asset that its customers control as the asset is enhanced. The provision of installation services is normally included in the contracts for sale of equipment as aforementioned and is subject to the same retention terms under the contracts for sale of equipments.

Transaction price allocated to the remaining performance obligations for contracts with customers

The Group applies the practical expedient of not disclosing the transaction price allocated to performance obligations that were unsatisfied in respect of installation service as the Group's contract has an original expected duration of less than one year.

The following table shows the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) in respect of provision of construction of production line as at the end of each reporting period and the expected timing of recognising revenue.

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Provision of construction of production line				
Within one year	276,870	204,456	1,102,944	549,830
More than one year but not more than two years	204,456	340,784	—	557,325
More than two years	340,784	—	—	273,310
Total	822,110	545,240	1,102,944	1,380,465

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) in respect of the Group's sale of equipment was RMB932,946,000, RMB1,181,335,000, RMB1,402,441,000 and RMB1,784,948,000 as at 31 December 2016, 2017 and 2018, and 30 April 2019, respectively. In normal circumstances, the performance obligation is expected to be satisfied within one year. However, the timing of recognition is subject to the request of delivery from the customers and may be uncertain due to political uncertainty of the countries at where the Group's customers are situated, which may cause such revenue to be recognised more than one year after the end of the reporting period.

Information reported to the Chairman of the Group, being the chief operating decision maker, for the purposes of resource allocation and assessment of performance focuses on revenue from the sale of equipment, construction of production line and installation services.

The management of the Group considers that the Group has one operating and reportable segment. No operating segment information is presented other than the entity-wide disclosures.

Entity-wide disclosures

Geographical information

The Group's non-current assets are all situated in the PRC throughout the Track Record Period. The geographical information of the Group's revenue, determined based on geographical location of the registered office of the immediate customers, during the Track Record Period is as follows:

		Year ended 31 December			Four months ended 30 April	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Mainland China		523,784	442,073	713,423	161,637	280,280
Outside Mainland China						
Including:	Turkey	26,450	262,959	70,176	44,504	1,602
	Bangladesh	26,849	50,316	27,022	21,310	—
	Algeria	25,578	9,607	3,097	2,217	—
	Hong Kong	4,432	81,423	—	—	—
	Uzbekistan	76,247	373	9,906	—	1,065
	Vietnam	22,391	19,495	2,032	182	105
	Republic of Malawi	23,079	3,538	—	—	—
	Kenya	22,242	4,348	967	488	198
	Congo	13,591	—	—	—	—
	Kazakhstan	7	—	138,531	—	108,541
	Other countries	12,011	72,011	51,047	14,726	8,111
		776,661	946,143	1,016,201	245,064	399,902

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group during the Track Record Period are as follows:

	Year ended 31 December			Four months ended 30 April	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000** (unaudited)	**RMB'000**
Customer A	123,304	*(note)*	*(note)*	*(note)*	*(note)*
Customer B	*(note)*	256,131	*(note)*	38,118	*(note)*
Customer C	*(note)*	—	138,531	*(note)*	108,541
Customer D	—	—	*(note)*	*(note)*	110,891

Note: The Group carried out transactions with this customer but the amount of the transaction was less than 10% of revenue for the respective year.

7. OTHER INCOME

	Year ended 31 December			Four months ended 30 April	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000** (unaudited)	**RMB'000**
Bank interest income	1,135	1,141	889	223	149
Interest income from independent third parties	1,276	1,063	658	353	—
Government subsidies *(note)*	1,996	3,672	23,826	4	20
Rental income	2,127	2,176	1,876	674	603
Others	900	502	83	8	22
Total	7,434	8,554	27,332	1,262	794

Note: The amount represents unconditional government subsidies received from local government in connection with the enterprise development support, innovation capability incentives and/or the expenses related to the Listing incurred by the Group during the Track Record Period.

8. OTHER GAINS AND LOSSES

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Gain on disposal of subsidiaries *(note 33)*	821	10,862	—	—	—
Loss on deregistration of subsidiaries *(note i)*	(494)	(100)	—	—	—
Investment gain on financial assets at FVTPL	159	2,845	3,438	2,426	2,760
Net foreign exchange gains (losses)	14,337	(12,490)	4,697	(3,392)	(3,902)
(Loss) gain on disposal of property, plant and equipment *(note ii)*	(5)	137	248	47	—
Others	(213)	(10)	(59)	(25)	(435)
Total	14,605	1,244	8,324	(944)	(1,577)

Notes:

i. The Group deregistered 4 and 2 subsidiaries during each of the years ended 31 December 2016 and 2017, respectively. The Group had no deregistration of subsidiaries during the year ended 31 December 2018 and the four months ended 30 April 2018 and 2019.

ii. During the year ended 31 December 2017, the gain on disposal of property, plant and equipment included the gain on disposal of a building of RMB44,000. The Group had no other disposal of buildings during the years ended 31 December 2016 and 2018 and the four months ended 30 April 2018 and 2019.

9. FINANCE COSTS

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest expense of bank borrowings	—	1,252	45	45	—
Interest expense of amounts due to independent third parties	349	349	1,155	152	178
Interest expense of lease liabilities	4	4	4	2	2
Total finance costs	353	1,605	1,204	199	180

10. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Depreciation of property, plant and equipment	36,776	37,506	36,040	11,671	11,619
Depreciation of investment properties	3,085	1,604	1,459	487	422
Amortisation of intangible assets	31	61	58	19	17
Depreciation of right-of-use assets	840	763	682	196	252
Total depreciation and amortisation	40,732	39,934	38,239	12,373	12,310
Capitalised in inventories	(30,241)	(31,520)	(30,899)	(9,977)	(10,083)
Total depreciation and amortisation charged to profit or loss	10,491	8,414	7,340	2,396	2,227
Analysed as:					
Charged in administrative expenses	8,712	6,816	6,173	1,985	1,841
Charged in selling and distribution expenses	329	146	—	—	—
Charged in research expenditure	1,450	1,452	1,167	411	386
	10,491	8,414	7,340	2,396	2,227
Auditors' remuneration	51	33	34	11	69
Cost of inventories recognised as cost of sales	555,500	671,009	645,112	166,931	282,548
Expenses relating to short-term lease	30	15	—	—	—
Directors' remuneration *(note 12)*					
- Salaries and other benefits	1,094	1,091	1,191	367	396
- Retirement benefit scheme contributions	114	130	119	40	29
- Discretionary performance related bonus	174	189	185	77	77
	1,382	1,410	1,495	484	502
Other staff costs					
- Salaries and other benefits	54,485	63,849	77,917	22,244	37,684
- Retirement benefit scheme contributions	10,656	11,422	12,539	4,222	4,584
- Discretionary performance related bonus	2,315	2,157	2,940	845	962
	67,456	77,428	93,396	27,311	43,230

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Total staff costs	68,838	78,838	94,891	27,795	43,732
Capitalised in contract costs	(5,600)	(5,450)	(9,118)	(2,627)	(13,393)
Capitalised in inventories	(36,144)	(42,643)	(53,772)	(15,488)	(18,191)
Total staff costs charged to profit or loss	27,094	30,745	32,001	9,680	12,148
Analysed as:					
Charged in administrative expenses	17,188	18,358	19,169	5,780	6,457
Charged in selling and distribution expenses	5,364	7,259	6,651	2,112	3,619
Charged in research expenditure	4,542	5,128	6,181	1,788	2,072
	27,094	30,745	32,001	9,680	12,148
Research expenditure					
Staff cost	4,542	5,128	6,181	1,788	2,072
Depreciation and amortisation	1,450	1,452	1,167	411	386
Technical consultancy fee	19,162	17,659	17,587	5,789	6,959
Materials consumed	5,730	4,886	4,492	1,447	1,595
Others	1,695	2,372	2,950	455	682
Total research expenditure	32,579	31,497	32,377	9,890	11,694
Gross rental income from investment properties	2,127	2,176	1,876	674	603
Less:					
Direct operating expenses incurred for investment properties that generate rental income during the year	(3,085)	(1,604)	(1,459)	(487)	(422)
	(958)	572	417	187	181
Provision (reversal) of loss allowance of trade receivables	3,322	385	2,002	(877)	1,898
Provision (reversal) of loss allowance of other receivables	5,561	147	(227)	70	(4)
Provision of loss allowance of contract assets	—	—	739	395	422
Total provision (reversal) of loss allowance	8,883	532	2,514	(412)	2,316

11. INCOME TAX EXPENSE

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
PRC Enterprise Income Tax ("EIT")	10,126	12,677	10,443	460	5,005
Deferred tax (credit) charge *(note 20)*	(3,598)	(3,550)	4,089	724	(2,059)
Total income tax expense	6,528	9,127	14,532	1,184	2,946

The Company is not subject to income tax or capital gain tax under the law of Cayman Islands.

Pengfei BVI is not subject to income tax or capital gain tax under the law of BVI.

No provision of Hong Kong Profit Tax was made in the Historical Financial Information as the Group had no assessable profit subject to Hong Kong Profit Tax during the Track Record Period.

Jiangsu Pengfei obtained the "High Technology Enterprise" certification in 2015 and 2019, respectively, and was therefore entitled to a preferential tax rate of 15% from 1 January 2015 to 31 December 2020.

The other PRC subsidiaries are subjected to PRC EIT rate of 25% during the Track Record Period.

Income tax expense for the Track Record Period can be reconciled to profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before tax	40,102	66,783	87,848	6,832	16,712
Tax at PRC EIT rate of 15%	6,015	10,017	13,177	1,025	2,507
Tax effect of expense not deductible for tax purpose	1,347	377	2,172	57	683
Tax effect of deductible temporary differences and tax losses not recognised	444	786	110	365	143
Utilisation of deductable temporary differences and tax losses previously not recognised	(525)	(1,735)	(426)	(104)	(107)
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	(1,479)	(318)	(545)	(159)	(280)
Effect of different tax rates of other subsidiaries	726	—	44	—	—
Income tax expense	6,528	9,127	14,532	1,184	2,946

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(A) Directors' and the chief executive's emoluments

Details of the emoluments paid to the individuals who were appointed as the directors and Chief Executive Officer of the Company (including emoluments for services as employees/directors of the group entities prior to becoming the directors of the Company), during the Track Record Period, disclosed pursuant to the applicable Listing Rule, are as follows:

	Date of appointment as a director of the Company	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Discretionary performance related bonus	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2016						
Executive directors						
Mr. Wang	31 July 2017	—	359	37	42	438
Dai Xianru	7 November 2018	—	246	29	40	315
Zhou Yinbiao	7 November 2018	—	271	24	50	345
Ben Daolin	7 November 2018	—	218	24	42	284
		—	1,094	114	174	1,382

	Date of appointment as a director of the Company	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Discretionary performance related bonus	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2017						
Executive directors						
Mr. Wang	31 July 2017	—	360	39	52	451
Dai Xianru	7 November 2018	—	247	34	40	321
Zhou Yinbiao	7 November 2018	—	272	29	43	344
Ben Daolin	7 November 2018	—	212	28	54	294
		—	1,091	130	189	1,410

	Date of appointment as a director of the Company	Fees	Basic salaries and other benefits	Retirement benefit scheme contributions	Discretionary performance related bonus	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2018						
Executive directors						
Mr. Wang	31 July 2017	—	361	—	52	413
Dai Xianru	7 November 2018	—	272	42	40	354
Zhou Yinbiao	7 November 2018	—	310	42	43	395
Ben Daolin	7 November 2018	—	248	35	50	333
		—	1,191	119	185	1,495

	Date of appointment as a director of the Company	Fees	Salaries and other benefits	Retirement benefit scheme contribution	Performance related Bonus	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Four months ended 30 April 2018 (unaudited)						
Executive directors						
Mr. Wang	31 July 2017	—	121	—	16	137
Dai Xianru	7 November 2018	—	83	14	19	116
Zhou Yinbiao	7 November 2018	—	91	14	21	126
Ben Daolin	7 November 2018	—	72	12	21	105
		—	367	40	77	484

	Date of appointment as a director of the Company	Fees	Salaries and other benefits	Retirement benefit scheme contribution	Performance related Bonus	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Four months ended 30 April 2019						
Executive directors						
Mr. Wang	31 July 2017	—	119	—	16	135
Dai Xianru	7 November 2018	—	91	3	19	113
Zhou Yinbiao	7 November 2018	—	101	14	21	136
Ben Daolin	7 November 2018	—	85	12	21	118
		—	396	29	77	502

Note:

(i) Mr. Wang is Chairman of the Group and assumed the role of Chief Executive Officer of the Group during the Track Record Period whose emoluments has been included in the above.

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company (after incorporation) and the Group during the Track Record Period.

(B) Five highest paid employees

The five highest paid individuals of the Group include 4, 4, 4, 4 (unaudited) and 4 directors of the Company for each of the year ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, respectively. The emoluments of the remaining 1, 1, 1, 1 (unaudited) and 1 for each of the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, respectively, are as follows:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries and other benefits	224	226	229	76	76
Performance related bonus	53	53	54	20	20
Retirement benefits schemes contribution	16	22	29	8	9
	293	301	312	104	105

The emoluments of the five highest paid individuals were within the following bands:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
				(unaudited)	
HK$0 to HK$1,000,000	5	5	5	5	5

During the Track Record Period, no emoluments were paid by the Group to any of the directors and Chief Executive Officer of the Company or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company or the five highest paid individuals of the Group waived any emoluments during the Track Record Period.

13. DIVIDENDS

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Jiangsu Pengfei:					
Dividends declaration	12,847	16,958	201,854	37,437	—

The rate of dividend and number of shares ranking for dividend are not presented as such information is not considered meaningful having regards to the purpose of this report. No dividend has been proposed by the Company during the period from 31 July 2017 (date of incorporation) to 30 April 2019 and up to the date of this report.

14. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to owners of the Company is based on the following data:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
				(unaudited)	
Earnings:					
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share (RMB'000)	31,842	58,720	72,506	6,132	13,877
Number of shares:					
Number of ordinary shares for the purpose of basic earnings per share	375,000,000	375,000,000	375,000,000	375,000,000	375,000,000

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Group Reorganisation and the Capitalisation Issue as described in Appendix V to the Prospectus had been effective on 1 January 2016.

No diluted earnings per share was presented as there were no potential ordinary shares in issue throughout the Track Record Period.

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Plant and machinery	Office Equipment	Motor vehicles	Construction in progress/ assets under installation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2016	229,549	249,791	6,898	15,372	38	501,648
Additions	1,162	295	124	2,621	3,655	7,857
Transfers	—	3,538	—	—	(3,538)	—
Disposal	—	(226)	(13)	—	—	(239)
At 31 December 2016	230,711	253,398	7,009	17,993	155	509,266
Additions	—	6,799	127	1,255	1,027	9,208
Transfers	—	1,038	—	—	(1,038)	—
Disposal	(561)	(2,353)	(585)	(2,745)	—	(6,244)
Disposal of a subsidiary *(note 33)*	(1,817)	(1,991)	(51)	—	—	(3,859)
At 31 December 2017	228,333	256,891	6,500	16,503	144	508,371
Additions	—	4,591	227	1,018	4,097	9,933
Acquisition of assets through acquisition of a subsidiary *(note 34)*	4,504	—	—	—	—	4,504
Transfers	198	4,043	—	—	(4,241)	—
Disposal	—	(1,389)	(196)	(268)	—	(1,853)
At 31 December 2018	233,035	264,136	6,531	17,253	—	520,955
Additions	—	974	75	—	552	1,601
Transfers	—	149	—	—	(149)	—
At 30 April 2019	233,035	265,259	6,606	17,253	403	522,556
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2016	65,874	125,069	5,410	9,650	—	206,003
Provided for the year	12,103	22,166	613	1,894	—	36,776
Eliminated on disposals	—	(207)	(13)	—	—	(220)
At 31 December 2016	77,977	147,028	6,010	11,544	—	242,559
Provided for the year	12,398	22,656	810	1,642	—	37,506
Eliminated on disposals	(87)	(2,123)	(563)	(2,005)	—	(4,778)
Eliminated on disposal of a subsidiary *(note 33)*	(808)	(73)	(12)	—	—	(893)
At 31 December 2017	89,480	167,488	6,245	11,181	—	274,394
Provided for the year	10,931	23,004	211	1,894	—	36,040
Eliminated on disposals	—	(1,219)	(190)	(254)	—	(1,663)
At 31 December 2018	100,411	189,273	6,266	12,821	—	308,771
Provided for the period	3,373	7,583	54	609	—	11,619
At 30 April 2019	103,784	196,856	6,320	13,430	—	320,390
CARRYING VALUE						
At 31 December 2016	152,734	106,370	999	6,449	155	266,707
At 31 December 2017	138,853	89,403	255	5,322	144	233,977
At 31 December 2018	132,624	74,863	265	4,432	—	212,184
At 30 April 2019	129,251	68,403	286	3,823	403	202,166

The above items of property, plant and equipment, other than construction in progress/assets under installation, are depreciated on a straight-line basis over the following estimated useful lives after taking into account their estimated residual values:

	Useful lives	Estimated residual values
Buildings	20 years	5%
Plant and machinery	10 years	5%
Office equipment	3 to 5 years	0~5%
Motor vehicles	4 years	5%

As at 31 December 2016, 2017 and 2018 and 30 April 2019, buildings of a total carrying amount of RMB14,644,000, RMB13,777,000, RMB10,227,000 and nil were pledged to obtain banking facilities as summarised in note 36.

16. INVESTMENT PROPERTIES

The Group

	RMB'000
COST	
At 1 January 2016 and 31 December 2016	65,781
Disposal of a subsidiary (note 33)	(33,501)
At 31 December 2017, 2018 and 30 April 2019	32,280
ACCUMULATED DEPRECIATION	
At 1 January 2016	18,497
Provided for the year	3,085
At 31 December 2016	21,582
Provided for the year	1,604
Eliminated upon disposal of a subsidiary (note 33)	(6,366)
At 31 December 2017	16,820
Provided for the year	1,459
At 31 December 2018	18,279
Provided for the period	422
At 30 April 2019	18,701
CARRYING VALUE	
At 31 December 2016	44,199
At 31 December 2017	15,460
At 31 December 2018	14,001
At 30 April 2019	13,579

The fair value of the Group's investment properties as at 31 December 2016, 2017 and 2018 and 30 April 2019 was RMB82,753,000, RMB38,879,000, RMB41,354,000 and RMB41,960,000, respectively. The fair value has been arrived at based on a valuation carried out by the Jones Lang LaSalle Corporate Appraisal and Advisory Limited, a firm of independent qualified professional valuers not connected with the Group, who have appropriate qualifications and recent experience in the valuation of similar investment properties. The address of the independent valuer is 7th Floor, One Taikoo Place, 979 King's Road, Hong Kong. The fair value is determined based on the income approach.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

	Fair value	
	Level 3	As at 31 December 2016
	RMB'000	RMB'000
Commercial properties located in Haian City and Nantong City, Jiangsu Province, the PRC	82,753	82,753

	Fair value	
	Level 3	As at 31 December 2017
	RMB'000	RMB'000
Commercial properties located in Haian City, Jiangsu Province, the PRC	38,879	38,879

	Fair value	
	Level 3	As at 31 December 2018
	RMB'000	RMB'000
Commercial properties located in Haian City, Jiangsu Province, the PRC	41,354	41,354

	Fair value	
	Level 3	As at 30 April 2019
	RMB'000	RMB'000
Commercial properties located in Haian City, Jiangsu Province, the PRC	41,960	41,960

The above investment properties are depreciated on a straight-line basis over the following estimated useful life after taking into account their estimated residual value:

	Useful life	Estimated residual value
Buildings	20 years	5%

17. RIGHT-OF-USE ASSETS

The Group

	RMB'000
COST	
At 1 January 2016	42,684
Additions	565
At 31 December 2016	43,249
Additions	2,482
Disposal of a subsidiary (*note 33*)	(13,185)
At 31 December 2017	32,546
Additions	10,010
Acquisitions of assets through acquisition of a subsidiary (*note 34*)	2,024
At 31 December 2018	44,580
Additions	1,057
At 30 April 2019	45,637
ACCUMULATED DEPRECIATION	
At 1 January 2016	3,785
Provided for the year	840
At 31 December 2016	4,625
Provided for the year	763
Eliminated on disposal of a subsidiary (*note 33*)	(1,495)
At 31 December 2017	3,893
Provided for the year	682
At 31 December 2018	4,575
Provided for the period	252
At 30 April 2019	4,827
CARRYING VALUE	
At 31 December 2016	38,624
At 31 December 2017	28,653
At 31 December 2018	40,005
At 30 April 2019	40,810

The Group's right-of-use assets at the end of each reporting period and the related depreciation solely represent the lands rented from independent third parties and are depreciated on a straight-line basis over the lease terms.

As at 31 December 2016, 2017 and 2018 and 30 April 2019, right-of-use assets of a total carrying amount of RMB17,167,000, RMB16,772,000, RMB16,377,000 and nil were pledged to obtain banking facilities as summarised in note 36.

18. CONTRACT ASSETS

The Group

	As at 1 January	As at 31 December			As at 30 April
	2016	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Construction of production line	2,751	1,048	—	18,149	26,191
Sale of equipment	40,977	29,461	45,133	40,996	52,961
Installation service	4,194	48	1,891	9,779	440
	47,922	30,557	47,024	68,924	79,592
Less: Loss allowance for contract assets	—	—	—	(2,500)	(2,922)
	47,922	30,557	47,024	66,424	76,670

The contract assets primarily relate to the Group's right to billing for work completed and not billed because the rights are conditional upon specified payment milestones at the end of each reporting period. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically transfers the contract assets to trade receivables when the Group achieved the specific milestones of payments in the corresponding contracts.

The Group classifies these contract assets as current asset because the Group expects to realise them in its normal operating cycle.

Movement of loss allowance on contract assets

For the years ended 31 December 2016 and 2017, there were no impairment losses recognised on any contract assets.

Movement of loss allowance on contract assets for the year ended 31 December 2018 and the four months ended 30 April 2019:

	RMB'000
At 31 December 2017	—
Effect arising from adoption of IFRS 9	1,761
Adjusted balance at 1 January 2018	1,761
Loss allowance recognised	1,986
Loss allowance reversed	(1,247)
At 31 December 2018	2,500
Loss allowance recognised	785
Loss allowance reversed	(363)
At 30 April 2019	2,922

19. CONTRACT COSTS

The Group

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Commission fees	10,565	9,895	12,724	22,935

Incremental costs to obtain contracts included in contract costs relate to commission fees paid or payable to employees or intermediaries as a result of obtaining contracts.

For contract costs in relation to the sale of equipment, they are charged to profit or loss when the equipment is accepted by the customers and control passes to the customers. For contract costs in relation to provision of installation services/construction of production line, they are amortised on the same basis of revenue recognised for installation services/construction of production line as this reflects the period over which the goods or services are transferred to the customers. For the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, amortisation amounting to RMB4,620,000, RMB8,679,000, RMB6,289,000 and RMB2,163,000 (unaudited) and RMB3,182,000, respectively, was recognised as selling and distribution expenses in the consolidated statements of profit or loss and other comprehensive income. There was no impairment loss in relation to the costs capitalised.

20. DEFERRED TAX LIABILITIES

The Group

For the purpose of presentation in the Historical Financial Information, all deferred tax assets have been offset with deferred tax liability. The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	10,449	10,239	12,254	12,904
Deferred tax liabilities	(18,660)	(14,900)	(19,894)	(18,485)
	(8,211)	(4,661)	(7,640)	(5,581)

The following are the major deferred tax liabilities and assets recognised and movements thereon during the Track Record Period:

	Items impacted by the revenue recognition (note)	Accrued expenses	Loss allowance on trade and other receivables and contract assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	(26,464)	9,830	4,825	(11,809)
Credit (charge) to profit or loss	7,804	(4,562)	356	3,598
At 31 December 2016	(18,660)	5,268	5,181	(8,211)
Credit (charge) to profit or loss	3,760	515	(725)	3,550
At 31 December 2017	(14,900)	5,783	4,456	(4,661)
Effect arising on adoption of IFRS 9	—	—	1,110	1,110
Adjusted balance at 1 January 2018	(14,900)	5,783	5,566	(3,551)
(Charge) credit to profit or loss	(4,994)	733	172	(4,089)
At 31 December 2018	(19,894)	6,516	5,738	(7,640)
Credit (charge) to profit or loss	1,409	826	(176)	2,059
At 30 April 2019	(18,485)	7,342	5,562	(5,581)

Note: Amount represented the net deferred taxation impact arising from the effect of revenue recognition under IFRS 15 for the purpose of preparing the Historical Financial Information as compared to the revenue recognition under the relevant accounting principles and financial regulations applicable to the PRC enterprises for the purpose of preparing PRC EIT filing. The respective items resulting in the net future taxable temporary differences include inventories, trade receivables, contract assets, contract costs and contract liabilities.

At 31 December 2016, 2017 and 30 April 2019, the Group had unused tax losses of RMB4,755,000, RMB2,838,000 and RMB641,000, respectively, available to offset against future profits. No deferred tax assets have been recognised in respect of these tax losses due to the unpredictability of future profit streams. There was no unused tax loss of the Group as at 31 December 2018.

As at 31 December 2016, 2017, 2018 and 30 April 2019, the Group had deductible temporary differences of RMB73,567,000, RMB73,190,000, RMB87,352,000 and RMB91,299,000, respectively, available to offset against future profits. Deferred tax assets have been recognised in respect of deductible temporary differences of RMB69,658,000, RMB68,258,000, RMB81,691,000 and RMB86,034,000, respectively, as of 31 December 2016, 2017 and 2018 and 30 April 2019. No deferred tax assets have been recognised in relation to the remaining deductible temporary differences of RMB3,909,000, RMB4,932,000, RMB5,661,000 and RMB5,265,000, respectively, as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2016 and 2017, deferred taxation has not been provided in the Historical Financial Information in respect of all temporary differences attributable to undistributed profits of the PRC subsidiaries attributable to owners of the Company amounting to RMB305,717,000 and RMB342,092,000, respectively, as the Group was legally owned by individuals. As at 31 December 2018 and 30 April 2019, deferred tax liability has not been provided in the Historical Financial Information in respect of all temporary differences attributable to undistributed profits of the PRC subsidiaries attributable to owners of the Company amounting to RMB180,835,000 and RMB198,254,000, respectively, as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

21. INVENTORIES

The Group

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	85,877	98,563	159,848	140,387
Work-in-progress	72,814	149,248	258,411	354,103
Finished goods	2,255	852	876	876
	160,946	248,663	419,135	495,366

No allowance for inventory provision was provided during the Track Record Period.

22. TRADE, BILLS AND OTHER RECEIVABLES

The Group

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	189,500	156,366	187,949	221,269
Less: Loss allowance for trade receivables	(13,365)	(9,225)	(14,271)	(14,583)
	176,135	147,141	173,678	206,686
Bills receivables	167,409	263,368	382,603	367,396
Total trade receivables and bills receivables *(note i)*	343,544	410,509	556,281	574,082
Other receivables and prepayments				
Other receivables *(note ii)*	7,574	8,824	8,578	7,305
Prepaid expenses	452	1,328	818	7,542
Loans to independent third parties *(note iii)*	73,595	10,008	9,249	800
Consideration receivable *(note 33)*	—	5,000	—	—
Deferred issue costs *(note iv)*	—	—	3,762	4,796
	81,621	25,160	22,407	20,443
Less: Loss allowance for other receivables	—	—	(285)	(281)
	81,621	25,160	22,122	20,162
	425,165	435,669	578,403	594,244

Note i: As at 1 January 2016, the Group's trade receivables amounted to RMB179,053,000 (net of loss allowance of RMB10,364,000) and bills receivables amounted to RMB134,867,000.

As at 30 April 2019, included in the Group's trade receivables was a balance of RMB100,000,000 aged within one year due from a customer in respect of the construction of a production line, of which total contract sum was RMB470,000,000, while cumulative amount of revenue totalling RMB247,072,000 had been recognised up to 30 April 2019. Such construction line is expected to be completed by June 2020.

Subsequently in May 2019, due to the expected delay in settlement from this customer as a result of the prolonged approval procedures from the customer's financing bank, the Group entered into a supplemental agreement with the customer, pursuant to which the Group agreed that upon completion of the construction of the production line on 31 December 2019, to defer the outstanding payment at that time to the extent of RMB280,000,000 (the "Deferred Payment") which will be carried at a fixed interest rate of 8.41% per annum, after taking into account, among others, (i) the credibility of the customer, (ii) the Group's business relationship with such customer, and (iii) the securities obtained by the Group, including corporate guarantee from the controlling shareholder and an affiliate of the customer, as well as pledges over the (a) equity interests of a non controlling shareholder and another affiliate and (b) total assets of the customer.

The Deferred Payment would be settled in every three months by twelve instalments starting from 30 June 2020, which may be further deferred if any delay in completion of the construction of the production line on 31 December 2019.

Any receivable balance, apart from the Deferred Payment, from this customer would still be required to be settled as originally scheduled.

Note ii: As at 31 December 2016, 2017 and 2018 and 30 April 2019, other receivables mainly included staff advance of RMB2,967,000, RMB3,870,000, RMB4,356,000 and RMB3,821,000, respectively and refundable tender deposits paid to potential customers of RMB4,029,000, RMB4,952,000 and RMB4,206,000 and RMB3,460,000, respectively. Staff advance was made to staff solely for business development purpose, which will be charged to profit or loss upon completion of the business development activities. The staff is required to pay back the excess, if any, to the Group immediately after such activities. Refundable tender deposits will be refunded upon completion of the tendering procedure.

Note iii: As at 31 December 2016, 2017 and 2018 and 30 April 2019, the Group's loans to independent third parties are unsecured, repayable on demand and carry at fixed interests ranging from 5.0% to 6.2%, 4.4% to 6.0%, 4.4% to 4.5% and 4.4% per annum, respectively.

Note iv: Deferred issue costs represent the qualifying portion of issue costs incurred up to 31 December 2018 and 30 April 2019, respectively, which will be debited to equity of the Group as share issue costs in respect of the issue of new shares upon Listing.

The Group does not grant any credit period to its customers. The trade receivable balances at the end of each reporting period included the outstanding retention monies from its customers amounting to RMB64,523,000, RMB53,851,000, RMB41,955,000 and RMB35,252,000 as at 31 December 2016, 2017 and 2018 and 30 April 2019, respectively, of which the conditions to entitlement of consideration had been reached and became unconditional.

The following is an aged analysis of trade receivables, net of loss allowance, presented based on the date when the Group obtains the unconditional rights for payment at the end of each reporting period.

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
0 to 1 year	75,430	62,318	118,377	157,693
1 to 2 years	42,522	37,260	19,606	11,904
Over 2 years	58,183	47,563	35,695	37,089
	176,135	147,141	173,678	206,686

Aging of trade receivables which are past due but not impaired as at 31 December 2016 and 2017.

	As at 31 December	
	2016	2017
	RMB'000	RMB'000
Within 1 year	75,430	62,318
Over 1 year but within 2 years	42,522	37,260
Over 2 years	58,183	47,563
	176,135	147,141

For the year ended 31 December 2016 and 2017, the management of the Group assessed at each of the reporting date whether there is objective evidence that trade receivables are impaired. The Group would provide for impairment for receivables that were considered to be impaired individually based on management assessment performed at the end of each reporting period.

As at 31 December 2018 and 30 April 2019, the Group's trade receivables of RMB173,678,000 and RMB206,686,000, respectively, which are past due is not considered as in default because the management of the Group, according to the historical settlement pattern, industry practice and the Group's historical actual loss experience, had assessed that the probability of settlement from their customers was high. The management of the Group considered that the trade receivables became defaulted when these trade receivables had been past due over 2 years with no settlement within 1 year.

The following is an aged analysis of bills receivables presented based on the issue dates of bills receivables.

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
0 to 180 days	167,109	211,411	324,379	363,436
181 days to 1 year	300	51,957	58,224	3,960
	167,409	263,368	382,603	367,396

The following is a maturity analysis of bills receivables presented based on the remaining dates to maturity of bills receivables at the end of each reporting period.

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
0 to 180 days	166,999	251,825	379,893	299,018
181 days to 1 year	410	11,543	2,710	68,378
	167,409	263,368	382,603	367,396

As at 31 December 2018 and 30 April 2019, bills receivables of RMB53,460,000 and RMB70,500,000 were pledged to banks for issuing bills payables as summarised in note 36, respectively. As at 31 December 2016 and 2017, there were no such arrangement in place.

Movements of loss allowance on trade and other receivables

Movement of loss allowance on trade receivables for the two years ended 31 December 2016 and 2017:

	As at 31 December	
	2016	2017
	RMB'000	RMB'000
At beginning of the year	10,364	13,365
Loss allowance recognised	3,322	385
Write-off as uncollectible	(321)	(4,525)
At end of the year	13,365	9,225

Movement of loss allowance on other receivables for the two years ended 31 December 2016 and 2017:

	As at 31 December	
	2016	2017
	RMB'000	RMB'000
At beginning of the year	—	—
Loss allowance recognised	5,561	147
Write-off as uncollectible	(5,561)	(147)
At end of the year	—	—

Movement of loss allowance on trade receivables for the year ended 31 December 2018 and the four months ended 30 April 2019:

	RMB'000
At 31 December 2017	9,225
Effect arising from adoption of IFRS 9	5,882
Adjusted balance at 1 January 2018	15,107
Loss allowance recognised	3,989
Loss allowance reversed	(1,987)
Write-off as uncollectible	(2,838)
At 31 December 2018	14,271
Loss allowance recognised	3,916
Loss allowance reversed	(2,018)
Write-off as uncollectible	(1,586)
At 30 April 2019	14,583

Movement of loss allowance on other receivables for the year ended 31 December 2018 and the four months ended 30 April 2019:

	12m ECL
	RMB'000
At 31 December 2017	—
Effect arising from adoption of IFRS 9	512
Adjusted balance at 1 January 2018	512
Loss allowance recognised	105
Loss allowance reversed	(332)
At 31 December 2018	285
Loss allowance recognised	172
Loss allowance reversed	(176)
At 30 April 2019	281

Included in the balance of loss allowance are individually impaired trade receivables in full with an aggregate balance of RMB12,862,000, RMB8,378,000, RMB6,766,000 and RMB6,006,000 as at 31 December 2016 and 2017 and 2018 and 30 April 2019, respectively, with reference to the historical experience of these receivables, these receivables may not be recoverable. The Group does not hold any collateral over these balances.

The Group's trade and other receivables that are denominated in currency other than the functional currency of the relevant group entities are set out below:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Analysis of trade and other receivables by currency:				
Denominated in United States dollar ("USD")	19,404	7,201	23,444	17,230
Denominated in European dollar ("EUR")	—	—	70	76

The Company

The Company's other receivables as at 31 December 2018 and 30 April 2019 represented deferred issue costs of RMB3,762,000 and RMB4,796,000, respectively.

23. TRANSFERS OF FINANCIAL ASSETS

The Group

As at 31 December 2016 and 2017 and 2018 and 30 April 2019, the Group has transferred bills receivables amounting to RMB113,429,000, RMB212,121,000, RMB295,115,000 and RMB236,953,000, respectively, to its suppliers to settle its payables of the same amount through endorsing the bills with full recourse basis. The Group has not derecognised these bills receivables and the payables to suppliers in their entirety as in the opinion of the management of the Group, the Group has not transferred substantially all the risks and rewards of ownership of these receivables and has not discharged its obligation of the payables to its suppliers.

During the Track Record Period, the Group issued certain bills payables to settle the Group's trade payables to the suppliers, independent third parties, and the Group's issued bills to suppliers may be eventually received by the Group. As at 31 December 2016, 2017 and 2018 and 30 April 2019, such bills kept by the Group was amounted to RMB23,910,000, RMB3,430,000, RMB490,000 and RMB25,200,000, respectively. In this circumstance, in respect of such bills held by the Group which were issued by the Group, the Group had no right to receive and no obligation to pay as such bills were not presented to the bank. Accordingly, no such bill receivables and bill payables were recognised at the end of the reporting period.

24. AMOUNT DUE TO A SUBSIDIARY

The amount is non-trade in nature, unsecured, interest-free and repayable on demand.

25. AMOUNTS DUE FROM (TO) RELATED PARTIES

(A) Amounts due from related parties — non-trade nature

The Group

Particulars of the amounts due from related parties are disclosed as follows:

	Relationship (Note)	As at 1 January 2016	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 April 2019	Maximum balance outstanding: Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Four months ended 30 April 2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Ambon#	(i)	—	—	28,345	—	—	—	28,345	28,345	—
PF International#	(i)	—	—	16,769	—	—	—	16,769	16,769	—
PF Global#	(ii)	—	—	6,272	—	—	N/A	N/A	N/A	N/A
Mr. Wang	(iii)	328	—	—	—	—	328	—	1,305	—
Zhou Yinbiao	(iii)	245	—	—	—	—	245	—	1,500	—
Ben Daolin	(iii)	60	—	12	—	—	60	12	32	—
		633	—	51,398	—	—				

The Company

	Relationship (Note)	As at 31 December 2017	As at 31 December 2018	As at 30 April 2019	Maximum balance outstanding: Year ended 31 December 2017	Year ended 31 December 2018	Four months ended 30 April 2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Ambon#	(i)	28,345	—	—	28,345	28,345	—
PF International#	(i)	16,769	—	—	16,769	16,769	—
PF Global#	(ii)	6,272	—	—	N/A	N/A	N/A
		51,386	—	—			

Among these balances, totalling RMB51,386,000 as at 31 December 2017, RMB37,663,000 had been settled in cash in 2018 and the remaining balance of RMB13,723,000 had been offset with the Group's amounts due to shareholders as detailed in note 29.

(B) Amount due to a related party — non-trade nature

The Group

Particulars of the amount due to a related party are disclosed as follows:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Wang *(note iii)*	802	—	—	—
Ambon	—	—	817	801
	802	—	817	801

The Company

	As at 31 December		As at 30 April
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Ambon	—	604	592

These amounts were non-trade in nature, unsecured, unguaranteed, interest free and repayable on demand and as represented by the directors of the Company that these balances will be settled prior to the Listing.

Notes:

(i) Being shareholders of the Company controlled by directors of the Company.

(ii) Being shareholders of the Company. As there is no common directorship between the Group and PF Global, no disclosure of the maximum balance outstanding during the respective years is presented.

(iii) Being directors of the Company and key management personnel of the Group.

26. FINANCIAL ASSETS AT FVTPL

The Group

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Unlisted money market funds	—	—	3,426	4,173
Unlisted financial products	—	304,600	—	211,298
	—	304,600	3,426	215,471

These investments were issued by independent financial institutions or banks in the PRC with no guarantee on its return. The return of these investments was determined by reference to the performance of the underlying debt instruments and the expected return rate stated in the contracts. The gains from these financial assets at FVTPL are recognised as "investment gain on financial assets at FVTPL" included in "other gains and losses" in note 8.

27. TERM DEPOSITS

The Group

Term deposits represent short-term bank deposits carrying interest at an effective interest rate of 3.05% per annum as at 31 December 2016. As at 31 December 2016, included in the balance were term deposits of RMB5,000,000 with original maturity of less than 3 months. No term deposits were placed by the Group as at 31 December 2017, 2018 and 30 April 2019.

28. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

The Group

The Group's restricted bank deposits were deposited to banks for the issue of bills payables by the Group and are therefore classified as current assets. The restricted bank deposits will be released upon the settlement of relevant bills payables.

Bank balances and restricted bank deposits carry interest at market rates ranging from 0.3% to 2.75%, 0.3% to 1.55%, 0.3% to 2.25% and 0.3% to 2.25% per annum as at 31 December 2016, 2017 and 2018 and 30 April 2019, respectively.

The Group's bank balances and cash and restricted bank deposits that are denominated in currency other than the functional currency of the relevant group entities are set out below:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Analysis of bank balances and cash and restricted bank deposits by currency:				
Denominated in USD	222,137	81,962	26,170	104,430
Denominated in EUR	958	9,462	1,567	34,922
Denominated in HKD	—	—	306	146

The Company

The Company's bank balances and cash that are denominated in currency other than the functional currency:

	As at 31 December		As at 30 April
	2017	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**
Analysis of bank balances and cash by currency:			
Denominated in USD	—	118	114

29. TRADE, BILLS AND OTHER PAYABLES

	The Group				The Company		
	As at 31 December			As at 30 April	As at 31 December		As at 30 April
	2016	2017	2018	2019	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	269,227	360,049	502,045	455,047	—	—	—
Bills payables	37,090	100,742	93,958	114,950	—	—	—
Other taxes payables	9,120	8,705	9,008	8,234	—	—	—
Amounts due to independent third parties *(note i)*	6,099	6,720	10,556	10,542	—	10,556	10,542
Accrued expense	708	656	196	615	—	—	—
Accrued issue costs and listing expenses	—	—	5,926	2,825	—	5,926	2,825
Accrued payroll and welfare	11,085	13,545	13,743	7,023	—	—	—
Unpaid incremental commission	26,559	27,862	32,412	43,932	—	—	—
Lease liabilities *(note ii)*	119	104	89	84	—	—	—
Other payables	3,927	2,822	688	689	—	—	—
	363,934	521,205	668,621	643,941	—	16,482	13,367

The credit period on purchases of goods ranges from 0 to 365 days during the Track Record Period and certain suppliers allow longer credit period on a case-by-case basis.

Notes:

(i) As at 31 December 2016, 2017 and 2018 and 30 April 2019, amount of RMB6,099,000 RMB6,720,000, RMB10,556,000 and RMB10,542,000, respectively, represented loans raised from independent third parties. These loans were unsecured, unguaranteed and carried interest at fixed rates ranging from 4.8% to 7.0% and 4.8% to 7.0% per annum, respectively, as at 31 December 2016 and 2017, and at a fixed rate of 6% per annum as at 31 December 2018 and 30 April 2019, respectively. Amounts due to independent third parties as at 31 December 2016 and 2017 were repayable on demand.

Amounts due to independent third parties as at 31 December 2018 and 30 April 2019 represented the loan from Peak Holding Limited ("Peak Holding"). A capital increment agreement ("Capital Increment Agreement") dated 22 December 2017 was entered into by the Group and Peak Holding, pursuant to which Peak Holding initially agreed to subscribe for the Company's shares in consideration of RMB22,000,000 (equivalent to US$3,408,000) (the "Subscription Amount") subject to the fulfilment of certain conditions. The Subscription Amount of US$3,408,000 was paid to the Group in May 2018.

On 27 October 2018, the Group and Peak Holding mutually agreed that Peak Holding would no longer invest in the Group and entered into a loan agreement on the same date and a supplementary loan agreement dated 15 November 2018 to advance a loan amount equivalent to the Subscription Amount to the Company. Such loan was unsecured, unguaranteed, carried interest at a fixed rate of 6% per annum and with a term of one year. The Capital Increment Agreement was terminated on 28 October 2018.

On 11 November 2018, Peak Holding and each of Ambon, PF International and PF Global entered into deeds of assignments, pursuant to which Peak Holding will assign RMB7,591,000 (equivalent to US$1,094,000), RMB4,463,000 (equivalent to US$643,000) and RMB1,669,000 (equivalent to US$241,000) of its debts owed by the Company to Ambon, PF International and PF Global, respectively, totalling RMB13,723,000 ("Assigned Amount"), resulting in a decrease of amount due to Peak Holding and recognition of amounts due to related parties of the Assigned Amount. The Assigned Amount totalling RMB13,723,000 was equivalent to the Company's receivables from related parties as at 11 November 2018. On the same date, the Company resolved to offset the amounts due from related parties and amounts due to related parties by the Assigned Amount.

Details of the contracts and arrangement were set out in the session headed "History, Development and Reorganisation", and "Summary of Material Contracts" in Appendix V to the Prospectus.

(ii) The Group's lease liabilities at the end of each reporting period was arising from the lease of a piece of land for administrative purpose of which was located in Haian Country, Jiangsu Province, the PRC. The lease term will be expired in October 2024, with a fixed annual lease payment of RMB19,000. The lease liabilities were unsecured and unguaranteed.

Lease liabilities were measured at the present value of the lease payments that are not yet paid using its incremental borrowing rate of 4.9% per annum over the Track Record Period. The Group does not face a significant liquidity risk with regard to its lease liability, of which is monitored within the Group's treasury function.

The following is an aged analysis of trade payable, presented based on the invoice dates, at the end of each reporting period:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
0 to 1 year	238,153	314,516	462,984	411,965
1 year to 2 years	19,243	24,548	24,925	27,498
Over 2 years	11,831	20,985	14,136	15,584
	269,227	360,049	502,045	455,047

The following is an aged analysis of bills payables presented based on issue dates at the end of each reporting period:

	As at 31 December			As at 30 April
Age	**2016**	**2017**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
0 to 180 days	37,090	100,742	93,958	114,950

The following is an aged analysis of bills payable presented based on maturity date at the end of each reporting period:

	As at 31 December			As at 30 April
Age	**2016**	**2017**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
0 to 180 days	36,790	100,742	93,958	114,950
181 days to 1 year	300	—	—	—
	37,090	100,742	93,958	114,950

30. BANK BORROWING

The Group

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Fixed-rate bank borrowing				
- Secured and unguaranteed *(note)*	—	3,000	—	—

The Group's bank borrowing as at 31 December 2017 was repayable within one year based on the scheduled repayment date and with a fixed rate of 3.35% per annum as set out in the loan agreement.

Note: The bank borrowing as at 31 December 2017 was secured by charges over the Group's right-of-use assets and buildings included in property, plant and equipment which were released upon repayment of the bank borrowing during the year ended 31 December 2018 (see note 36).

31. CONTRACT LIABILITIES

The Group

	As at 1 January	As at 31 December			As at 30 April
	2016	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts received in advance in respect of					
- Sale of equipment *(note i)*	473,255	464,466	499,607	659,024	801,783
- Construction of production line *(note ii)*	53,076	127,951	104,261	33,357	245,293
	526,331	592,417	603,868	692,381	1,047,076

Contract liabilities that were expected to be settled within the Group's normal operating cycle are classified as current liability.

Notes:

(i) For sale of equipment, revenue is recognised when control of the equipment has transferred to the customer, being at the point the equipment is accepted by the customer.

(ii) These are balances due to customers under construction of production line contracts. These arise if a particular milestone payment received exceeds the revenue recognised by the Group at the end of each reporting period.

The significant increase in contract liabilities in respect of sale of equipment in the year ended 31 December 2018 and the four months ended 30 April 2019, as well as the significant increase in contract liabilities in respect of construction of production line in the four months ended 30 April 2019, was mainly due to the advances received from customers for new contracts obtained. The significant decrease in contract liabilities in respect of construction of production line in the year ended 31 December 2018 was mainly due to the recognition of revenue.

Revenue recognised that was included in the balance of contract liabilities at the beginning of the year/period

	Year ended 31 December			Four months ended 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Sale of equipment	210,330	206,857	200,640	196,571
Revenue from construction of production line	51,892	98,012	104,261	1,070
	262,222	304,869	304,901	197,641

There were no revenue recognised in the Track Record Period that related to performance obligations that were satisfied in prior year.

32. PAID-IN/SHARE CAPITAL

The amount as at 31 December 2016 represented the paid-in capital of Jiangsu Pengfei. The amount as at 31 December 2017 represented the combined paid-in/share capital of the Company and Jiangsu Pengfei, while the amount as at 31 December 2018 and 30 April 2019 represented the share capital of the Company following the completion of the Group Reorganisation on 8 September 2018.

The Group

	As at 31 December			As at 30 April
Name of entities	**2016**	**2017**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Jiangsu Pengfei *(note i)*	37,316	37,316	N/A	N/A
The Company *(note ii)*	—	51,386	51,386	51,386
	37,316	88,702	51,386	51,386

Notes:

(i) Upon completion of the Group Reorganisation on 8 September 2018, Jiangsu Pengfei became a wholly-owned subsidiary of the Company.

(ii) Details of the share capital of the Company were as follow:

The Company

Ordinary share of RMB1 each.

	Number of shares	Amount
		RMB'000
Authorised:		
On 31 July 2017 (date of incorporation), 31 December 2017, 31 December 2018 and 30 April 2019	600,000,000	600,000
Issued:		
On 31 July 2017 (date of incorporation), 31 December 2017, 31 December 2018 and 30 April 2019	51,385,900	51,386

The new shares rank pari passu with the then existing shares in all respects.

33. DISPOSAL OF SUBSIDIARIES

The Group disposed of 3 and 1 subsidiaries to independent third parties during the years ended 31 December 2016 and 2017. Details of the consideration and assets and liabilities disposed in respect of these disposed subsidiaries in aggregate were set out below:

	2016	2017
	RMB'000	RMB'000
Consideration:		
Cash received	19,000	63,000
Consideration receivable (note)	—	5,000
	19,000	68,000
Property, plant and equipment	—	2,966
Investment properties	—	27,135
Right-of-use assets	—	11,690
Trade and other receivables	12,440	13,421
Value-added tax recoverable	—	555
Prepayments to suppliers	—	490
Bank balances and cash	48,293	881
Trade and other payables	(42,554)	—
Net assets disposed of	18,179	57,138

	2016	2017
	RMB'000	RMB'000
Analysis of assets and liabilities over which control was lost:		
Net gain on disposal of subsidiaries		
Consideration received or receivable	19,000	68,000
Less: net assets disposed of	(18,179)	(57,138)
	821	10,862
Net cash (outflow) inflow arising on disposed:		
Cash consideration received	19,000	63,000
Less: bank balances and cash disposed of	(48,293)	(881)
	(29,293)	62,119

Note: The consideration receivable of RMB5,000,000 had been received in full by the Group during the year ended 31 December 2018.

34. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

On 14 March 2018, the Group acquired 100% equity interests of Heavy Equipment PRC from an independent third party for a cash consideration of US$1,360,000 (equivalent to RMB8,596,000). Heavy Equipment PRC's major assets are leasehold land and buildings in Haian City, Jiangsu Province, the PRC. This transaction had been accounted for as an acquisition of assets as the assets acquired did not meet the definition of a business.

The net assets acquired in the transaction were as follows:

	RMB'000
Property, plant and equipment	4,504
Right-of-use assets	2,024
Other receivables	131
Bank balances and cash	1,937
	8,596
Satisfied by:	
Cash consideration paid	8,596
Net cash outflow arising on acquisition	
Cash consideration paid	8,596
Bank balances and cash acquired	(1,937)
	6,659

35. OPERATING LEASE

The Group as lessor

At the end of each reporting period, the undiscounted lease payments in respect of the Group's rental income to be received and the expected timing of receipt are as follows:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	316	329	439	439
1 to 2 years	316	329	419	394
2 to 3 years	316	299	384	370
3 to 4 years	295	299	370	317
4 to 5 years	295	297	317	317
Over 5 years	5,423	5,189	4,672	4,507
	6,961	6,742	6,601	6,344

36. PLEDGE OF ASSETS

Save as disclosed elsewhere in the Historical Financial Information, the following assets have been pledged to various banks for obtaining line of credit or securing of the Group's bank borrowing and banking facilities or the issue of bills payables at the end of each reporting period.

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Right-of-use assets	17,167	16,772	16,377	—
Buildings included in property, plant and equipment	14,644	13,777	10,227	—
Bills receivables	—	—	53,460	70,500
	31,811	30,549	80,064	70,500

37. CAPITAL COMMITMENTS

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the Historical Financial Information	1,096	1,230	432	543

38. RECONCILIATION OF ASSETS AND LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's assets and liabilities arising from financing activities, including both cash and non-cash changes. Assets and liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Amounts due to related parties	Amounts due to independent third parties	Lease liabilities	Dividends payable	Amount due from holding company	Accrued issue cost	Bank borrowing	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	802	6,099	134	196	—	—	—	7,231
Financing cash flows	—	(349)	(19)	(13,043)	—	—	—	(13,411)
Non-cash changes								
Interest expenses	—	349	4	—	—	—	—	353
Dividend declaration	—	—	—	12,847	—	—	—	12,847
At 31 December 2016	802	6,099	119	—	—	—	—	7,020
Financing cash flows	(802)	272	(19)	(14,659)	—	—	1,748	(13,460)
Non-cash changes								
Interest expenses	—	349	4	—	—	—	1,252	1,605
Arising from the issue shares of the Company	—	—	—	—	(51,386)	—	—	(51,386)
Dividend declaration	—	—	—	16,958	—	—	—	16,958
At 31 December 2017	—	6,720	104	2,299	(51,386)	—	3,000	(39,263)
Financing cash flows	(39,919)	16,404	(19)	(184,883)	37,663	(2,322)	(3,045)	(176,121)
Non-cash changes								
Interest expenses	—	1,155	4	—	—	—	45	1,204
Issue cost accrued	—	—	—	—	—	3,762	—	3,762
Offsetting arrangement *(note 29)*	—	(13,723)	—	—	13,723	—	—	—
Effect of Group Reorganisation	36,997	—	—	—	—	—	—	36,997
Deemed distribution to owners of the Company	3,739	—	—	—	—	—	—	3,739
Dividend declaration	—	—	—	201,854	—	—	—	201,854
At 31 December 2018	817	10,556	89	19,270	—	1,440	—	32,172
Financing cash flows	—	—	(7)	(19,270)	—	(1,758)	—	(21,035)
Non-cash changes								
Interest expenses	—	178	2	—	—	—	—	180
Issue cost accrued	—	—	—	—	—	1,034	—	1,034
Net exchange gain	(16)	(192)	—	—	—	—	—	(208)
At 30 April 2019	801	10,542	84	—	—	716	—	12,143
(unaudited)								
At 31 December 2017	—	6,720	104	2,299	(51,386)	—	3,000	(39,263)
Financing cash flows	247	—	(7)	(39,736)	18,843	—	(3,045)	(23,698)
Non-cash changes								
Interest expenses	—	152	2	—	—	—	45	199
Dividend declaration	—	—	—	37,437	—	—	—	37,437
At 30 April 2018 (unaudited)	247	6,872	99	—	(32,543)	—	—	(25,325)

39. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to owners of the Company through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of bank borrowing and amounts due to independent third parties as set out in notes 30 and 29, respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued paid-in/share capital and reserves.

The management of the Group reviews the capital structure from time to time. As a part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares, new debts or the redemption of existing debts.

40. FINANCIAL INSTRUMENTS

Categories of financial instruments

The Group

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Loans and receivables (including cash and cash equivalent)	700,711	626,316	—	—
Financial assets measured at amortised costs (including cash and cash equivalent)	—	—	816,945	767,369
Financial assets at FVTPL	—	304,600	3,426	215,471
	700,711	930,916	820,371	982,840
Financial liabilities				
Financial liabilities at amortised costs	343,823	503,598	665,761	628,870

The Company

	As at 31 December		As at 30 April
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Financial assets			
Loans and receivables	51,386	—	—
Financial assets measured at amortised costs (including cash and cash equivalent)	—	118	114
	51,386	118	114
Financial liabilities			
Financial liabilities at amortised cost	—	26,694	31,029

Financial risk management objectives and policies

The Group's and the Company's major financial instruments include trade, bills and other receivables, amounts due from related parties, term deposits, financial assets at FVTPL, restricted bank deposits, bank balances and cash, trade, bills and other payables, accrued issue costs and listing expenses, amount due to a related party, amount due to a subsidiary, dividends payable and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

During the year ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, approximately 25%, 45%, 15%, 34% (unaudited) and 3%, respectively, of the Group's sales is denominated in currencies other than the functional currency of the relevant group entities making the sale.

The carrying amounts of the Group's and the Company's monetary assets and monetary liabilities denominated in currencies other than the respective group entities' functional currency at the end of each reporting period are as follows:

The Group

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
USD	241,541	89,163	49,614	121,660
EUR	958	9,462	1,637	34,998
HKD	—	—	306	146
Liabilities				
USD	—	—	11,741	11,848
HKD	—	—	4,154	2,719

The Company

	As at 31 December		As at 30 April
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Assets			
USD	—	118	114
Liabilities			
USD	—	11,528	11,387
HKD	—	4,154	2,719

The Group and the Company currently does not have a foreign currency hedging policy as the management of the Group considers that the foreign exchange risk exposure of the Group and the Company is minimal. The Group and the Company will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The following table details the Group's and the Company's sensitivity to a 10% decrease in the functional currency (i.e., RMB) of the relevant group entities against the foreign currencies. 10% is the sensitivity rate used in management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 10% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit for the year/period where RMB weakening against the relevant foreign currencies. For a 10% strengthen of RMB, there would be an equal and opposite impact on the profit after tax.

The Group

	Year ended 31 December			Four months ended 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
USD	20,531	7,579	3,054	9,176
EUR	81	804	139	2,975
HKD	—	—	(385)	(257)

The Company

	Year ended 31 December		Four months ended 30 April
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
USD	—	(1,141)	(1,127)
HKD	—	(415)	(272)

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the year/period end exposure does not reflect the exposure during the year/period.

Interest rate risk

The Group and the Company are exposed to fair value interest rate risk in relation to fixed-rate term deposits, loan to independent third parties, bank borrowing and amounts due to independent third parties (details are set out in notes 27, 22, 30 and 29). The Group and the Company currently do not have any interest rate hedging policy. The management of the Group monitors the Group's and the Company's exposures on an on-going basis and will consider hedging interest rate risk should the need arises.

The Group and the Company is also exposed to cash flow interest rate risk in relation to floating-rate restricted bank balance and bank balances.

The Group's and the Company's exposures to interest rates on financial liabilities are detailed in the management section of this note.

In the opinion of the management of the Group, the exposure of cash flow interest rate risk arising from floating-rate restricted bank balance and bank balances is insignificant and thus no sensitivity analysis is prepared.

Credit risk

Credit risk refers to the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group considers all elements of credit risk exposure such as counterparty default risk and sector risk for risk management purposes.

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets stated in the consolidated statements of financial position.

The Group's credit risk is primarily attributable to its trade, bills and other receivables, contract assets, amounts due from related parties, term deposits, restricted bank deposits and bank balances.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

In the opinion of the management of the Group, the risk of default in payment of the bills receivable is low because all bills receivable are issued and guaranteed by reputable PRC banks.

The credit risk on bank balances, term deposits and restricted bank deposits is limited because the counterparties are banks with good reputations.

The Group has concentration of credit risk as nil, nil, 28% and nil of the total trade receivables was due from the Group's largest customer, and as 2%, 2%, 42% and 46% of the total trade receivables was due from the five largest customers, as at 31 December 2016, 2017 and 2018 and 30 April 2019, respectively.

Group's exposure to credit risk after adoption of IFRS 9

After the adoption of IFRS 9, in addition to the credit risk limit management and other mitigation measures as described above, the Group monitors all financial assets, except for trade receivables and contract assets, that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime ECL rather than 12m ECL.

Trade receivables and contract assets

For trade receivables and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items on an individual basis for customer with high credit risk, as assessed based on the Group's historical credit loss experience of different customer portfolio, and the remaining is estimated collectively by using a provision matrix, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group writes off trade receivables and contract assets when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk gradings to categorise exposures according to their degree of risk of default.

The following table shows the Group's credit risk grading framework in respect of financial assets:

Category	Description	Basis for recognizing ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	Trade receivables and contract assets Lifetime ECL — not credit impaired Other receivables 12m ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL — not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL — credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

Other receivables

For other receivables, the Group has applied the general approach in IFRS 9 to measure the loss allowance approximate to such at 12m ECL, since the directors of the Company assessed that there has not been any significant increase in credit risk.

In determining the expected credit losses, the management of the Group have taken into account the historical credit loss experience based on the past default experience of the counterparty, general economic conditions of the industry in which the counterparty operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Term deposits, restricted bank deposits, bank balances and bills receivables

The term deposits, restricted bank deposits, bank balances and bills receivables are determined to have low credit risk at the end of each reporting period. The credit risk on term deposits, restricted bank deposits, bank balances and bills receivables is limited because the counterparties are reputable banks and the risk of inability to pay or redeem at the due date is low.

The tables below detail the credit risk exposures of the Group's financial assets and contract assets which are subject to ECL assessment:

31 December 2018	**Notes**	**Internal credit ratings**	**12-month or lifetime ECL**	**Gross carrying amount**
				RMB'000
Trade receivables	22	(Note)	Lifetime ECL (provision matrix)	181,183
		Default	Lifetime ECL — credit impaired	6,766
				187,949
Contract assets	18	(Note)	Lifetime ECL (provision matrix)	68,924
Other receivables	22	Performing	12-month ECL	17,827
Bills receivables	22	Performing	12-month ECL	382,603
Restricted bank deposits	28	Performing	12-month ECL	13,597
Bank balances	28	Performing	12-month ECL	233,881

30 April 2019	Notes	Internal credit ratings	12-month or lifetime ECL	Gross carrying amount
				RMB'000
Trade receivables	22	(Note)	Lifetime ECL (provision matrix)	215,263
		Default	Lifetime ECL — credit impaired	6,006
				221,269
Contract assets	18	(Note)	Lifetime ECL (provision matrix)	79,592
Other receivables	22	Performing	12-month ECL	12,485
Bills receivables	22	Performing	12-month ECL	367,396
Restricted bank deposits	28	Performing	12-month ECL	26,412
Bank balances	28	Performing	12-month ECL	162,872

Note: For trade receivables and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. All of the Group's contract assets are not yet due for payment or in default. Except for debtors with credit-impaired, the Group determines the ECL on these items by using a provision matrix grouped by internal credit rating.

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following tables provide information about the exposure to credit risk for trade receivables which are assessed based on provision matrix grouped by internal credit rating considering geographical information of the customers and aging of the receivables as at 1 January 2018, 31 December 2018 and 30 April 2019, respectively, within lifetime ECL (not credit impaired). Debtors with credit-impaired with gross carrying amounts of RMB6,766,000 and RMB6,006,000 as at 31 December 2018 and 30 April 2019 were assessed individually, respectively.

Gross carrying amount as at 1 January 2018

	Weighted average loss rate	Trade receivables
		RMB'000
Customers located in Mainland China with trade receivables aged		
Within 1 year	1.3%	58,821
1 to 2 years	3.0%	34,759
Over 2 years	8.0%	44,366
		137,946
Customers outside Mainland China with trade receivables aged		
Within 1 year	3.0%	3,497
1 to 2 years	5.0%	2,501
Over 2 years	15.0%	1,971
		7,969

Gross carrying amount as at 31 December 2018

	Weighted average loss rate	Trade receivables
		RMB'000
Customers located in Mainland China with trade receivables aged		
Within 1 year	1.4%	52,344
1 to 2 years	3.0%	18,411
Over 2 years	10.0%	37,668
		108,423
Customers outside Mainland China with trade receivables aged		
Within 1 year	3.0%	68,811
1 to 2 years	5.0%	1,839
Over 2 years	15.0%	2,110
		72,760

Gross carrying amount as at 30 April 2019

	Weighted average loss rate	Trade receivables
		RMB'000
Customers located in Mainland China with trade receivables aged		
Within 1 year	1.0%	48,932
1 to 2 years	3.0%	11,897
Over 2 years	10.0%	37,609
		98,438
Customers outside Mainland China with trade receivables aged		
Within 1 year	3.0%	112,629
1 to 2 years	5.0%	383
Over 2 years	15.0%	3,813
		116,825

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018 and four months ended 30 April 2019, the Group recognised net loss allowance based on the provision matrix for trade receivables of RMB1,623,000 and RMB1,072,000, respectively, and net loss allowance for contract assets of RMB1,986,000 and RMB422,000, respectively. Provision of net loss allowance of RMB379,000 and RMB826,000 were individually made on trade receivables with credit-impaired debtors during the year ended 31 December 2018 and the four months ended 30 April 2019, respectively.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables and contract assets under the simplified approach.

	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total
	RMB'000	RMB'000	RMB'000
As at 31 December 2017 under IAS 39	—	9,225	9,225
Effect arising from adoption of IFRS 9	7,643	—	7,643
As at 1 January 2018	7,643	9,225	16,868
Loss allowance provided	5,975	—	5,975
Loss allowance reversed	(3,234)	—	(3,234)
Transfer to credit impaired	(379)	379	—
Write-off as uncollectible	—	(2,838)	(2,838)
As at 31 December 2018	10,005	6,766	16,771
Loss allowance provided	4,701	—	4,701
Loss allowance reversed	(2,337)	(44)	(2,381)
Transfer to credit impaired	(870)	870	—
Write-off as uncollectible	—	(1,586)	(1,586)
As at 30 April 2019	11,499	6,006	17,505

Liquidity risk

The management of the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows.

The Group

At 31 December 2016	Weighted average effective interest rate	On demand	Within 6 months	6 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade, bills and other payables	—	336,803	—	—	—	336,803	336,803
Amounts due to independent third parties	6.32%	6,099	—	—	—	6,099	6,099
Lease liabilities	4.9%	—	9	10	128	147	119
Amount due to a related party	—	802	—	—	—	802	802
Total		343,704	9	10	128	343,851	343,823

At 31 December 2017	Weighted average effective interest rate	On demand	Within 6 months	6 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade, bills and other payables	—	491,475	—	—	—	491,475	491,475
Amounts due to independent third parties	6.39%	6,720	—	—	—	6,720	6,720
Lease liabilities	4.9%	—	9	10	109	128	104
Dividends payable	—	2,299	—	—	—	2,299	2,299
Bank borrowing	3.35%	—	3,025	—	—	3,025	3,000
Total		500,494	3,034	10	109	503,647	503,598

At 31 December 2018	Weighted average effective interest rate	On demand	Within 6 months	6 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade, bills and other payables . . .	—	629,103	—	—	—	629,103	629,103
Accrued issue costs and listing expenses	—	5,926	—	—	—	5,926	5,926
Amounts due to independent third parties.	6%	—	—	10,978	—	10,978	10,556
Lease liabilities . . .	4.9%	—	9	10	90	109	89
Amount due to a related party	—	817	—	—	—	817	817
Dividends payable .	—	19,270	—	—	—	19,270	19,270
Total		655,116	9	10,988	90	666,203	665,761

At 30 April 2019	Weighted average effective interest rate	On demand	Within 6 months	6 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade, bills and other payables . . .	—	614,618	—	—	—	614,618	614,618
Accrued issue costs and listing expenses	—	2,825	—	—	—	2,825	2,825
Amounts due to independent third parties.	6%	—	10,577	—	—	10,577	10,542
Lease liabilities . . .	4.9%	—	9	10	83	102	84
Amount due to a related party	—	801	—	—	—	801	801
Total		618,244	10,586	10	83	628,923	628,870

The Company

At 31 December 2018	Weighted average effective interest rate	On demand	6 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000
Accrued issue costs and listing expenses	—	5,926	—	5,926	5,926
Amounts due to independent third parties	6%	—	10,978	10,978	10,556
Amount due to a subsidiary	—	9,608	—	9,608	9,608
Amount due to a related party	—	604	—	604	604
Total		16,138	10,978	27,116	26,694

At 30 April 2019	Weighted average effective interest rate	On demand	Within 6 months	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000
Accrued issue costs and listing expenses	—	2,825	—	2,825	2,825
Amounts due to independent third parties	6%	—	10,577	10,577	10,542
Amount due to a subsidiary	—	17,070	—	17,070	17,070
Amount due to a related party	—	592	—	592	592
Total		20,487	10,577	31,064	31,029

Fair value measurements of financial instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statements of financial position approximate to their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

	Fair value as at 31 December			Fair value as at 30 April	Fair value hierarchy	Valuation technique and key input
	2016	2017	2018	2019		
	RMB'000	RMB'000	RMB'000	RMB'000		
Financial assets at FVTPL:						
Unlisted money market funds	—	—	3,426	4,173	Level 2	Quoted bid prices, adjusted for estimated transaction costs
Unlisted financial products	—	304,600	—	211,298	Level 2	Discounted cash flows. Future cash flows are estimated based on expected return of the financial products

There were no transfers between Level 1 and 2 during the Track Record Period.

41. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2018, Peak Holding and each of Ambon, PF International and PF Global entered into deeds of assignments pursuant to which Peak Holding assigned its debts owed by the Company amounted to RMB13,723,000 to Ambon, PF International and PF Global. Furthermore, the Group, Ambon, PF International and PF Global entered into an offsetting arrangement to offset the Group's amounts due from Ambon, PF International and PF Global with the Assigned Amount owed by the Group as detailed in notes 25(A) and 29.

42. RELATED PARTY TRANSACTIONS

(a) Related party transactions

Saved as disclosed elsewhere in the Historical Financial Information, the Group also has the following significant related party transactions.

Mr. Wang and his wife had provided personal guarantees to bank in respect of the Group's banking facilities amounted to RMB200,000,000 and RMB350,000,000 on 26 March 2018 and 19 March 2018, respectively. Such personal guarantees provided by Mr. Wang and his wife had been released on 31 October 2018 and 7 November 2018, respectively.

(b) **Compensation of key management personnel**

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries and other benefits	1,094	1,091	1,236	373	418
Retirement benefits scheme contributions	114	130	222	92	91
Discretionary performance related bonus	174	189	144	43	50
	1,382	1,410	1,602	508	559

The remuneration of key management personnel (being directors and Chief Executive Officer of the Company), is determined with reference to the performance of individuals and market trends.

43. FINANCIAL INFORMATION OF THE COMPANY

(A) Investment in a subsidiary

	As at 31 December		As at 30 April
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Unlisted investments in a subsidiary at cost *(note i)*	—	—	—
Deemed investment cost *(note ii)*	—	59,987	59,987
	—	59,987	59,987

Notes:

i. Less than RMB1,000.

ii. As at 31 December 2018, the directors of the Company resolved to waive RMB59,987,000 of the amount due from a subsidiary. As a result, such amount forms part of the net investment in the subsidiary, and classified as a deemed investment, accordingly.

(B) Movement of the Company's reserves

	Accumulated losses
	RMB'000
On 31 July 2017 (date of incorporation) and 31 December 2017	—
Loss and total comprehensive expenses for the year	(14,213)
At 31 December 2018	(14,213)
Loss and total comprehensive expenses for the period	(3,305)
At 30 April 2019	(17,518)
For the four months ended 30 April 2018 (unaudited)	
At 1 January 2018	—
Loss and total comprehensive expenses for the period	(184)
At 30 April 2018 (unaudited)	(184)

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

As at the date of this report, particulars of the Company's principal subsidiaries are as follows.

Name of subsidiary	Place and date of incorporation/ establishment	Paid-in/share capital	Shareholding/equity interest attributable to owners of the Company as at 31 December 2016	31 December 2017	31 December 2018	30 April 2019	Date of this report	Principal activities	Notes
Jiangsu Pengfei	the PRC, 8 July 2002	RMB37,316,000	100.00%	100.00%	100.00%	100.00%	100.00%	Building material manufacturing	c
Pengfei Equipment	the PRC, 13 November 2001	RMB10,115,500	73.21%	73.21%	66.13%	66.13%	66.13%	Building material manufacturing	c
PengFei BVI	the British Virgin Islands, 2 August 2017	USD1	N/A	100.00%	100.00%	100.00%	100.00%	Investment holding company	e
Heavy Equipment HK	Hong Kong, 11 August 2017	HKD1	N/A	100.00%	100.00%	100.00%	100.00%	Investment holding company	d
Heavy Equipment PRC	the PRC, 8 April 2004	USD9,560,000	—	—	100.00%	100.00%	100.00%	Leasing of property and equipment	c
Nantong Golden	the PRC, 24 July 2018	RMB300,000	N/A	N/A	100.00%	100.00%	100.00%	Machine manufacturing	c

Notes:

a. The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

b. Each of the Company and its subsidiaries has adopted 31 December as their financial year end date.

c. The statutory financial statements of Jiangsu Pengfei and Pengfei Equipment for the years ended 31 December 2016, 2017 and 2018, and the statutory financial statements of Heavy Equipment PRC and Nantong Golden for the year/period ended 31 December 2018, were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by Haian Zhongxin CPAs Ltd.* (海安中信會計師事務所有限公司), a certified public accountant registered in the PRC.

d. The statutory financial statements of Heavy Equipment HK for the year ended 31 December 2018 were prepared in accordance with HKFRS for Private Entities issued by the HKICPA and were audited by CCTH CPA LIMITED* (中正天恒會計師有限公司), a certified public accountant registered in Hong Kong.

e. No audited financial statements of Pengfei BVI have been prepared since its incorporation as there is no such statutory requirement.

None of the subsidiaries of the Group had issued any debt securities during the Track Record Period.

45. DIRECTORS' REMUNERATION

Under the arrangement currently in force, the aggregate amount of the directors' remuneration and benefits in kind for the year ending 31 December 2019 is estimated to be approximately RMB1.3 million (excluding discretionary bonus).

46. EVENTS AFTER THE REPORTING PERIOD

Except for transactions disclosed elsewhere in the Historical Financial Information, the following events took place subsequent to the end of the reporting period:

(i) Pursuant to the resolution of the shareholders of the Company passed on 25 October 2019, the authorised share capital of the Company was increased from RMB600,000,000 divided into 600,000,000 shares of par value of RMB1 each to the aggregate of (i) RMB600,000,000 divided into 600,000,000 shares of par value of RMB1 each and (ii) HK$100,000,000 divided into 10,000,000,000 shares with a par value of HK$0.01 each by the creation of 10,000,000,000 shares with a par value of HK$0.01 each.

As at 25 October 2019, 28,425,900, 16,710,000 and 6,250,000 shares with par value of HK$0.01 each in the Company were allotted and issued as fully paid to Ambon, PF International and PF Global for considerations of RMB28,425,900, RMB16,710,000 and RMB6,250,000 respectively.

Immediately after the above allotment and issue having been effected, the Company repurchased 28,425,900, 16,710,000 and 6,250,000 shares with a par value RMB1 each in issue for considerations of RMB28,425,900, RMB16,710,000 and RMB6,250,000 respectively from Ambon, PF International and PF Global.

Following the repurchase, the authorised but unissued shares capital of the Company was reduced by the cancellation of 600,000,000 shares of a par value of RMB1 each, such that the authorised share capital of the Company became HK$100,000,000 divided into 10,000,000,000 Shares with a par value of HK$0.01 each.

(ii) On 25 October 2019, the Directors of the Company are authorised to capitalise the sum of HK$3,236,141 and apply the same in paying up in full at par 323,614,100 shares for allotment and issue to the shareholders whose names appeared on the register of members of the Company as at 25 October 2019 in proportion (as nearly as possible without involving fractions) to their then existing shareholders in the Company and such shares to be allotted and issued shall rank pari passu in all respects with all other existing issued shares (the "Capitalisation Issue").

47. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 30 April 2019 and up to the date of this report.

*The information set forth in this Appendix does not form part of the accountants' report on the historical financial information of the Group for each of the three years ended 31 December 2018 and the four months ended 30 April 2019 (the "**Track Record Period**") (the "**Accountants' Report**") prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only.*

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company which has been prepared in accordance with paragraph 4.29 of the Listing Rules is for the purpose of illustrating the effect of the proposed public offering and listing of the Company's shares (the "Share Offer") on The Stock Exchange of Hong Kong Limited as if it had taken place on 30 April 2019. The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Share Offer been completed on 30 April 2019 or at any future dates. It is prepared based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 April 2019 as shown in the Accountants' Report of the Group as set out in Appendix I to this document, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 April 2019	Estimated net proceeds from the proposed Share Offer	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 April 2019	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 30 April 2019	
	RMB'000	**RMB'000**	**RMB'000**	**RMB**	**HK$**
	(Note 1)	**(Note 2)**		**(Note 3)**	**(Note 4)**
Based on the share offer price of HK$1.05 per Share.	310,716	91,211	401,927	0.80	0.94
Based on the share offer price of HK$1.58 per Share.	310,716	146,055	456,771	0.91	1.06

Notes:

1. The consolidated net tangible assets of the Group attributable to owners of the Company as at 30 April 2019 is arrived at after deducting intangible assets of RMB132,000 from the audited consolidated net assets of RMB310,848,000 attributable to owners of the Company as at 30 April 2019 as extracted from the Accountants' Report set out in Appendix I to this prospectus.

2. The estimated net proceeds from the issue of the new share pursuant to the proposed Share Offer are based on 125,000,000 new shares at the Offer Price of HK$1.05 and HK$1.58 per new share, being the low and high end of the Offer Price Range, after deduction of the estimated underwriting commissions and fees and other related expenses (and without deducting any additional discretionary incentive fees) not yet recognised in profit or loss up to 30 April 2019. It does not take into account of any share which may be allotted and issued pursuant to the exercise of the Over-Allotment Option and any share which may be issued or repurchased by the Company pursuant to the "General Mandate" and the "Repurchase Mandate" detailed under the section headed "Share Capital" in this prospectus, as applicable.

   For the purpose of this unaudited pro forma statement, the estimated net proceeds from the proposed Share Offer are converted from Hong Kong dollars into Renminbi ("RMB") at an exchange rate of HK$1.1657 to RMB1.00 on 30 April 2019. No representation is made that Hong Kong dollar amounts have been, could have been or could be converted to RMB, or vice versa, at that rate or at any other rates or at all.

3. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 April 2019 per Share is calculated based on 500,000,000 shares in issue immediately following the completion of the proposed Share Offer and the Capitalisation Issue had been completed on 30 April 2019. It does not take into account of any share which may be allotted and issued pursuant to the exercise of the Over-Allotment Option and any share which may be issued or repurchased by the Company pursuant to the "General Mandate" and the "Repurchase Mandate" detailed under the section headed "Share Capital" in this document, as applicable.

4. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is converted from RMB into Hong Kong dollars at the rate of RMB1.00 to HK$1.1657 on 30 April 2019. No representation is made that the RMB amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate or at other rates or at all.

5. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 April 2019 to reflect any trading result or other transactions of the Group entered into subsequent to 30 April 2019.

6. Based on the property valuation report as at 31 July 2019 as set forth in "Appendix III — Property Valuation Report", the property interests of the Group attributable to owners of the Company had a revaluation surplus up to 30 April 2019 of approximately RMB132,641,000, representing the excess of the market value of these properties (including leasehold land and buildings) over their carrying amounts to the extent attributable to owners of the Company. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company has not taken into account the revaluation surplus of properties held for own use (including leasehold land and buildings) and investment properties held by the Group, nor will the Group incorporate the revaluation surplus in its future financial statements. If the revaluation surplus up to 30 April 2019 is to be incorporated in the Group's future financial statements, additional annual depreciation of approximately RMB11,650,000 (excluding tax impact) would be charged.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of China PengFei Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China PengFei Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") prepared 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 consolidated net tangible assets as at 30 April 2019 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 31 October 2019 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed public offering and listing of the Company's shares (the "Share Offer") on The Stock Exchange of Hong Kong Limited on the Group's financial position as at 30 April 2019 as if the Share Offer had taken place at 30 April 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for each of the three years ended 31 December 2018 and the four months ended 30 April 2019, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 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 (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" 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 unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in 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 the event or transaction at 30 April 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 31 October 2019

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 31 July 2019 of the property interests held by China PengFei Group Limited and its subsidiaries.

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
7th Floor, One Taikoo Place
979 King's Road Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Company Licence No.: C-030171

31 October 2019

The Board of Directors
China PengFei Group Limited
Suite #4-210, Governors Square
23 Lime Tree Bay Avenue
PO Box 32311
Grand Cayman KY1-1209
Cayman Islands

Dear Sirs,

In accordance with your instructions to value the property interests held by China PengFei Group Limited (the "**Company**") and its subsidiaries (hereinafter together referred to as the "**Group**") in the People's Republic of China (the "**PRC**"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the market values of the property interests as at 31 July 2019 (the "**valuation date**").

Our valuation is carried out on a market value basis. Market value is defined 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."

Due to the nature of the buildings and structures of property Nos. 1 to 5 and the particular locations in which they are situated, there are unlikely to be relevant market comparable sales readily available. The property interests have therefore been valued by the cost approach with reference to their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of the land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation, it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

We have valued property Nos. 6 to 8 by direct comparison 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 as available in the relevant market.

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 values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited; the RICS Valuation — Global Standards 2017 published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, Real Estate Title Certificates and other official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal adviser — Beijing Merits & Tree Law Offices (Shanghai), concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the properties was carried out in August 2018 and October 2019 by Mr. Arnold Gao and Ms. Alice Liu. Mr. Arnold Gao is Member of RICS and China Qualified Land Valuer, and has more than 10 years' experience in the valuation of properties in the PRC. Ms. Alice Liu has obtained the master degree with subjects in real estate and has 3 years' experience in the valuation of properties in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our summary of values and valuation certificates are attached below for your attention.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Senior Director

Note: *Eddie T.W. Yiu is a Chartered Surveyor who has 25 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.*

VALUATION CERTIFICATE

Property interests held and occupied by the Group in the PRC

No.	Property	Market value in existing state as at 31 July 2019 *RMB*
1.	3 parcels of land, 11 buildings and various structures located at No. 99 West Renmin Road Dagong Town Hai'an City Jiangsu Province The PRC	211,900,000
2.	A parcel of land, 4 buildings and various structures located at No. 5 Benbei Road Dagong Town Hai'an City Jiangsu Province The PRC	36,800,000
3.	A parcel of land, 5 buildings and various structures located at No. 5 Renmin Middle Road Dagong Town Hai'an City Jiangsu Province The PRC	18,100,000
4.	A parcel of land, 2 buildings and various structures located at No. 288 North Tongyu Road Dagong Town Hai'an City Jiangsu Province The PRC	21,400,000
5.	2 parcels of land, a building and various structures located at Block No. 22 Wangyuan Village Dagong Town Hai'an City Jiangsu Province The PRC	13,500,000
	Sub-total:	**301,700,000**

No.	Property	Market value in existing state as at 31 July 2019 *RMB*
6.	A parcel of land located at Block Nos. 23 and 31 Wangyuan Village Dagong Town Hai'an City Jiangsu Province The PRC	4,020,000
7.	A parcel of land located at Block Nos. 23, 30 and 31 Wangyuan Village Dagong Town Hai'an City Jiangsu Province The PRC	10,800,000
8.	A parcel of land located at Block No. 28 Benji Village Dagong Town Hai'an City Jiangsu Province The PRC	240,000
	Total:	**316,760,000**

VALUATION CERTIFICATE

Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2019 *RMB*
1.	3 parcels of land, 11 buildings and various structures located at No. 99 West Renmin Road Dagong Town Hai'an City Jiangsu Province The PRC	The property comprises 3 parcels of land with a total site area of approximately 194,856.46 sq.m. and 11 buildings and various ancillary structures erected thereon which were completed in various stages between 2008 and 2015. The buildings have a total gross floor area of approximately 125,871.93 sq.m. The buildings mainly include industrial buildings, office building, dormitories and ancillary buildings. The structures mainly include boundary walls and roads. The land use rights of the property have been granted for terms with the expiry dates on 22 June 2060 and 4 November 2060 for industrial use.	As at the valuation date, except for portions of the property which were rented to various independent third parties for commercial and solar power generation purposes, the remaining portions of the property were occupied by the Group for production and ancillary office purpose.	211,900,000

Notes:

1. Pursuant to 3 Real Estate Title Certificates — Su (2018) Hai An Shi Bu Dong Chan Quan Di Nos. 0010964, 0010685 and 0010695, the land use rights of the property with a total site area of approximately 194,856.46 sq.m. have been granted to Jiangsu Pengfei Group Limited (江蘇鵬飛集團股份有限公司, "Jiangsu Pengfei", an indirect wholly-owned subsidiary of the Company) for terms with the expiry dates on 22 June 2060 and 4 November 2060 for industrial use, and 11 buildings with a total gross floor area of approximately 125,871.93 sq.m. are owned by Jiangsu Pengfei.

2. As at the valuation date, pursuant to 4 Tenancy Agreements entered into between Jiangsu Pengfei and various independent third parties, portions of the property with a total leased area of approximately 561.56 sq.m. were leased to 4 tenants for commercial purpose with the expiry dates between 31 July 2020 to 31 December 2020 at an annual rent of RMB133,000, exclusive of management fees, water and electricity charges.

3. As at the valuation date, pursuant to a Tenancy Agreement entered between Jiangsu Pengfei and an independent third party, portions of the roof area of the property with a total area of approximately 65,000 sq.m. were leased to a tenant for solar power generation purpose with the expiry date on 31 December 2040 at an annual rent of RMB292,500, exclusive of management fees, water and electricity charges.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. The Group legally owns the land use rights and building ownership rights of the property as mentioned in note 1. The Group is entitled to legally transfer, lease, mortgage or otherwise dispose of the property; and

   b. The tenancy agreements mentioned in notes 2 and 3 are legally binding, valid and enforceable.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2019 *RMB*
2.	A parcel of land, 4 buildings and various structures located at No. 5 Benbei Road Dagong Town Hai'an City Jiangsu Province The PRC	The property comprises a parcel of land with a site area of approximately 55,825 sq.m. and 4 buildings and various ancillary structures erected thereon which were completed in various stages between 1996 and 2008. The buildings have a total gross floor area of approximately 28,962.62 sq.m. The buildings include an industrial building, 2 office buildings and a dormitory. The structures mainly include boundary walls and roads. The land use rights of the property have been granted for a term of 50 years with the expiry date on 25 April 2062 for industrial use.	As at the valuation date, except for portions of the property which were rented to Pengfei Equipment for industrial purpose, the remaining portions of the property were occupied by the Group for production and ancillary office purposes.	36,800,000

Notes:

1. Pursuant to a Real Estate Title Certificate — Su (2018) Hai An Xian Bu Dong Chan Quan Di No. 0010957, the land use rights of the property with a site area of approximately 55,825 sq.m. have been granted to Jiangsu Pengfei Group Limited (江蘇鵬飛集團股份有限公司, "Jiangsu Pengfei", an indirect wholly-owned subsidiary of the Company) for a term with the expiry date on 25 April 2062 for industrial use and 4 buildings with a total gross floor area of approximately 28,962.62 sq.m. are owned by Jiangsu Pengfei.

2. As at the valuation date, pursuant to a Tenancy Agreement entered into between Jiangsu Pengfei and Jiangsu Pengfei Group Haian Construction Equipment Co., Ltd. (江蘇鵬飛集團海安建材設備有限公司, "Pengfei Equipment", a 66.13% interest owned subsidiary of the Company), portions of the property with a leased area of approximately 17,408.25 sq.m. were leased to Pengfei Equipment for industrial purpose with the expiry date on 31 December 2019 at an annual rent of RMB650,000, exclusive of management fees, water and electricity charges.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. The Group legally owns the land use rights and building ownership rights of the property as mentioned in note 1. The Group is entitled to legally transfer, lease, mortgage or otherwise dispose of the property; and

   b. The tenancy agreement mentioned in note 2 is legally binding, valid and enforceable.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2019 *RMB*
3.	A parcel of land, 5 buildings and various structures located at No. 5 Renmin Middle Road Dagong Town Hai'an City Jiangsu Province The PRC	The property comprises a parcel of land with a site area of approximately 43,406 sq.m. and 5 buildings and various ancillary structures erected thereon which were completed in various stages between 1990 and 1991. The buildings have a total gross floor area of approximately 13,299.25 sq.m. The buildings include 4 industrial buildings and an office building. The structures mainly include bicycle shed, boundary walls and roads. The land use rights of the property have been granted for a term of 50 years with the expiry date on 8 September 2062 for industrial use.	As at the valuation date, except for portions of the property which were rented to various independent third parties for industrial purpose, the remaining portions of the property were occupied by the Group for production and ancillary office purposes.	18,100,000

Notes:

1. Pursuant to a Real Estate Title Certificate — Su (2018) Hai An Xian Bu Dong Chan Quan Di No. 0010643, the land use rights of the property with a site area of approximately 43,406 sq.m. have been granted to Jiangsu Pengfei Group Limited (江蘇鵬飛集團股份有限公司, "Jiangsu Pengfei", an indirect wholly-owned subsidiary of the Company) for a term with the expiry date on 8 September 2062 for industrial use and 5 buildings with a total gross floor area of approximately 13,299.25 sq.m. are owned by Jiangsu Pengfei.

2. As at the valuation date, pursuant to 4 Tenancy Agreements entered into between Jiangsu Pengfei and various independent third parties, portions of the property with a total floor area of approximately 10,764 sq.m. and a site area of approximately 5,221 sq.m. were leased to 4 tenants for industrial purpose with the expiry dates between 14 October 2019 to 30 April 2022 at a total annual rent of RMB571,800, exclusive of management fees, water and electricity charges.

3. As at the valuation date, pursuant to 2 Land Lease Agreements entered into between Jiangsu Pengfei and various independent third parties, portions of the land parcel of the property with a site area of approximately 17,117.06 sq.m. was leased to 2 tenants for industrial purpose with the expiry date on 31 December 2027 at a total prevailing annual rent of approximately RMB85,600 based on the land use tax rate and rural collective land rental rate prescribed by local government annually.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

    a. The Group legally owns the land use rights and building ownership rights of the property as mentioned in note 1. The Group is entitled to legally transfer, lease, mortgage or otherwise dispose of the property; and

    b. The tenancy agreements mentioned in notes 2 and 3 are legally binding, valid and enforceable.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2019 *RMB*
4.	A parcel of land, 2 buildings and various structures located at No. 288 North Tongyu Road Dagong Town Hai'an City Jiangsu Province The PRC	The property comprises a parcel of land with a site area of approximately 37,260 sq.m. and 2 buildings and various ancillary structures erected thereon which were completed in various stages between 2009 and 2013. The buildings have a total gross floor area of approximately 10,239.50 sq.m. The buildings comprise 2 industrial buildings. The structures mainly include bicycle shed, boundary walls and roads. The land use rights of the property have been granted for a term of 50 years with the expiry date on 26 August 2060 for industrial use.	As at the valuation date, the property was occupied by the Group for production and ancillary purposes.	21,400,000

Notes:

1. Pursuant to a Real Estate Title Certificate — Su (2018) Hai An Shi Bu Dong Chan Quan Di No. 0013414, the land use rights of the property with a site area of approximately 37,260 sq.m. have been granted to Jiangsu Pengfei Group Limited (江蘇鵬飛集團股份有限公司, "Jiangsu Pengfei", an indirect wholly-owned subsidiary of the Company) for a term with the expiry date on 26 August 2060 for industrial use and 2 buildings with a total gross floor area of approximately 10,239.50 sq.m. are owned by Jiangsu Pengfei.

2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   The Group legally owns the land use rights and building ownership rights of the property as mentioned in note 1. The Group is entitled to legally transfer, lease, mortgage or otherwise dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2019 *RMB*
5.	2 parcels of land, a building and various structures located at Block No. 22 Wangyuan Village Dagong Town Hai'an City Jiangsu Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 33,333 sq.m. and a building and various ancillary structures erected thereon which were completed in various stages between 2008 and 2012. The building is an industrial building and has a gross floor area of approximately 4,683.15 sq.m. The structures mainly include bicycle shed, boundary walls and roads. The land use rights of the property have been granted for a term with the expiry date on 27 April 2056 for industrial use.	As at the valuation date, except for portions of the property which were subject to an intra-group lease for industrial purpose, the remaining portions of the property were occupied by the Group for production and ancillary purposes.	13,500,000

Notes:

1. Pursuant to 2 State-owned Land Use Rights Certificates — Su Hai Guo Yong (2006) Di Nos. X206172 and X206173, the land use rights of the property with a total site area of approximately 33,333 sq.m. have been granted to Jiangsu Pengfei Group Nantong Heavy Equipment Co., Ltd. (江蘇鵬飛集團南通重型設備有限公司, "Heavy Equipment PRC", an indirect wholly-owned subsidiary of the Company) for a term with the expiry date on 27 April 2056 for industrial use.

2. Pursuant to a Building Ownership Certificate — Hai An Fang Quan Zheng Da Gong Zhen Zi Di No. 2008004274, a building with a gross floor area of approximately 4,683.15 sq.m is owned by Heavy Equipment PRC.

3. As at the valuation date, pursuant to a Tenancy Agreement entered between Heavy Equipment PRC and Jiangsu Pengfei Group Limited (江蘇鵬飛集團股份有限公司, "Jiangsu Pengfei", an indirect wholly-owned subsidiary of the Company), the property with a leased area of approximately 4,683.15 sq.m. was leased to Jiangsu Pengfei for industrial purpose with the expiry date on 31 December 2019 at an annual rent of RMB499,920, exclusive of management fees, water and electricity charges.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. The Group legally owns the land use rights and building ownership rights of the property as mentioned in notes 1 and 2. The Group is entitled to legally transfer, lease, mortgage or otherwise dispose of the property; and

   b. The tenancy agreement mentioned in note 3 is legally binding, valid and enforceable.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2019 *RMB*
6.	A parcel of land located at Block Nos. 23 and 31 Wangyuan Village Dagong Town Hai'an City Jiangsu Province The PRC	The property comprises a parcel of land with a site area of approximately 18,347 sq.m. The land use rights of the property have been granted for a term with the expiry date on 3 December 2066 for industrial use.	As at the valuation date, the property was vacant.	4,020,000

Notes:

1. Pursuant to a Real Estate Title Certificate — Su (2018) Hai An Shi Bu Dong Chan Quan Di No. 0011157, the land use rights of the property with a site area of approximately 18,347 sq.m. have been granted to Jiangsu Pengfei Group Limited (江蘇鵬飛集團股份有限公司, "Jiangsu Pengfei", an indirect wholly-owned subsidiary of the Company) for a term with the expiry date on 3 December 2066 for industrial use.

2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   The Group legally owns the land use rights of the property as mentioned in note 1. The Group is entitled to legally transfer, lease, mortgage or otherwise dispose of the property.

3. In undertaking our valuation, we have identified and analyzed various relevant sales evidences of land in the locality which have similar characteristics as the subject property such as nature, use, site area, layout and accessibility of the property. The selected comparables are industrial land located in the area close to the subject property. The unit price of these comparable land sites ranges from RMB221 to RMB229 per sq.m. for industrial use. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2019 *RMB*
7.	A parcel of land located at Block Nos. 23, 30 and 31 Wangyuan Village Dagong Town Hai'an City Jiangsu Province The PRC	The property comprises a parcel of land with a site area of approximately 40,749 sq.m. The land use rights of the property have been granted for a term with the expiry date on 28 April 2069 for industrial use.	As at the valuation date, the property was vacant.	10,800,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract — 3206212019CR0139 dated 28 March 2019, the land use rights of a parcel of land with a site area of approximately 40,749 sq.m. were contracted to be granted to Jiangsu Pengfei Group Limited (江蘇鵬飛集團股份有限公司, "Jiangsu Pengfei", an indirect wholly-owned subsidiary of the Company) for a term of 50 years for industrial use commencing from the land delivery date. The land premium was RMB10,460,000.

2. Pursuant to a Real Estate Title Certificate — Su (2019) Hai An Shi Bu Dong Chan Quan Di No. 0006201, the land use rights of the property with a site area of approximately 40,749 sq.m. have been granted to Jiangsu Pengfei for a term with the expiry date on 28 April 2069 for industrial use.

3. Pursuant to a Construction Work Planning Permit — Jian Zi Di No. 19337 in favour of Jiangsu Pengfei, the property with a total gross floor area of approximately 15,600 sq.m. has been approved for construction.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. The Group legally owns the land use rights of the property as mentioned in notes 1 and 2. The Group is entitled to transfer, lease, mortgage or otherwise dispose of the property.

5. In undertaking our valuation, we have identified and analyzed various relevant sales evidences of land in the locality which have similar characteristics as the subject property such as nature, use, site area, layout and accessibility of the property. The selected comparables are industrial land located in the area close to the subject property. The unit price of these comparable land sites ranges from RMB251 to RMB265 per sq.m. for industrial use. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2019 *RMB*
8.	A parcel of land located at Block No. 28 Benji Village Dagong Town Hai'an City Jiangsu Province The PRC	The property comprises a parcel of land with a site area of approximately 908 sq.m. The land use rights of the property have been granted for a term with the expiry date on 28 April 2069 for industrial use.	As at the valuation date, the property was occupied by the Group for storage purpose.	240,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract — 3206212019CR0140 dated 28 March 2019, the land use rights of a parcel of land with a site area of approximately 908 sq.m. were contracted to be granted to Jiangsu Pengfei Group Limited (江蘇鵬飛集團股份有限公司, "Jiangsu Pengfei", an indirect wholly-owned subsidiary of the Company) for a term of 50 years for industrial use commencing from the land delivery date. The land premium was RMB230,000.

2. Pursuant to a Real Estate Title Certificate — Su (2019) Hai An Shi Bu Dong Chan Quan Di No. 0006202, the land use rights of the property with a site area of approximately 908 sq.m. have been granted to Jiangsu Pengfei for a term with the expiry date on 28 April 2069 for industrial use.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   b. The Group legally owns the land use rights of the property as mentioned in notes 1 and 2. The Group is entitled to transfer, lease, mortgage or otherwise dispose of the property.

4. In undertaking our valuation, we have identified and analyzed various relevant sales evidences of land in the locality which have similar characteristics as the subject property such as nature, use, site area, layout and accessibility of the property. The selected comparables are industrial land located in the area close to the subject property. The unit price of these comparable land sites ranges from RMB251 to RMB265 per sq.m. for industrial use. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 31 July 2017 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (**Memorandum**) and its Amended and Restated Articles of Association (**Articles**).

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 25 October 2019 and effect on the Listing Date. A summary of certain provisions of the Articles is set out below.

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a member being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) ***Alteration of capital***

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

(iv) ***Transfer of shares***

Subject to the Cayman Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) ***Power of the Company to purchase its own shares***

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) ***Power of any subsidiary of the Company to own shares in the Company***

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(vii) ***Calls on shares and forfeiture of shares***

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors

(i) ***Appointment, retirement and removal***

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

(aa) resign;

(bb) dies;

(cc) is declared to be of unsound mind and the Board resolves that his office be vacated;

(dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) he is prohibited from being or ceases to be a director by operation of law;

(ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;

(gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or (hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) ***Power to allot and issue shares and warrants***

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) ***Power to dispose of the assets of the Company or any of its subsidiaries***

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iv) ***Borrowing powers***

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) ***Remuneration***

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) ***Compensation or payments for loss of office***

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(vii) ***Loans and provision of security for loans to Directors***

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) ***Disclosure of interest in contracts with the Company or any of its subsidiaries***

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

(aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

(ix) ***Proceedings of the Board***

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

(d) Meetings of member

(i) ***Special and ordinary resolutions***

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(ii) ***Voting rights and right to demand a poll***

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

(A) at least two members;

(B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) ***Annual general meetings***

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(iv) ***Requisition of general meetings***

Extraordinary general meetings may be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(v) ***Notices of meetings and business to be conducted***

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

(i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(vi) ***Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vii) ***Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(e) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to members who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those members that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The members may, at a general meeting remove the auditor(s) by a special resolution at any time before the expiration of the term of office of the auditor(s) and shall, by an ordinary resolution, at that meeting appoint new auditor(s) in place of the removed auditor(s) for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(f) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

(i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;

(ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and

(iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

(aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(g) Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(h) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(i) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and

(ii) if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(j) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 31 July 2017 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

Under Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(iii) any manner provided in section 37 of the Cayman Companies Law;

(iv) writing-off the preliminary expenses of the company; and

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of Foss v. Harbottle and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Financial Secretary that:

(i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(ii) no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(aa) on or in respect of the shares, debentures or other obligations of the Company; or

(bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The undertaking for the Company is for a period of 20 years from 19 November 2018.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(s) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 31 July 2017. Our Company has established a place of business in Hong Kong at Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong and was registered in Hong Kong under Part 16 of the Companies Ordinance as a non-Hong Kong company on 29 November 2018, with Ms. Chau Hing Ling, our company secretary appointed as our authorised representative for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

As we are incorporated in the Cayman Islands, we operate subject to the Cayman Companies Law and to our constitution, which comprises the Memorandum of Association and Articles of Association. A summary of various provisions of our constitution and relevant aspects of the Cayman Companies Law is set out in "Summary of the Constitution of our Company and Cayman Islands Company Law" in Appendix IV to this prospectus.

2. Change in share capital of our Company

As at the date of incorporation, our authorised share capital was RMB600,000,000 divided into 600,000,000 shares of par value of RMB1 each. Upon its incorporation, one share was allotted and issued in cash at par, to its initial subscriber, Osiris International Cayman Limited. On the same day, the said one share was transferred to Ambon and an addition of 51,385,899 shares were allotted and issued in cash at par to Ambon which the shares were not paid by Ambon. The following changes in our share capital have taken place since the date of incorporation:

(a) On 20 December 2017, Ambon transferred 16,710,293 shares and 6,250,109 shares of our Company (equivalent to 32.52% and 12.16% of the issued share capital in our Company) to PF International and PF Global both in consideration of RMB1.

(b) On 25 April 2018, Ambon, PF Global and PF International paid up part of their respective unpaid shares of the Company in the consideration of US$1,659,600, US$364,800 and US$975,600 respectively.

(c) On 10 May 2018, Ambon, PF Global and PF International further paid up part of their respective unpaid shares of the Company in the consideration of US$1,659,600, US$364,800 and US$975,600 respectively.

(d) On August 2018, PF International and PF Global transferred 293 shares and 109 shares of our Company (equivalent to 0.00057% and 0.00021% of the issued share capital in our Company) to Ambon, respectively, both in consideration of RMB1.

(e) On 11 November 2018, Peak Holding, an Independent Third Party of our Group, assigned US$1,093,887, US$643,035 and US$240,513 of its debts owed by our Company to Ambon, PF International and PF Global, respectively ("**Assigned Amount**"). The Assigned Amount was equivalent to the outstanding unpaid amount of shares which Ambon, PF International and PF Global owed to the Listco ("**Unpaid Amount**"). On the same day, the Listco resolved that the Assigned Amount be set-off by the Unpaid Amount. Accordingly, the shares were fully paid up by Ambon, PF International and PF Global on the same day.

(f) Pursuant to the resolution of the shareholders of our Company passed on 25 October 2019, the authorised share capital of our Company was increased from RMB600,000,000 divided into 600,000,000 shares of par value of RMB1 each to the aggregate of (i) RMB600,000,000 divided into 600,000,000 shares of par value of RMB1 each and (ii) HK$100,000,000 divided into 10,000,000,000 Shares with a par value of HK$0.01 each by the creation of 10,000,000,000 Shares with a par value of HK$0.01 each. As at 25 October 2019, 28,425,900, 16,710,000 and 6,250,000 Shares with par value of HK$0.01 each in our Company were allotted and issued as fully paid to Ambon, PF International and PF Global for considerations of RMB28,425,900, RMB16,710,000 and RMB6,250,000 respectively. Immediately after the above allotment and issue having been effected, our Company repurchased 28,425,900, 16,710,000 and 6,250,000 shares with a par value RMB1 each in issue for considerations of RMB28,425,900, RMB16,710,000 and RMB6,250,000 respectively from Ambon, PF International and PF Global. Following the repurchase, the authorised share capital of our Company was reduced by the cancellation of 600,000,000 shares of a par value of RMB1 each, such that the authorised share capital of the our Company became HK$100,000,000 divided into 10,000,000,000 Shares with a par value of HK$0.01 each.

(g) Conditional upon the share premium account of our Company being credited with the proceeds of the Share Offer, an appropriate sum will be capitalised and applied in paying up in full such number of shares in our Company to be allotted and issued to the then existing shareholders of our Company so that the number of Shares so allotted and issued, when aggregated with the number of Shares already owned by them, will constitute 75% of the issued share capital of our Company.

(h) Assuming that the Share Offer and the Capitalisation Issue become unconditional and the issue of Shares is made pursuant thereto without taking into account Over-allotment Option, the issued share capital of our Company immediately following the completion of the Share Offer and the Capitalisation Issue will be HK$5,000,000 divided into 500,000,000 Shares, fully paid or credited as fully paid.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

3. Changes in share capital of our subsidiaries

Our Company's subsidiaries include PengFei BVI, Heavy Equipment HK, Heavy Equipment PRC, Jiangsu Pengfei and Pengfei Equipment.

Save as set out in the section headed "History, Development and Reorganisation" in this prospectus, there has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this prospectus.

4. Resolutions in writing passed by our Shareholders on 25 October 2019

On 25 October 2019, our then Shareholders, passed resolutions in writing, pursuant to which, amongst other matters:

(a) our Company approved an increase of its authorised share capital from RMB600,000,000 divided into 600,000,000 shares of par value of RMB1 each to the aggregate of (i) RMB600,000,000 divided into 600,000,000 shares of par value of RMB1 each and (ii) HK$100,000,000 divided into 10,000,000,000 Shares with a par value of HK$0.01 each by the creation of 10,000,000,000 Shares with a par value of HK$0.01 each. Our Company approved to allot and issue 28,425,900, 16,710,000 and 6,250,000 Shares with par value of HK$0.01 each in our Company as fully paid to Ambon, PF International and PF Global for considerations of RMB28,425,900, RMB16,710,000 and RMB6,250,000 respectively. Our Company approved the repurchase of 28,425,900, 16,710,000 and 6,250,000 shares with a par value RMB1 each in issue for considerations of RMB28,425,900, RMB16,710,000 and RMB6,250,000 respectively from Ambon, PF International and PF Global immediately after the above allotment and issue having been effected. Our Company approved to reduce the authorised share capital of our Company by the cancellation of 600,000,000 shares of a par value of RMB1 each, such that the authorised share capital of the our Company became HK$100,000,000 divided into 10,000,000,000 Shares with a par value of HK$0.01 each;

(b) our Company approved and adopted the Memorandum and the Articles with immediate effect and the Articles with effect from the Listing Date;

(c) conditional on (i) the Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option); and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sole Global Coordinator acting for itself and on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:

(i) the Share Offer was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer to rank *pari passu* on and subject to the terms and conditions stated in this prospectus;

(ii) the Directors are authorised to capitalise the sum of HK$3,236,141 and apply the same in paying up in full at par 323,614,100 Shares for allotment and issue to the

Shareholders whose names appeared on the register of members of our Company in proportion (as nearly as possible without involving fractions) to their then existing shareholders in our Company and such Shares to be allotted and issued shall rank *pari passu* in all respects with all other existing issued shares; and

(iii) the Over-allotment option was approved and the Directors were authorised to effect the same and to allot and issue the Over-allotment Shares upon the exercise of the Over-allotment Option;

(d) a general unconditional mandate (the "**Issuing Mandate**") was given to the Directors to exercise all powers for and on our behalf to allot, issue and deal with (otherwise than by way of rights issue or any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or a specific authority granted by the Shareholders in general meeting or pursuant to the International Offering, unissued Shares and securities carrying rights to subscribe for, exchange or convert into Shares (whether the exercise of such rights may take place during or after the period while such mandate remains in effect) with a total number of Shares not exceeding 20% of the total number of Shares in issue immediately following completion of the Share Offer (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect from the date of Listing until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or

(iii) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;

(e) a general unconditional mandate (the "**Repurchase Mandate**") was given to the Directors authorising them to exercise all powers for and on our behalf to repurchase on the Stock Exchange or on any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares not exceeding 10% of the aggregate of the total number of Shares in issue immediately following completion of the Share Offer (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or

(iii) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate; and

(f) the Issuing Mandate was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (d) above, provided that such extended amount shall not exceed 10% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

5. Reorganisation

The companies comprising our Group underwent the Reorganisation in preparation for the listing. For further information relating to the Reorganisation, please refer to the section headed "History, development and reorganisation — Reorganisation".

6. Repurchase of Shares by our Company

This section includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase of our own securities.

(a) ***Regulations of the Listing Rules***

The Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) *Shareholders' approval*

All repurchases of securities (which must be fully paid up in the case of shares) on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transaction.

Pursuant to the written resolutions of our then Shareholders passed on 25 October 2019, a general unconditional mandate (being the Repurchase Mandate referred to above) was given to the Directors authorising any repurchase by us of our Shares on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange of such number of Shares with a total number as will represent up to 10% of the total number of Shares in issue immediately following the completion of the International Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option) at any time until (i) the conclusion of the next annual general meeting of the Company; (ii) or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws of Cayman Islands to be held; (iii) or the passing of an ordinary resolution by our Shareholders in general meeting revoking, varying or renewing such mandate, whichever occurs first.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and the Articles and the applicable laws and regulations of the Cayman Islands. Any repurchase may be made out of funds legally permitted to be utilised in this connection, including profits of our Company, share premium account for our Company or out of proceeds of a fresh issue of Shares made for that purpose and in the case of any premium payable on a repurchase over the par value of the Shares to be repurchased, it must be paid out of either or both of the profits of our Company or our Company's share premium account. Subject to satisfaction of the solvency test prescribed by the Cayman Companies Law, a repurchase may also be made out of capital.

(b) ***Reasons for repurchases***

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and its assets and/or its earnings per Share.

(c) ***Funding of repurchases***

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and the Articles and the applicable laws and regulations of the Cayman Islands.

The Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital or gearing position of our Company which, in the opinion of the Directors, are from time to time appropriate for our Company. However, there might be a material adverse impact on the working capital or gearing position of our Company as compared with the position disclosed in this prospectus in the event that the Repurchase Mandate is exercised in full.

(d) ***Share capital***

Exercise in full of the Repurchase Mandate, on the basis of 500,000,000 Shares in issue immediately after the completion of the Share Offer (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option) would result in up to 50,000,000 Shares being repurchased by our Company during the period prior to the earliest of:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles and applicable laws and regulations of the Cayman Islands to be held; or

(iii) the revocation, variation or renewal of the Repurchase Mandate by an ordinary resolution of the Shareholders in general meeting.

(e) ***Trading restrictions***

Pursuant to the Listing Rules, our Company:

(i) shall not purchase its Shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its Shares were traded on the Stock Exchange;

(ii) shall not purchase its Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time;

(iii) shall not knowingly purchase its Shares from a core connected person and a core connected person shall not knowingly sell Shares to our Company, on the Stock Exchange;

(iv) shall procure that any broker appointed by our Company to effect the purchase of its Shares shall disclose to the Stock Exchange such information with respect to purchases made on behalf of our Company as the Stock Exchange may request;

(v) shall not purchase its Shares on the Stock Exchange at any time after an inside information has come its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of:

(a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and

(b) the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement, our Company may not purchase its Shares on the Stock Exchange, unless the circumstances are exceptional;

(vi) may not purchase its Shares on the Stock Exchange if that purchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or the relevant prescribed minimum percentage for the Company as determined by the Listing Rules from time to time).

The Stock Exchange may waive all or part of the above restrictions if, in its opinion, the above are exceptional circumstances.

(f) ***General***

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), have any present intention if the Repurchase Mandate is approved by the Shareholders, to sell any Shares to our Company or its subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

No core connected person of our Company has notified us that he or it has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

No repurchase of Shares has been made by us since our incorporation.

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert (within the meaning of the Takeovers Code), depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of a repurchase of Shares made immediately after the listing of the Shares on the Stock Exchange. Save as aforesaid, our Directors are not aware of any other consequences which would arise under the Takeovers Code as a consequence of any repurchases made pursuant to the Repurchase Mandate immediately after the Listing.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

We entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this prospectus that are or may be material and a copy of each has been delivered to the Registrar for registration:

(a) the capital increment agreement dated 22 December 2017 entered into between Peak Holding, Jiangsu Pengfei and our Company, pursuant to which Peak Holding agreed to inject RMB22 million (or an amount equivalent to US$3,408,202) to our Company to subscribe for 5% of our Company's shareholding after the capital injection ("**PH Capital Increment Agreement**");

(b) the loan agreement dated 27 October 2018 entered into between Peak Holding and our Company, pursuant to which Peak Holding agreed to lend RMB22 million (equivalent to US$3,408,202) to our Company for the period from 26 May 2018 to 25 May 2020 at an interest rate of 6% per annum ("**PH Loan Agreement**");

(c) the termination agreement dated 28 October 2018 entered into between Peak Holding, Jiangsu Pengfei and our Company, pursuant to which Peak Holding, Jiangsu Pengfei and our Company agreed to terminate the PH Capital Increment Agreement;

(d) the supplemental loan agreement dated 15 November 2018 entered into between Peak Holding and our Company, pursuant to which the parties agreed to amend the loan period of the PH Loan Agreement to commence from 26 May 2018 and end on 25 May 2019;

(e) the supplemental loan agreement dated 25 May 2019 entered into between Peak Holding and our Company, pursuant to which the parties agreed to extend the loan period of the PH Loan Agreement to 25 May 2020;

(f) a cornerstone investment agreement dated 28 October 2019 and entered into among our Company, Peak Holding, the Sole Global Coordinator and the Sole Sponsor, pursuant to which Peak Holding agreed to subscribe such number of our Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) which may be purchased with an investment amount of HK$29.0 million;

(g) a cornerstone investment agreement dated 28 October 2019 and entered into among our Company, China High Speed Transmission Equipment Group Co., Ltd. ("**CHS**"), the Sole Global Coordinator and the Sole Sponsor, pursuant to which CHS agreed to subscribe such number of our Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) which may be purchased with an investment amount of HK$30.0 million;

(h) a cornerstone investment agreement dated 29 October 2019 and entered into among our Company, Jiangsu Suzhong Construction Group Co., Ltd. ("**Suzhong Construction**"), the Sole Global Coordinator, the Sole Sponsor and Solomon JFZ (Asia) Holdings Limited, pursuant to which Suzhong Construction agreed to subscribe such number of our Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) which may be purchased with an investment amount of HK dollar equivalent to RMB 20.0 million;

(i) the Deed of Non-competition;

(j) the Deed of Indemnity; and

(k) Hong Kong Underwriting Agreement.

2. Intellectual Property Rights

As at the Latest Practical Date, we had registered or had applied for the registration of the following intellectual property rights, which are material to our business:

(a) *Trademarks*

(i) As at the Latest Practicable Date, our Group was the registered owner of the following trademarks which, in the opinion of our Directors are material to our business:

No.	Trademark	Registration number	Place of application	Trademark owner	Class	Registration date	Expiration date
1.		10119305	PRC	Jiangsu Pengfei	7	21 June 2013	20 June 2023
2.		10119304	PRC	Jiangsu Pengfei	7	21 June 2013	20 June 2023
3.		6861819	PRC	Jiangsu Pengfei	7	28 April 2010	27 April 2020
4.		1247528	PRC	Jiangsu Pengfei	7	14 February 1999	13 February 2029
5.		276000	PRC	Jiangsu Pengfei	7	30 January 1987	29 January 2027
6.		1094831	Algeria Armenia Azerbaijan Egypt Kazakhstan Tajikistan Turkey Romania	Jiangsu Pengfei	7	16 August 2011	15 August 2021

(b) ***Patent***

(i) As at the Latest Practicable Date, our Group was the registered owner of the following patents which, in the opinion of our Directors are material to our business:

	Patent title	Place of registration	Registrant	Patent type	Registration number	Duration of validity
1.	A decontamination treatment method of waste residue containing arsenic* (一種含砷廢渣無害化處理的方法)	PRC	Jiangsu Pengfei	Invention	ZL201110399380.7	6 December 2011 to 5 December 2031
2.	A dry distillation method of oil shale* (一種油葉岩乾餾方法)	PRC	Jiangsu Pengfei	Invention	ZL201210283813.7	10 August 2012 to 9 August 2032
3.	A low temperature dry distillation method of hear carrier of oil sands* (一種油砂固體熱載體低溫乾餾工藝)	PRC	Jiangsu Pengfei	Invention	ZL201110370951.4	21 November 2011 to 20 November 2031
4.	A device of high temperature rotation dry distillation furnace* (一種高溫回轉乾餾窯爐密封裝置)	PRC	Jiangsu Pengfei	Invention	ZL201210283410.2	10 August 2012 to 9 August 2032
5.	An oil and gas high temperature rotational dedusting device for granular layer* (高溫油氣用旋轉式顆粒層除塵裝置)	PRC	Jiangsu Pengfei	Invention	ZL201110304557.0	27 September 2011 to 26 September 2031
6.	An integrated dry distillation system for solid heat carrier* (一體式固體熱載體乾餾系統)	PRC	Jiangsu Pengfei	Invention	ZL201410425465.1	26 August 2014 to 25 August 2034
7.	A sealed, static, dynamic, labyrinth and shocking device for dusty environment * (用於粉塵環境的激振裝置密封靜盤、動盤及迷宮密封裝置)	PRC	Jiangsu Pengfei	Invention	ZL201510054778.5	2 February 2015 to 1 February 2035

	Patent title	Place of registration	Registrant	Patent type	Registration number	Duration of validity
8.	A four-rollslag grinding roller hydraulic control system* (四輥礦渣立磨磨輥的液壓控制系統)	PRC	Jiangsu Pengfei	Invention	ZL201410316878.6	4 July 2014 to 3 July 2034
9.	A sealed floating device* (一種浮動密封裝置)	PRC	Jiangsu Pengfei	Invention	ZL201410292555.8	22 June 2014 to 21 June 2034
10.	A roller press scattering device* (輥壓機打散裝置)	PRC	Jiangsu Pengfei	Invention	ZL201410005628.0	6 January 2014 to 5 January 2034
11.	A roller press roller and roller system* (輥壓機輥子和輥壓機輥系)	PRC	Jiangsu Pengfei	Invention	ZL201410005318.9	6 January 2014 to 5 January 2034
12.	A secondary extrusion press machine* (二次擠壓輥壓機)	PRC	Jiangsu Pengfei	Invention	ZL201410005182.1	6 January 2014 to 5 January 2034
13.	A linear tension and relaxation screen* (直綫弛張篩)	PRC	Jiangsu Pengfei	Invention	ZL201510052081.4	2 February 2015 to 1 February 2035
14.	A cement kiln collaborative system and its related method for household waste* (一種水泥窰協同處理生活垃圾系統及其方法)	PRC	Jiangsu Pengfei	Invention	ZL201510017763.1	14 January 2015 to 13 January 2035
15.	A dry distillation system and its related process for solid heat carrier* (一種固體熱載體的乾餾系統及其工藝)	PRC	Jiangsu Pengfei	Invention	ZL201410425459.6	26 August 2014 to 25 August 2034
16.	A hybrid heating device and its application* (一種混合式加熱設備及其應用)	PRC	Jiangsu Pengfei	Invention	ZL201510081507.9	15 February 2015 to 14 February 2035
17.	A two-cylinder rotary kiln pyrolysis waste technology* (雙筒回轉窰熱解垃圾工藝)	PRC	Jiangsu Pengfei	Invention	ZL201210185915.5	29 May 2012 to 28 May 2032

	Patent title	Place of registration	Registrant	Patent type	Registration number	Duration of validity
18.	Rotary pyrolysis kiln with outer ring tube ball double cylinder seal* (筒外環管球封式雙筒回轉熱解窰)	PRC	Jiangsu Pengfei	Invention	ZL201410030564.X	18 January 2014 to 17 January 2034
19.	A healthy monitoring method of cable system based on angle monitoring in generalized displacement of the support* (支座廣義位移時基於角度監測的索系統的健康監測方法)	PRC	Jiangsu Pengfei(1)	Invention	ZL201110143048.4	31 May 2011 to 30 May 2031
20.	A method for removing coating on iron tool surface* (一種去除鐵具表面漆層的方法)	PRC	Jiangsu Pengfei	Invention	ZL201310441155.4	26 September 2013 to 25 September 2033
21.	A method for removing the surface coating of workpiece* (一種去除工件表面漆層的方法)	PRC	Jiangsu Pengfei	Invention	ZL201310441167.7	26 September 2013 to 25 September 2033
22.	A method for removing coating on iron tool surface* (一種去除鐵具表面漆層的方法)	PRC	Jiangsu Pengfei	Invention	ZL201310441171.3	26 September 2013 to 25 September 2033
23.	A method for removing coating on iron tool surface* (一種去除鐵具表面漆層的方法)	PRC	Jiangsu Pengfei	Invention	ZL201310441173.2	26 September 2013 to 25 September 2033

(1) Co-owned with Southeast University (京南大學).

	Patent title	Place of registration	Registrant	Patent type	Registration number	Duration of validity
24.	A method for removing coating on iron tool surface* (一種去除鐵具表面漆層的方法)	PRC	Jiangsu Pengfei	Invention	ZL201310441536.2	26 September 2013 to 25 September 2033
25.	A mining mechanical support arm* (一種礦山機械支撐臂)	PRC	Jiangsu Pengfei	Invention	ZL201210386302.8	12 October 2012 to 11 October 2032
26.	A vibration amplitude adjustment device for a moveable beam with a tension and relaxation screen* (一種弛張篩分段式活動梁振幅調節裝置)	PRC	Jiangsu Pengfei	Invention	ZL201510431590.8	20 July 2015 to 19 July 2035
27.	A feeding device for waste disposal* (一種用於垃圾處理的進料裝置)	PRC	Jiangsu Pengfei	Invention	ZL201610170065.X	23 March 2016 to 22 March 2036
28.	A spiral type deep recovery module and a device containing the module for waste heat from industrial waste gas* (螺旋式工業伴生廢氣餘熱深度回收模塊及含該模塊的裝置)	PRC	Jiangsu Pengfei[(1)]	Invention	ZL201510038879.3	26 January 2015 to 25 January 2035
29.	A water spraying device in vertical grinding mill* (立磨磨內噴水裝置)	PRC	Jiangsu Pengfei	Utility model patent	ZL201120365377.9	18 September 2011 to 17 September 2021
30.	Vertical mill wear-resistant scraper* (立磨機耐磨刮料板)	PRC	Jiangsu Pengfei	Utility model patent	ZL201120365376.4	20 September 2011 to 19 September 2021

(1) Co-owned with Institute of Process Engineering, Chinese Academy of Sciences (中國科學院過程工程研究所).

	Patent title	Place of registration	Registrant	Patent type	Registration number	Duration of validity
31.	A locking gas discharging device for vertical grinding* (一種立磨用鎖風排料裝置)	PRC	Jiangsu Pengfei	Utility model patent	ZL201120365380.0	18 September 2011 to 17 September 2021
32.	A new type of vertical mill which is able to adjust the gas ring* (一種新型立磨可調整風環)	PRC	Jiangsu Pengfei	Utility model patent	ZL201120365378.3	18 September 2011 to 17 September 2021
33.	Two-sphere hydraulic cylinder* (雙球面液壓缸)	PRC	Jiangsu Pengfei	Utility model patent	ZL201120294146.3	6 August 2011 to 5 August 2021
34.	A roller bearing end face sealing device* (輥系軸承端面密封裝置)	PRC	Jiangsu Pengfei	Utility model patent	ZL201120294139.3	8 August 2011 to 7 August 2021
35.	A cement kiln collaborative system for household waste* (一種水泥窰協同處理生活垃圾系統)	PRC	Jiangsu Pengfei	Utility model patent	ZL201520023916.9	14 January 2015 to 13 January 2025
36.	A self -positioning sliding shoe bearing* (一種自定位滑履軸承)	PRC	Jiangsu Pengfei	Utility model patent	ZL201620269686.9	1 April 2016 to 31 March 2026
37.	A lightweight oil-shale fractional distillation equipment* (一種輕量化油葉岩分級乾餾設備)*	PRC	Jiangsu Pengfei	Utility model patent	ZL201720984151.4	8 August 2017 to 7 August 2027
38.	A compressed smoldering type oil shale retorting system* (一種壓縮煅燒型油葉岩乾餾系統)	PRC	Jiangsu Pengfei	Utility model patent	ZL201720984344.X	8 August 2017 to 7 August 2027
39.	The vertical grinding device of a two-stage grinding mill* (雙級研磨的立式磨粉機研磨裝置)	PRC	Jiangsu Pengfei	Utility model patent	ZL201720984954.X	8 August 2017 to 7 August 2027

	Patent title	Place of registration	Registrant	Patent type	Registration number	Duration of validity
40.	Mobile single roll crusher, its controlling method and material processing system* (移動式單輥破碎機和其控制方法、物料處理系統)	PRC	Jiangsu Pengfei	Invention	ZL201610277575.7	3 May 2016 to 2 May 2036
41.	Vertical mill for two-way oscillating roller* (雙向擺動的碾壓磨輥的立式磨粉機)	PRC	Jiangsu Pengfei	Utility model patent	ZL201720984101.6	8 August 2017 to 7 August 2027
42.	Single-spindle swing grinder roll vertical mill* (單軸擺動碾壓式磨輥立磨機)	PRC	Jiangsu Pengfei	Utility model patent	ZL201720984955.4	8 August 2017 to 7 August 2027
43.	Two-way discharged vertical grinder* (雙向出料的立式磨粉機)	PRC	Jiangsu Pengfei	Utility model patent	ZL201720984144.4	8 August 2017 to 7 August 2027
44.	A type of anti-blocking ball device used for in and out materials of rotary equipment* (一種用於回轉設備的進出料的抗堵塞球封裝置)	PRC	Jiangsu Pengfei	Invention	ZL201610958223.8	3 November 2016 to 2 November 2036
45.	An oil-solid waste pyrolysis treatment device for drilling platform and its disposal method* (鑽井平台用含油固廢物熱解處置裝置及其處置方法)	PRC	Jiangsu Pengfei	Invention	ZL20171010176.2	25 July 2017 to 24 July 2037
46.	An oil and gas refining sealed rotary kiln device* (一種提煉油氣回轉窰埠密封裝置)	PRC	Jiangsu Pengfei	Utility model patent	ZL201821228772.0	1 August 2018 to 31 July 2028

	Patent title	Place of registration	Registrant	Patent type	Registration number	Duration of validity
47.	A sealed rotary kiln device with large ring gear that is easy to disassemble* (一種便於拆裝的回轉窰大齒圈密封裝置)	PRC	Jiangsu Pengfei	Utility model patent	ZL201821228771.6	1 August 2018 to 31 July 2028
48.	An oil and gas refining sealed rotary kiln device* (提煉油氣回轉窰埠組合密封裝置)	PRC	Jiangsu Pengfei	Utility model patent	ZL201821230051.3	1 August 2018 to 31 July 2028
49.	A rotary head and tail gravity sealing device* (回轉窰窰頭、窰尾重力密封裝置)	PRC	Jiangsu Pengfei	Utility model patent	ZL201821230049.6	1 August 2018 to 31 July 2028
50.	Powder separating double bearing sealing device* (選粉機轉子軸承雙重密封裝置)	PRC	Jiangsu Pengfei	Utility model patent	ZL201821227931.5	1 August 2018 to 31 July 2028
51.	Solid heat carrier drying pyrolysis integrated rotary kiln* (固體熱載體法烘乾熱解一體式回轉窰)	PRC	Jiangsu Pengfei	Utility model patent	ZL201920041455.6	10 January 2019 to 9 January 2029
52.	Heat carrier method fuel heating rotary dewatering device* (熱載體法燃料加熱回轉脱液裝置)	PRC	Jiangsu Pengfei	Utility model patent	ZL201920040685.0	10 January 2019 to 9 January 2029
53.	Vertical mill for grinding materials* (磨內選料的立磨)	PRC	Jiangsu Pengfei	Utility model patent	ZL201920004462.9	3 January 2019 to 2 January 2029
54.	Vertical mill for automatic grinding of coarse particles* (磨內自動篩選粗顆粒的立磨)	PRC	Jiangsu Pengfei	Utility model patent	ZL201920004463.3	3 January 2019 to 2 January 2029
55.	Preheater level adjusting device* (預熱器料面調節裝置)	PRC	Jiangsu Pengfei	Utility model patent	ZL201920004456.3	3 January 2019 to 2 January 2029

(ii) As at the Latest Practicable Date, we have applied for the following patents which, in the opinion of our Directors are material to our business:

	Patent title	Place of application	Registrant	Patent type	Application number	Application date
1.	Vertical mill for two-way oscillating roller* (雙向擺動的碾壓磨輥的立式磨粉機)	PRC	Jiangsu Pengfei	Invention	201710671478.0	8 August 2017
2.	Single-spindle swing grinder roll vertical mill* (單軸擺動碾壓式磨輥立磨機)	PRC	Jiangsu Pengfei	Invention	201710671735.0	8 August 2017
3.	A two-stage vertical grinding device of a grinding mill* (雙級研磨的立式磨粉機研磨裝置)	PRC	Jiangsu Pengfei	Invention	201710672357.8	8 August 2017
4.	A compressed burnt type oil rock dry distillation system* (一種壓煆煆燒型油葉岩乾餾系統)	PRC	Jiangsu Pengfei	Invention	201710672358.2	8 August 2017
5.	A lightweight oil-shale fractional distillation equipment* (一種輕量化油葉岩分級乾餾設備)	PRC	Jiangsu Pengfei	Invention	201710672360.X	8 August 2017
6.	Two-way discharged vertical grinder* (雙向出料的立式磨粉機)	PRC	Jiangsu Pengfei	Invention	201710672392.X	8 August 2017
7.	A low-rank coal drying pyrolysis integrated upgrading processing equipment* (一種低階煤烘乾熱解一體化提質處理工藝裝備)	PRC	Jiangsu Pengfei	Invention	201710337780.2	15 May 2017
8.	An underwater bearing device* (一種水下軸承裝置)	PRC	Jiangsu Pengfei	Invention	201710562321.4	11 July 2017

	Patent title	Place of application	Registrant	Patent type	Application number	Application date
9.	Multi-stages cyclic processing and advance ultra-fine grinding system* (多級迴圈加工並預打散的粉煤灰超細粉磨系統)	PRC	Jiangsu Pengfei	Invention	201811009870.X	31 August 2018
10.	Single-drive corrugated roller press machine* (單傳動同步嚙合波紋面輥壓機)	PRC	Jiangsu Pengfei	Invention	201811009888.X	31 August 2018
11.	Single-drive type roller press machine* (單傳動同步式輥壓機)	PRC	Jiangsu Pengfei	Invention	201811011317.X	31 August 2018
12.	Multi-roller cement vertical roller mill* (互相備用的多輥水泥立式輥磨機)	PRC	Jiangsu Pengfei	Invention	201811010397.7	31 August 2018
13.	A vertical mill production system capable of switching the production of cement or mineral powder* (可切換生產水泥或礦粉的立磨生產系統)	PRC	Jiangsu Pengfei	Invention	201811010399.6	31 August 2018
14.	Cement rotary kiln of variable diameter with residual heat recovery function* (具有餘熱回收功能的變徑水泥回轉窰)	PRC	Jiangsu Pengfei	Invention	201811242786.2	25 October 2018
15.	Solid heat carrier drying and pyrolysis integrated rotary kiln and drying pyrolysis method* (固體熱載體法烘乾熱解一體式回轉窰及烘乾熱解方法)	PRC	Jiangsu Pengfei	Invention	201910024575.X	10 January 2019

	Patent title	Place of application	Registrant	Patent type	Application number	Application date
16.	Heat carrier method fuel heating rotary dewatering device and dewatering method* (熱載體法燃料加熱回轉脱液裝置及脱液方法)	PRC	Jiangsu Pengfei	Invention	201910024572.6	10 January 2019
17.	The rotary kiln body with spiral guide material on the inner wall (內壁螺旋導料的回轉窰窰體)	PRC	Jiangsu Pengfei	Utility model patent	201920004439.X	3 January 2019
18.	Superfine grinding of slag, fly ash, cement ball mill barrel* (超細研磨的礦渣、粉煤灰、水泥球磨機筒體)	PRC	Jiangsu Pengfei	Invention	201811414042.4	26 November 2018
19.	Quantitative cement raw material roller press system* (定量下料的水泥生料輥壓機系統)	PRC	Jiangsu Pengfei	Invention	201811414051.3	26 November 2018
20.	Circular grinding cement vertical mill with preheating grinding function* (具有預熱研磨功能的迴圈研磨水泥立磨)	PRC	Jiangsu Pengfei	Invention	201811414076.3	26 November 2018
21.	Cement calciner processing system with vertical stratified feed* (垂直分層進料的水泥分解爐加工系統)	PRC	Jiangsu Pengfei	Invention	201811414145.0	26 November 2018
22.	Rotary kiln pre-heater for prevention of material wall formation* (預防料牆形成的回轉窰預熱器)	PRC	Jiangsu Pengfei	Invention	201910447336.5	27 May 2019

	Patent title	Place of application	Registrant	Patent type	Application number	Application date
23.	Grinding stick, grinding disc and vertical mill with ball stud* (具有球頭柱釘的磨棍、磨盤及立磨)	PRC	Jiangsu Pengfei	Invention	201910447326.1	27 May 2019
24.	Rotary kiln cylinder rotating in both directions* (正反雙向轉動的回轉窰筒體)	PRC	Jiangsu Pengfei	Invention	201910447339.9	27 May 2019
25.	Pairing gearwheel processing method for forming gearwheel* (面向成形齒輪的配對齒輪加工方法)	PRC	Jiangsu Pengfei	Invention	201910284756.6	10 April 2019
26.	Heat carrier heating method for regeneration casting of old sand equipment* (熱載體加熱法再生鑄造舊砂裝置)	PRC	Jiangsu Pengfei	Invention	201910728967.4	8 August 2019

(c) ***Domains***

As at the Latest Practicable Date, our Group was the registered owner of the following domain names that are material to the business of our Group:

	Domain name	Registrant	Registration date	Expiry date
1.	pengfei.com.cn	Jiangsu Pengfei	14 January 2002	14 January 2020
2.	pengfei.asia	Jiangsu Pengfei	22 September 2013	23 September 2023
3.	pengfei.net.cn	Jiangsu Pengfei	21 April 2011	21 April 2029
4.	cementmachinery.net	Jiangsu Pengfei	14 April 2011	14 April 2021
5.	cementmachinery.com	Jiangsu Pengfei	4 February 2009	4 February 2029
6.	cement-grindings.com	Jiangsu Pengfei	28 April 2012	28 April 2022
7.	cement-kiln-mill.com	Jiangsu Pengfei	28 April 2012	28 April 2022
8.	cementplantchn.com	Jiangsu Pengfei	25 November 2015	25 November 2025
9.	compound-fertilizer.com	Jiangsu Pengfei	28 April 2012	28 April 2022
10.	conveychn.com	Jiangsu Pengfei	25 November 2015	25 November 2025
11.	coolerchn.com	Jiangsu Pengfei	25 November 2015	25 November 2025
12.	crusher-equipments.com	Jiangsu Pengfei	28 April 2012	28 April 2022
13.	crusherpf.com	Jiangsu Pengfei	25 November 2015	25 November 2025
14.	dryercn.com	Jiangsu Pengfei	25 November 2015	25 November 2025
15.	dustcollectorchn.com	Jiangsu Pengfei	25 November 2015	25 November 2025
16.	furnace-kiln.com	Jiangsu Pengfei	28 April 2012	28 April 2022

	Domain name	Registrant	Registration date	Expiry date
17.	grindingstation.com	Jiangsu Pengfei	28 April 2012	28 April 2022
18.	kiln-lime.com	Jiangsu Pengfei	28 April 2012	28 April 2022
19.	limeproductline.com	Jiangsu Pengfei	25 November 2015	25 November 2025
20.	machinechn.com	Jiangsu Pengfei	25 November 2015	25 November 2025
21.	mining-mills.com	Jiangsu Pengfei	28 April 2012	28 April 2022
22.	pengfei.in	Jiangsu Pengfei	22 September 2013	22 September 2023
23.	pengfei.mobi	Jiangsu Pengfei	23 September 2013	23 September 2023
24.	pengfeiweb.com	Jiangsu Pengfei	21 September 2017	21 September 2020
25.	productlinecn.com	Jiangsu Pengfei	25 November 2015	25 November 2025
26.	rollerpresscn.com	Jiangsu Pengfei	25 November 2015	25 November 2025
27.	rotary-machine.com	Jiangsu Pengfei	28 April 2012	28 April 2022
28.	semi-autogenousmill.com	Jiangsu Pengfei	28 April 2012	28 April 2022
29.	slagmill.com	Jiangsu Pengfei	28 April 2012	28 April 2022
30.	slag-mill.com	Jiangsu Pengfei	28 April 2012	28 April 2022
31.	鹏飞集团.com	Jiangsu Pengfei	3 March 2011	3 March 2021
32.	ballmill-rotarykiln.com	Jiangsu Pengfei	22 June 2017	22 June 2020
33.	cementplantcn.com	Jiangsu Pengfei	15 December 2015	25 December 2019
34.	chinacementmachinery.com	Jiangsu Pengfei	30 December 2009	30 December 2019
35.	jspfjt.cn	Jiangsu Pengfei	25 June 2016	25 June 2020
36.	cnpfjt.com	Jiangsu Pengfei	18 October 2012	18 October 2020
37.	ipengfei.com.cn	Jiangsu Pengfei	29 February 2012	28 February 2021
38.	jspf.com.cn	Jiangsu Pengfei	11 February 2007	11 February 2020
39.	jspengfei.com.cn	Jiangsu Pengfei	16 August 2009	16 August 2026
40.	jspfgroup.com	Jiangsu Pengfei	13 December 2017	13 December 2019
41.	cementequipment.net	Jiangsu Pengfei	4 February 2009	4 February 2029
42.	0086kiln.com	Jiangsu Pengfei	30 July 2012	30 July 2021
43.	0086cementkiln.com	Jiangsu Pengfei	30 July 2012	30 July 2021
44.	0086cement.com	Jiangsu Pengfei	30 July 2012	30 July 2021
45.	0086kilnmill.com	Jiangsu Pengfei	30 July 2012	30 July 2021
46.	0086cementkilnmill.com	Jiangsu Pengfei	30 July 2012	30 July 2021
47.	0086cementmachine.com	Jiangsu Pengfei	30 July 2012	30 July 2021
48.	jspfjc.com	Pengfei Equipment	4 February 2017	4 February 2020
49.	pengfeichina.com.cn	Jiangsu Pengfei	21 April 2011	21 April 2020

Save as disclosed herein, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material to the business of our Group.

C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) *Disclosure of interest — interests and short positions of the Directors and the chief executives of our Company in our Shares, underlying Shares and debentures of our Company and our associated corporations*

Immediately following completion of the Share Offer (without taking into account any Shares which fall to be issued upon exercise of the Over-allotment Option), the interest and short position of our Directors or chief executives of our Company in our Shares, underlying Shares and debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered 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 contained in the Listing Rules, will be as follows:

Interest in the Company

Name of Director	Nature of interest	Number and class of securities (Note 1)	Approximate shareholding percentage (%)
Mr. Wang Jiaan (王家安)	shareholder of Ambon *(Note 2)*	207,444,000 Shares (L)	41.49%

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) Ambon is wholly owned by Mr. Wang Jiaan (王家安). Thus, Mr. Wang Jiaan (王家安) is deemed to be interested in the Shares held by Ambon.

(b) *Particulars of service contracts*

Each of our executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date, which may be terminated in accordance with the provisions of the service contract or by not less than three months' notice in writing served by either party on the other. Particulars of the service agreements of the executive Directors are in all material respects the same.

Each of Mr. Ding, Mr. Mak and Ms. Zhang has been appointed as an independent non-executive Director pursuant to a service contract for a term of three years commencing from the Listing Date. The appointments are subject to the provisions of retirement by rotation of Directors under the Articles.

(c) *Directors' remuneration*

The aggregate amount of remuneration paid and benefits in kind granted to our Directors in respect of each of the three years ended 31 December 2016, 2017 and 2018 and for the four months ended 30 April 2019 were approximately RMB1.38 million, RMB1.41 million, RMB1.50 million and RMB0.50 million, respectively.

Under the arrangement currently in force, the estimated aggregate amount of remuneration payable by our Group to our Directors for the year ending 31 December 2019 will be approximately RMB1.88 million.

Save as disclosed in this prospectus, none of our Directors has or is proposed to have a service contract with any member of our Group, save for contracts expiring or determinable by any member of our Group within one year without the payment of compensation other than statutory compensation.

2. Substantial Shareholders

So far as the Directors are aware, immediately following the completion of the International Offering (without taking into account any Shares which fall to be issued upon exercise of the Over-allotment Option), the following person other than a director or chief executive of our Company will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the issued Shares carrying rights to vote in all circumstances at general meetings of any other members of our Group:

Shareholder	Nature of interest	Number of Shares *(Note 1)*	Approximate percentage of shareholding (%)
Ambon	Beneficial interest *(Note 2)*	207,444,000(L)	41.49%
Mr. Wang Jiaan (王家安)	Interest in a controlled corporation	207,444,000(L)	41.49%
PF International	Beneficial interest *(Note 3)*	121,946,000(L)	24.39%
PF Global	Beneficial interest *(Note 4)*	45,610,000(L)	9.12%

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) These Shares are held by Ambon, which is wholly owned by Mr. Wang Jiaan (王家安). By virtue of the SFO, Mr. Wang Jiaan (王家安) is deemed to be interested in the Shares held by Ambon Holding Limited.

(3) These Shares are held by PF International, which is owned as to approximately 26.51% by Mr. Zhou Yinbiao (周銀標), 18.55% by Mr. Yu Yangui (于延桂), 16.76% by Mr. Dai Xianru (戴賢如), 13.7% by Mr. Wang Yun (王雲), 9.76% by Mr. Ben Daolin (賁道林), 8.26% by Mr. Chen Lidong (陳黎東) and 6.46% by Mr. Ben Daochun (賁道春).

4. These shares are held by PF Global, which is owned as to approximately 19.2% by Ben Xudong (賁旭東), 32.64% by Chen Yulou (陳玉樓), 21.6% by Cai Tongfu (蔡同富), 1.92% by Liu Chengguan (劉成官), 1.92% by Qian Jiayin (錢加銀), 1.28% by Zhang Doufa (張門發), 1.28% by Ding Jialin (丁佳林), 0.64% by Wang Shiqin (王世芹), 0.64% by Ding Qinghai (丁慶海), 0.64% by Cui Hengfu (崔恒富), 0.64% by Jiao Yuanjin (焦遠進), 0.64% by Wang Xiaobo (王小波), 0.64% by Yu Zhongwen (于中文), 0.64% by Lin Xianyue (林先月), 0.64% by Yuan Xiaofei (袁小飛), 1.12% by Zhou Bugao (周步高), 1.12% by Shen Jixiang (沈吉祥), 0.64% by Zhou Yue (周悦), 0.64% by Zhou Kewen (周克穩), 0.64% by Zhou Jin (周錦), 0.48% by Wang Huajun (王華俊), 0.48% by Zhang Gui (張貴), 0.48% by Liu Yaqin (劉亞芹), 0.48% by Ben Zhonglin (賁忠林), 0.64% by Wang Jin (王進), 0.64% by Jiang Xiaoming (蔣曉明), 0.64% by Wu Yijun (吳義軍), 0.48% by Pei Haiqing (裴海青), 0.48% by Cui Xinxin (崔欣欣) (which was inherited from Cui Yegui (崔業貴) on 1 July 2018), 0.48% by Zhou Jianyi (周建益) and 5.6% by Pei Qirong (裴其榮).

Save as disclosed, without taking into account of Shares which may be taken up under the Share Offer, none of the Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the International Offering and assuming the Over-allotment Option is not exercised, have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the issued Shares carrying rights to vote in all circumstances at general meetings of any member of our Group.

3. Directors' and Shareholders' interests in suppliers and customers of our Group

As at the Latest Practicable Date, so far as our Directors are aware, none of the persons who are (1) Directors and their close associates; or (2) Shareholder which to the knowledge of our Directors will own more than 5% of our Company's issued share capital immediately upon completion of the International Offering assuming the Over-allotment Option is not exercised and their respective close associates had interest in the five largest customers or the five largest suppliers of our Group.

4. Disclaimers

Save as disclosed herein and as at the Latest Practicable Date:

(a) none of our Directors or experts referred to under the heading "Qualification of experts" in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(b) none of our Directors or experts referred to under the heading "Qualification of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;

(c) save as disclosed in the paragraph headed "(b) Particulars of service contracts" above, none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and

(d) none of the experts referred to under the heading "Qualification of experts" in this Appendix is interested beneficially or otherwise any shareholding in any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

D. OTHER INFORMATION

1. Tax and other indemnities

Each of our Controlling Shareholders has, under the Deed of Indemnity referred to in "B. Further Information about the Business — 1. Summary of Material Contracts" in this Appendix, undertaken to indemnify in favour of our Company in respect of, among other things:

(a) any taxation falling on any member of our Group resulting from or by reference to any revenue (including any form of government financial assistance, subsidy or rebate), income, profits or gains granted, earned, accrued, received or made (or deemed to be so granted, earned, accrued, received or made) on or before the date on which the Share Offer becomes unconditional (the "**Effective Date**"), or any event, transaction, act or omission occurring or deemed to occur on or before the Effective Date whether alone or in conjunction with any other event, act or omission occurring or deemed to occur on or before the Effective Date and whether or not such taxation is chargeable against or attributable to any other person, firm or company;

(b) all sums, outgoings, fees, demands, claims, damages, losses, costs, charges, liabilities, fines, penalties, payments, suits, and expenses associated, incurred or suffered by our Company or any members of our Group directly or indirectly in connection with any litigation, arbitrations, claims (including counter-claims), complains, demands and/or legal proceedings, whether of criminal, administrative, contractual, tortuous nature or otherwise instituted by or against our Company and/or any member of our Group which was issued and/or accused and/or arising from any act, non-performance, omission or otherwise of our Company or any member of our Group on or before the Effective Date as disclosed in this prospectus;

(c) all claims, payments, losses or any other liabilities incurred or suffered by any member of our Group as a result of or arising from any litigation or proceedings against any member of our Group in respect of any matter or act or otherwise of any member of the Group on or before the Listing Date;

(d) any action, claims, losses, charges, penalties or any other liabilities which any member of our Group may incur or suffer as a result of or in connection with the Reorganisation; and

(e) any and all of the non-compliance with any applicable laws, rules or regulations by our Company and/or any member of our Group on or before the Listing Date, except that specific provision, reserve or allowance has been made for such liabilities in the audited combined accounts of our Group for the Track Record Period.

Our Controlling Shareholders, shall be under no liability in respect of, among others, any liability on taxation and taxation claims:

(a) to the extent that full provision has been made for such taxation in the audited consolidated accounts for any accounting period up to 30 April 2019, as set out in Appendix I to this prospectus;

(b) to the extent that such taxation arises or is incurred as a result of any retrospective change in law or retrospective increase in tax rates coming into force after the Listing Date;

(c) to the extent that the liability for such taxation is caused by the act or omission of, or transaction voluntarily effected by, any member of our Group which is/are carried out or effected in the ordinary course of business or in ordinary course of acquiring and disposing of capital assets after the Listing Date; or

(d) to the extent of any provisions or reserve made for taxation in the audited accounts of any member of our Group for the Track Record Period which is finally established to be an over-provision or an excess reserve.

2. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group.

3. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for a listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus (including any Shares falling to be issued pursuant to the exercise of the Over-allotment Option).

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

The Sole Sponsor's fee is HK$7.0 million and are payable by our Company.

4. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are estimated to be approximately RMB72,964 and are payable by our Company.

5. Promoter

Our Company has no promoter for the purposes of the Listing Rules. No cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of our Company nor is any cash, securities or benefit intended to be paid, allotted or given in connection with the International Offering or the related transactions described in this prospectus.

6. Qualification of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
Essence Corporate Finance (Hong Kong) Limited	Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
Deloitte Touche Tohmatsu	Certified public accountants
Beijing Merits and Tree Law Offices (Shanghai)	PRC legal advisers
Appleby	Legal advisers as to Cayman Islands law
Hogan Lovells	Legal advisers as to International Sanctions law
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry Consultant
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Property Valuer

The statements of the experts as mentioned in this paragraph above were dated the date of this prospectus and were made by the experts for incorporation in this prospectus.

7. Consents of experts

Each of the experts whose names are set out in the paragraph 6 of "Qualification of experts" in this Appendix has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and the references to its name included herein in the form and context in which it is respectively included.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

9. Miscellaneous

(a) Save as disclosed in this prospectus, and, where applicable:

(i) within the two years preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

(ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;

(iv) within the two years preceding the date of this prospectus, no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries; and

(v) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued and no amount or benefit had been paid or given within two preceding years or is intended to be paid or given to any promoter.

(b) None of the persons named in the paragraph headed "Qualification of experts" in this Appendix is interested beneficially or otherwise in any shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of our Group.

(c) The branch share register of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company's share registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS.

(d) No company within our Group is presently listed on any stock exchange or traded on any trading system.

(e) Saved as disclosed in this prospectus, none of our Directors or the persons named under "Qualification of experts" in this Appendix had received any commissions, discounts, brokerages or other special terms or agency fees from our Group in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

(f) Save as disclosed in Accountants' Report set out in Appendix I to this prospectus, there are no related party transactions within the two years immediately preceding the date of this prospectus.

(g) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.

(h) There is no arrangement under which future dividends are waived or agreed to be waived.

(i) We have no outstanding convertible debt securities.

(j) There is no restriction affecting the remittance of profits or repatriation of capital into Hong Kong and from outside Hong Kong.

10. Bilingual Prospectus

The English language and the 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 Prospectus from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In case of any discrepancies between the English language version and the Chinese language version, the English language version shall prevail.

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:

- copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms;

- copies of each of the material contracts referred to in the paragraph headed "B. Further information about the business — 1. Summary of material contracts" in Appendix V to this prospectus; and

- the written consents referred to in the paragraph headed "D. Other Information — 7. Consents of experts" in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of K&L Gates at 44th Floor, Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

(1) the Memorandum of Association and the Articles of Association;

(2) the Accountants' Report of our Group issued by Deloitte Touche Tohmatsu, the text of which is set forth in Appendix I to this prospectus;

(3) the audited consolidated financial statements of our Group for the three financial years ended 31 December 2018 and the four months ended 30 April 2019;

(4) the letter issued by Deloitte Touche Tohmatsu on the unaudited pro forma financial information of our Group, the text of which is set forth in Appendix II to this prospectus;

(5) the letter prepared by Appleby, our legal advisers on Cayman Islands law, summarising certain aspects of the company law of the Cayman Islands referred to in Appendix IV to this prospectus;

(6) the Cayman Companies Law;

(7) the PRC legal opinions issued by Beijing Merits & Tree Law Offices (Shanghai), our PRC Legal Advisers on PRC law;

(8) the memorandum of advice issued by Hogan Lovells, legal advisers to the Company as to International Sanctions law;

(9) the industry report prepared by Frost & Sullivan as referred to in "Industry Overview" of this prospectus;

(10) the property valuation report prepared by JLL in respect of the property interests of our Group as referred to in Appendix III to this prospectus;

(11) the material contracts referred to in the paragraph headed "B. Further information about the business — 1. Summary of material contracts" in Appendix V to this prospectus;

(12) the written consents referred to in the paragraph headed "E. Other Information — 7. Consents of experts" in Appendix V to this prospectus; and

(13) the service contracts and letters of appointment referred to in the section headed "Statutory and General Information — C. Further Information about Directors and Substantial Shareholders — 1. Directors — (b) Particulars of service contracts" in Appendix V to this prospectus.

China PengFei Group Limited

中国鹏飞集团有限公司